



诺辉健康
NEW HORIZON HEALTH

New Horizon Health Limited
諾輝健康

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6606.HK

2021
ANNUAL REPORT



Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings. These terms and their definitions may not correspond to any industry standard definition, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as the Company.

“AGM”	the annual general meeting of the Company to be held on Friday, June 24, 2022
“Articles of Association” or “Articles”	articles of association of our Company adopted on October 9, 2020 with effect from the Listing Date, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Beijing Nuoan Lab”	Beijing Nuoan Medical Examination Lab Co., Ltd. (北京諾安醫學檢驗實驗室有限公司), a limited liability company established under the laws of the PRC on March 9, 2016
“Beijing Xincheng”	Beijing New Horizon Xincheng Health Technology Co., Ltd (北京諾輝新程健康科技有限公司), a limited liability company established under the laws of the PRC on February 29, 2016
“Board”	the board of directors of our Company
“CEO” or “Chief Executive Officer”	chief executive officer of our Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“CerviClear”	our non-invasive urine-based home-use screening test for cervical cancer
“Chief Financial Officer”	chief financial officer of our Company
“China” or “PRC”	People’s Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires otherwise, references in this report to “China” and the “PRC” do not apply to Hong Kong, Macau and Taiwan
“ColoClear”	ColoClear, a proprietary non-invasive stool-based FIT-DNA test
“ColoClear IVD”	ColoClear in vitro diagnostic kit, which is our Company’s proprietary reagents used in the testing process of ColoClear approved by NMPA as a Class III medical device and constitutes our Core Product for purposes of this report
“Company” or “Our Company”	New Horizon Health Limited (諾輝健康), an exempted company with limited liability incorporated under the laws of the Cayman Islands on June 7, 2018

“Consolidated Affiliated Entities”	the entities we control through the Contractual Arrangements, namely, Beijing Xincheng and its subsidiaries (each a “Consolidated Affiliated Entity”)
“Contractual Arrangements”	a series of contractual arrangements entered into by, Hangzhou Nuohui, Beijing Xincheng and the Registered Shareholders
“Core Product”	has the meaning ascribed thereto under Chapter 18A of the Listing Rules
“Director(s)”	the director(s) of the Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company
“Global Offering”	the Hong Kong public offering and the international offering of the Shares
“Group”, “our Group”, “our”, “we” or “us”	the Company, its subsidiaries and consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries and consolidated affiliated entities, such subsidiaries and consolidated affiliated entities as if they were subsidiaries and consolidated affiliated entities of our Company at the relevant time
“Guangzhou Nuohui Lab”	Guangzhou Nuohui Medical Examination Lab Co., Ltd (廣州諾輝醫學檢驗實驗室有限公司), a limited liability company established under the laws of the PRC on May 28, 2019
“Hangzhou Nuohui”	Hangzhou New Horizon Health Technology Co., Ltd (杭州諾輝健康科技有限公司), a limited liability company established under the laws of the PRC on November 19, 2015 and our indirect wholly-owned subsidiary
“Hangzhou Nuokang Lab”	Hangzhou Nuokang Medical Examination Lab Co., Ltd. (杭州諾康醫學檢驗實驗室有限公司), a limited liability company established under the laws of the PRC on June 3, 2016
“Latest Practicable Date”	February 28, 2022, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained in this report
“Listing”	the listing of the shares on the Main Board of the Stock Exchange
“Listing Date”	February 18, 2021
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

Definitions

“NMPA”	the National Medical Products Administration of China (國家藥品監督管理局)
“Nomination Committee”	the nomination committee of the Board
“Pre-IPO Share Incentive Plan”	the pre-IPO share incentive plan effective as of October 10, 2018 and further amended and approved on August 17, 2020
“Prospectus”	the prospectus of the Company dated February 5, 2021
“Pupu Tube”	our proprietary non-invasive stool-based FIT screening product to detect hemoglobin biomarkers associated with colorectal cancer
“Registered Shareholders”	the registered shareholders of Beijing Xincheng, being Mr. Yeqing ZHU and Ms. Lijuan ZHU
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	the year ended December 31, 2021
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of US\$0.00005 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“UU Tube”	our stool-based self-conducted screening product for H. pylori

Glossary of Technical Terms

“cervical cancer”	the development of cancer from the cervix
“colorectal cancer”	the development of cancer from the colon or rectum
“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
“CRO”	contract research organization, an entity that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis
“CSO”	contract sales organization, an entity that provides a series of services and solutions related to marketing and sales activities under contracts with pharmaceutical, biotechnology, and medical device companies
“DNA”	deoxyribonucleic acid, a self-replicating material which is present in nearly all living organisms as the main constituent of chromosomes. It is the carrier of genetic information
“FIT”	fecal immunochemical test
“GFA”	gross floor area
“GMP”	good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification
“H. pylori”	Helicobacter pylori, a pathogenic bacteria
“IVD”	in vitro diagnostics products, including platforms and assays
“KOLs”	acronym for Key Opinion Leaders; refers to renowned physicians that influence their peers’ medical practice

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Yiyou CHEN (*Chairman*)
Mr. Yeqing ZHU (*Chief Executive Officer*)

Non-executive Directors

Mr. Naxin YAO
Ms. Nisa Bernice Wing-Yu LEUNG, *J.P.*
(*resigned on February 28, 2022*)
Mr. Quan ZHOU (*retired on June 18, 2021*)
Mr. Siu Wai NG (*retired on June 18, 2021*)

Independent Non-executive Directors

Mr. Danke YU
Prof. Hong WU
Dr. Donald Kwok Tung LI, *s.B.S., J.P.*

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

13/F, T1 Building
400 Jiang'er Road
Binjiang District
Hangzhou
Zhejiang
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPLIANCE ADVISOR

Somerley Capital Limited
20/F China Building
29 Queen's Road Central
Hong Kong

PRINCIPAL BANKS

China Merchants Bank
Shenzhen Offshore Banking Department
No. 7088 Shennan Road
Futian District
Shenzhen 518040
PRC

Silicon Valley Bank
3003 Tasman Drive
Santa Clara
CA 95054, USA

JOINT COMPANY SECRETARIES

Mr. Yu GAO
Ms. Ching Man YEUNG (*resigned on June 11, 2021*)
Ms. Ming Wai MOK (*appointed on June 11, 2021*)

AUTHORIZED REPRESENTATIVES

Mr. Yeqing ZHU
Ms. Ching Man YEUNG (*resigned on June 11, 2021*)
Ms. Ming Wai MOK (*appointed on June 11, 2021*)

AUDIT COMMITTEE

Mr. Danke YU (*Chairperson*)
Dr. Donald Kwok Tung LI, *s.B.S., J.P.*
Mr. Naxin YAO (*appointed on February 28, 2022*)
Ms. Nisa Bernice Wing-Yu LEUNG, *J.P.*
(*resigned on February 28, 2022*)

REMUNERATION COMMITTEE

Prof. Hong WU (*Chairperson*)
Mr. Yeqing ZHU
Mr. Danke YU

NOMINATION COMMITTEE

Dr. Yiyou CHEN (*Chairperson*)
Prof. Hong WU
Mr. Danke YU

STOCK CODE

6606

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

COMPANY WEBSITE

ir.newhorizonbio.com

Financial Highlights

	As at December 31/ For the year ended December 31,			
	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>	2020 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cash, deposits and selected financial assets*	76,691	346,960	582,294	1,892,052
Total assets	302,121	546,366	818,044	2,353,868
Total liabilities	571,599	911,942	1,907,958	227,208
Total (deficit) equity	<u>(269,478)</u>	<u>(365,576)</u>	<u>(1,089,914)</u>	<u>2,126,660</u>
Revenue	18,816	58,275	70,567	212,761
Gross profits	3,840	34,318	37,249	154,645
Loss for the year	(224,869)	(106,465)	(788,724)	(3,085,336)
Total comprehensive expenses for the year	<u>(224,869)</u>	<u>(106,465)</u>	<u>(788,724)</u>	<u>(3,085,930)</u>
Net loss for the year	(224,869)	(106,465)	(788,724)	(3,085,336)
Fair value loss (gain) on Preferred Shares	151,087	(48,334)	578,786	2,757,028
Fair value (gain) loss on changes of other financial liabilities	(7,553)	19,616	-	-
Share-based payment expenses	4,395	10,367	14,725	23,849
Listing expenses	-	338	26,900	19,217
Adjusted net loss**	<u>(76,940)</u>	<u>(124,478)</u>	<u>(168,313)</u>	<u>(285,242)</u>

* Cash, Deposits and Selected Financial Assets includes Bank balances and cash, time deposits over three months, structured deposits and pledged bank deposits in financial statements.

** Please refer to section headed "Non-IFRS Measures" in this report for details.

Chairman and CEO's Statement



March 18, 2022

Dear Shareholders,

The year 2021 has been a tremendous success for the Company, including several notable commercial milestones and R&D breakthroughs, thanks to the diligence and dedication by our staff and management team despite of the negative impact from COVID-19.

Commercialization has been our top priority, and we are pleased to report that we have made significant progress and built a strong momentum:

- ColoClear, our flagship colorectal cancer screening test targeting 120 million colorectal cancer high-risk population in China, achieved revenue of RMB97.2 million, representing 158.8% revenue growth from the same period in 2020, and gross profit margin of 76.0%
- Pupu Tube, our self-conducted FIT screening test targeting 633 million colorectal cancer average-risk population, achieved revenue of RMB115.5 million, representing 262.7% revenue growth from the same period in 2020, and gross profit margin of 71.5%
- UU Tube, our self-conducted diagnostic test for H. pylori infection, which is the major etiological agent for gastric cancer, received NMPA approval as Class III medical device in January 2022 and started its commercial launch soon after

Chairman and CEO's Statement

- We invested heavily in building our commercial capabilities, and expanded our in-house sales team by several folds with a vision to support the commercialization of our current cancer screening portfolio and future pipelines
- We established a series of strategic partnerships in China, including but not limited to: AstraZeneca, Ping An Healthcare, Picahealth, and China Post

For R&D progress, we continued to invest in our proprietary multi-omics platform and advanced several pipeline product candidates to the next stage:

- CerviClear, our urine-based cervical cancer screening test, has completed further clinical validation studies, and is ready to enter into prospective registrational trial in the 2nd half of 2022
- LiverClear, our liquid biopsy liver cancer screening test based on our proprietary multi-omics platform, was first introduced at the 2021 annual meeting of Chinese Society of Clinical Oncology, and is expected to initiate a prospective clinical trial by the 1st quarter of 2023
- We made several business development activities with a goal to expand our future R&D platform and pipelines, including establishing NHH Venture Fund, entering into R&D partnership with Proteomedix, acquiring biobank from Epigenomics AG, making minority equity investment into Arion Bio and Orbit Genomics

Following the strategic groundwork our team has laid in 2021, we see 2022 as another year of exciting growth and new opportunities. With stringent quarantine measures in place, recent COVID-19 flare-up in Shanghai is expected to be brought under control soon.

Finally, on behalf of the Board and everyone at New Horizon Health Limited, we would like to thank you for your continued support and trust. We would also like to extend our earnest gratitude for the continued support from our business partners. Together, we will work relentlessly to pursue our vision of preventing and curing cancer through screening and early detection.

Dr. Yiyou Chen

Chairman and Chief Scientific Officer

Mr. Yeqing Zhu

Executive Director and Chief Executive Officer

Management Discussion and Analysis

BUSINESS REVIEW

Overview

Our vision is to prevent and cure cancer by screening and early detection. Our mission is to advance the innovation and accelerate the adoption of cancer screening technologies in China and globally. As of the Latest Practicable Date, ColoClear, our flagship product, is offering the first and only NMPA-approved colorectal cancer screening test addressing an untapped 120 million colorectal cancer high risk population in China. Pupu Tube is the first and only self-conducted FIT screening product approved by the NMPA as Class II medical device in China. UU Tube is the first and only self-conducted H.Pylori screening product approved by the NMPA as Class III medical device in China.

Our Products and Product Pipeline

Founded in November 2015, we are a commercial stage biotech company focused on developing and commercializing innovative cancer screening products to address significant unmet medical needs in the cancer screening in China. We have built an early detection and cancer screening-focused pipeline of five products and product candidates with a strategic emphasis on colorectal cancer screening. We have established an integrated molecular cancer screening platform with comprehensive research and development, clinical development, testing operations and commercialization capabilities.

We are the pioneer in China's colorectal cancer screening market with ColoClear, our proprietary, non-invasive, multi-target, FIT-DNA test, being the first and only molecular cancer screening test in China approved by the NMPA, which targets a 120 million high-risk colorectal cancer population in China.

Our two home-based colorectal cancer screening tests, ColoClear and Pupu Tube, synergistically address target populations with various risk levels. Pupu Tube, our proprietary, non-invasive, stool-based FIT test, is the first and only self-conducted FIT screening product approved by the NMPA in China. We have received the approval from the NMPA of the registration application for our UU Tube, our proprietary stool-based self-conducted screening product for gastric cancer, and commenced to sell UU Tube in January 2022. We are also developing our CerviClear, a non-invasive urine-based home-use screening test for cervical cancer. We are in late-stage development prior to initiating the registrational trial for CerviClear. CerviClear is expected to enter into registrational trial for screening in 2022.

The following chart summarizes the development status of our products and major product candidates as of the Latest Practicable Date:

Product	Screening Indication	Sample Type	Technology	Global Rights	Development Stage				
					Early Stage Development ¹	Late Stage Development ⁵	Registrational Trial	NMPA Submission	NMPA Approval
ColoClear ¹	Colorectal Cancer	Stool	FIT-DNA	✓	[Progress bar: 100%]				
Pupu Tube ²	Colorectal Cancer	Stool	FIT	✓	[Progress bar: 100%]				
UU Tube ³	Gastric Cancer	Stool	Immuno-based	✓	[Progress bar: 100%]				
CerviClear TM	Cervical Cancer	Urine	qPCR	✓	[Progress bar: ~75%]				
LiverClear TM	Liver Cancer	Blood	NGS (DNA + RNA + Protein)	✓	[Progress bar: ~50%]				

1 Prospective registrational trial (n=5,881) achieved colorectal cancer sensitivity of 95.5% and specificity of 87.1%, and advanced adenoma sensitivity of 63.5%; NMPA approval (Class III medical device) obtained in November 2020

2 NMPA approval (Class II medical device) obtained in March 2018 and CE Mark obtained in June 2018

3 NMPA approval (Class III medical device) obtained in January 2022

4 Early stage development refers to technical feasibility, product optimization and finalization of product prototype, and pilot production

5 Late stage development refers to efficacy testing and large scale manufacturing and completion of a proof-of-concept clinical study, and is ready for registrational trial

ColoClear IVD constitutes our Core Product for purposes of this report

Management Discussion and Analysis

ColoClear

ColoClear is a proprietary non-invasive stool-based FIT-DNA test that utilizes a multi-target approach to detect DNA and hemoglobin biomarkers associated with colorectal cancer and precancerous adenoma. Its non-invasive nature provides convenience to individuals who are unable or unwilling to undergo colonoscopy. It combines gene mutation, gene methylation and hemoglobin results in the laboratory analysis through a proprietary risk assessment algorithm to provide a single positive or negative reportable result. A positive result may indicate the presence of colorectal cancer or advanced adenoma, which should be followed by diagnostic colonoscopy.

ColoClear consists of four integrated components, each designed and approved to work exclusively with the other components: (i) ColoClear IVD (Class III medical device), (ii) our risk assessment algorithm (Class II medical device), (iii) ColoClear sample collection kit (Class I medical device) and (iv) DNA extraction and purification technologies. Only ColoClear sample collection kit is directly used by end-users while the other three components are strictly used in our laboratories as of the Latest Practicable Date. Users collect a stool sample at home using our sample collection kit and then send it to one of our laboratories. In our laboratories, we utilize ColoClear IVD, our Core Product (has the meaning ascribed thereto under Chapter 18A of the Listing Rules, along with our risk assessment algorithm to analyze the stool sample and determine a test result. ColoClear is the first and only molecular cancer screening test approved by the NMPA as of the Latest Practicable Date. In May 2018, ColoClear IVD was designated as breakthrough approval channel for innovative medical devices by the NMPA. We completed a two-year registrational trial for ColoClear IVD in December 2019 and submitted application for IVD registration as Class III medical device in January 2020, which was approved by the NMPA with issuance of the registration certificate for Class III medical device in November 2020. Our risk assessment algorithm was registered with the NMPA as Class II medical device in November 2020. ColoClear sample collection kit was registered with the NMPA as Class I medical device in December 2016. DNA extraction and purification technologies were registered with the NMPA as Class I medical device in August 2020. All the NMPA certificates have a validity period that lasts for five years, and each component of ColoClear is currently qualified for re-certification upon renewal of the respective certificate. ColoClear was also included in two medical guidelines for colorectal cancer screening, i.e., China Guideline for the Screening, Early Detection and Early Treatment of Colorectal Cancer (2020, Beijing) 《中國結直腸癌篩查與早診早治指南》(2020, 北京) in January 2021 and Chinese Society of Clinical Oncology (CSCO) Diagnosis and Treatment Guidelines for Colorectal Cancer 《CSCO 結直腸癌診療指南》 in April 2021.

Pupu Tube

Pupu Tube is a proprietary non-invasive stool-based FIT colorectal cancer screening product to detect hemoglobin biomarkers associated with colorectal cancer. It is an integrated device for sample collection, dilution, and FIT test by end-users. Based on fecal occult blood testing, Pupu Tube provides a simple and convenient method to detect colorectal cancer at home. Pupu Tube is the first and only self-conducted FIT screening product for colorectal cancer approved by the NMPA as of the Latest Practicable Date. Pupu Tube is designed to target the mass market of 633 million target population in China that generally falls in the age groups for which regular colorectal cancer screening is recommended and to identify the high colorectal cancer risk population that would require further screening with a higher sensitivity, such as ColoClear, or treatment. We obtained the NMPA registration certificate of Class II medical device for Pupu Tube in March 2018 and commercialized Pupu Tube since then. We have also obtained CE Mark for Pupu Tube in June 2018.

Management Discussion and Analysis

UU Tube

UU Tube is our stool-based self-conducted screening product for gastric cancer by detecting *H. pylori*, the pathogenic bacteria which is the major causative agent for gastric cancer. We completed the registrational trial for UU Tube in November 2020. We submitted the application to the NMPA to register UU Tube as Class III medical device in November 2020, which was approved by the NMPA with issuance of the registration certificate for Class III medical device in January 2022 and commercialized UU Tube since then.

CerviClear

CerviClear is our non-invasive urine-based home-use screening test for cervical cancer. We expect to initiate the registrational trial for CerviClear in vitro diagnostic kit (“**CerviClear IVD**”) and to submit application for the registration of CerviClear IVD as Class III medical device with the NMPA after the registrational trial is completed. As of the Latest Practicable Date, there was no approved home-use urine-based cervical cancer screening test globally.

WE MAY NOT BE ABLE TO ULTIMATELY MARKET CERVICLEAR SUCCESSFULLY.

LiverClear

We started our research and development of LiverClear, a multi-omics liquid biopsy screening test for liver cancer, which is based on our internally developed platform combining DNA/RNA/Protein. Leveraging on its internal multi-omics technology platform and machine learning capability, LiverClear, we believe, is able to achieve much higher detection sensitivity and specificity for liver cancer compared to conventional blood AFP test. We aim to initiate a prospective multi-center clinical trial of LiverClear between the fourth quarter of 2022 and the first quarter of 2023.

WE MAY NOT BE ABLE TO ULTIMATELY MARKET LIVERCLEAR SUCCESSFULLY.

Research & Development

We focus on developing innovative technologies to enhance our existing pipeline and to develop new cancer screening tests. We believe that our success has depended and will continue to depend to a large extent on our ability to develop new or improved cancer screening products. Our research and development capabilities are proven by our portfolio of proprietary technologies and patents. We have started research and development for ColoClear test since 2015. With over six years of dedicated research and development efforts, we have built a proprietary and extensive database of Asian-specific colorectal cancer methylation pattern profiles and developed our clinically-validated risk assessment algorithm (Class I medical device) for ColoClear which is the first algorithm-driven cancer screening test approved by the NMPA. Our multi-parameter risk assessment algorithm is the first and only one in China. It is tailored and optimized to work exclusively with our primers, reagents and the overall ColoClear testing process, therefore cannot be replicated by our competitors without conducting a large prospective clinical trial. Due to the fact that our clinically validated risk assessment algorithm, whose parameters are not publicly available and strictly confidential, is developed based on, and works exclusively with ColoClear IVD, any potential competitor who tries to develop its own IVD reagent, or replicate our ColoClear IVD, will not only have to develop its own risk assessment algorithm, but also have to validate such algorithm through a large-scale prospective clinical trial as required by the NMPA. Our proprietary DNA extraction technology (Class I medical device) enables us to purify evaluable DNA from highly-complex stool samples and achieve a success rate of approximately 99.4%, based on our operational data collected between October

Management Discussion and Analysis

2019 and September 2020. Our proprietary DNA sample stabilization technology preserves DNA and hemoglobin under room temperature for up to seven days. As of the Latest Practicable Date, we have built a portfolio of 169 patents and patent applications globally to protect our proprietary technologies and know-how.

We are engaged in ongoing research and development activities to deliver clinically advanced new products, to enhance the effectiveness, ease of use, safety and reliability, and to expand the applications of our products. As of the Latest Practicable Date, among the various products candidates we are developing, we had two major product candidates, namely CerviClear and LiverClear, in the late stage of development. We will continue our research and development activities for new products and technological innovations including advancing our in-house multi-omics platform and enhancing the development of our platforms of genomics, epigenomics and proteomics and building up the platforms of transcriptomics and metabolomics.

We have a strong in-house research and development team primarily based in Beijing and Hangzhou, China as of the Latest Practicable Date, over 74% of whom possessed a master or doctorate degree. The team is led by our Chief Scientific Officer, Dr. Yiyu CHEN, and our Chief Technology Officer, Dr. Ning LU.

Testing and Manufacturing Capacity

As of the Latest Practicable Date, we have three laboratories located in Beijing, Hangzhou and Guangzhou, China, with a gross floor area of approximately 2,000 sq.m., 3,700 sq.m. and 1,300 sq.m., respectively. Our Beijing, Hangzhou and Guangzhou laboratories have obtained National Center for Clinical Laboratories External Quality Assessment Certificates and PRC Practice Licenses of Medical Institution. All our laboratories have conducted registrations and obtained licenses as applicable, and are authorized to perform polymerase chain reaction (“PCR”) amplification for clinical use.

We built the new laboratory in Guangzhou in preparation for the anticipated large market demand of ColoClear tests as we start to commercialize ColoClear IVD after it was approved by the NMPA in November 2020. It helps expand our geographic coverage for sample collection and allows us to deliver test results promptly to regional end-users, which further improves user experience. Our testing capacity is enhanced by the fact that our testing laboratories and PCR platforms can be shared between ColoClear and CerviClear for testing services.

Manufacturing Facilities

As of the Latest Practicable Date, our principal manufacturing facility is located at our headquarters with an aggregate gross floor area of approximately 11,300 sq.m. in Hangzhou, Zhejiang province, China, which was primarily used for the production of our cancer screening products and product candidates, including ColoClear, Pupu Tube and UU Tube. Our manufacturing facilities are equipped with advanced automation which can significantly improve efficiency and reduce manufacturing cost. Our manufacturing facilities are designed to provide synergy between our commercialized products and product candidates in order to achieve economies of scale and operating efficiency. Our production lines for Pupu Tube and UU Tube can be shared.

The production volume for ColoClear and Pupu Tube increased for the year ended December 31, 2021 as compared to the year ended December 31, 2020 due to increasing demands and rising cancer-screening awareness from end users.

Management Discussion and Analysis

Commercialization

As of the Latest Practicable Date, we have three self-developed cancer screening tests, namely, (i) Pupu Tube, which was approved by the NMPA in March 2018 and received CE Mark in June 2018, (ii) ColoClear, the core component of which, ColoClear IVD, has been approved by the NMPA in November 2020 and (iii) UU Tube, which was approved by the NMPA in January 2022. On March 15, 2021, the Company and AstraZeneca entered into the Co-promotion Agreement, pursuant to which the parties will jointly promote ColoClear in public hospitals, pharmacies and internet hospitals in mainland China. In addition, on March 15, 2021, the Company and AstraZeneca entered into the strategic collaboration memorandum, to launch an in-depth strategic collaboration in the mainland China market. The Company also entered into a series of strategic partnerships with including, but not limited to, the following partners in China: JD Health International Inc. (stock code: 06618.HK) in April 2021, Ping An Healthcare and Technology Company Limited (stock code: 01833.HK) in July 2021, Picahealth (雲鵲醫) in July 2021 and China Post (中國郵政) in August 2021, respectively, to raise public awareness of colorectal cancer screening and increase penetration for ColoClear and Pupu Tube across clinical, direct-to-consumer, and insurance markets. We have significantly expanded our sales and marketing team, which has reached 462 employees as of the Latest Practicable Date.

Other Business Updates

In July 2021, we entered into a collaborative research and development partnership with Proteomedix in the area of prostate cancer biomarker discovery, together with an investment of CHF 3 million in its convertible debt.

In August 2021, we entered into an asset purchase agreement with Epigenomics AG, a molecular diagnostics company focused on blood-based test for colorectal cancer, whose common shares are listed on Frankfurt Stock Exchange (Prime Standard) with ticker symbol ECX pursuant to which we have purchased biobank from Epigenomics AG with total purchase price of US\$6.7 million.

In August 2021, we invested into NHH Venture Fund, L.P., a limited partnership with a primary focus of investing in the areas of molecular diagnostic technology used for disease screening and early detection in the field of cancer and other major disease categories), through which we have indirectly made minority equity investments to Mirxes Holding Company Limited, a company focusing on improving and saving lives with RNA-powered disease early detection tests, Arion Bio, Inc, a company developing COVID-19 home testing kit, and Orbit Genomics, a molecular diagnostic company in the field of lung cancer clinical testing service and product development, respectively, in 2021.

We have also made minority equity investment through our wholly-owned subsidiary NHH Ventures Holding Limited in Arion Bio, Inc in September 2021 and Orbit Genomics in December 2021, respectively. We signed an exclusive licensing agreement with Orbit Genomics in December 2021 regarding their technology in the Greater China region, which includes, for this purpose, Mainland China, Hong Kong, Macau and Taiwan.

Industry Overview

Colorectal cancer screening tests have huge market potential in China, given China has the highest colorectal cancer incidence in the world and colorectal cancer is one of the most curable and preventable cancers if detected early, which makes colorectal cancer screening tests in high demands. Despite its relatively high mortality rate, colorectal cancer is widely accepted by medical communities as one of the most curable and preventable cancers if detected early. Patients who are diagnosed early in the progression of the disease (i.e. with precancerous lesions or polyps or early-stage cancer) are more likely to have a complete recovery and incur less medical expenses. The colorectal cancer screening market

Management Discussion and Analysis

in China is expected to experience accelerated growth mainly due to aging population, development of public awareness of colorectal cancer, increasing government support, prospective socioeconomic advantages and significant technology advancements. ColoClear is currently the only screening test in China with the ability to detect precancerous lesions such as advanced adenoma. As of the Latest Practicable Date, Pupu Tube is the first and only self-conducted FIT screening product approved by the NMPA as Class II medical device in China. UU Tube is the first and only self-conducted H.Pylori screening product approved by the NMPA as Class III medical device in China.

Impact of the COVID-19 Outbreak

An outbreak of a respiratory disease COVID-19 was first reported in December 2019 and continues to expand globally. Significant rises in COVID-19 cases have been reported since then, causing governments around the world to implement unprecedented measures such as city lockdowns, travel restrictions, quarantines and business shutdowns. COVID-19 outbreak disrupted the normal life and daily routine of the global population and in amidst of this global pandemic, cancer screening naturally became less a priority as compared to other more imminent health concerns. The worldwide COVID-19 outbreak had significantly impacted the cancer screening industry due to the restricted access to medical institutions. Health checkup centers, being our major sales channels, have been affected by the COVID-19 outbreak in the Reporting Period to a certain extent. Despite the foregoing, our revenue and gross profit increased for the year ended December 31, 2021 as compared to the year ended December 31, 2020. Our revenue was RMB212.8 million for the year ended December 31, 2021, representing a year-on-year increase of approximately 201.5% compared to the year ended December 31, 2020. Our gross profit was RMB154.6 million for the year ended December 31, 2021, representing a year-on-year increase of approximately 315.2% compared to the year ended December 31, 2020. The increases in revenue and gross profit were primarily attributable to the increase in volume of ColoClear and Pupu Tube sold and recognized as revenue as a result of the pandemic being increasingly under control and the increase in consumer health awareness in the year of 2021.

The shipment volume of ColoClear was approximately 664,600 units in 2021, representing a 168% year-on-year increase over the same period in 2020. The shipment volume growth was primarily driven by increasing receptivity among customers and rising product awareness by physicians since ColoClear approval by the NMPA in November 2020; such increasing receptivity and rising awareness were partially attributable to the Company's investments in clinical education and marketing events, the rising cancer-screening awareness by end-users, together with the recovery of our business from the COVID-19 outbreak. Shipment volume is generally considered as a leading indicator for future ColoClear revenue which would be recognized when we complete the testing service and deliver the test results or when the delivered sample collection kits are expired.

With respect to Pupu Tube, the shipment volume was approximately 5,831,000 units in 2021, representing a 104% year-on-year increase over the same period in 2020. The sales performance of Pupu Tube for the year ended December 31, 2021 improved as our business in general has recovered from the COVID-19 outbreak.

At the same time, due to social distancing rules and practices, contactless point-of-care screening methods which allow users to conduct tests without going to the hospitals or clinics are needed and recommended for use. Consumers tend to use contactless point-of-care screening technologies, such as at-home cancer screening tests rather than visiting the hospital. Moreover, due to this worldwide epidemic, medical resources are overwhelmed, with decreased number of doctors and physicians available for cancer screening tests.

Management Discussion and Analysis

FINANCIAL REVIEW

Overview

The following discussion is based on, and should be read in conjunction with, the financial information and notes included elsewhere in this report.

Revenue

During the Reporting Period, our revenue was mainly generated from (i) ColoClear, and (ii) Pupu Tube. The Group's revenue for the year ended December 31, 2021 was RMB212.8 million, representing an increase of approximately 201.5% compared to RMB70.6 million for the year ended December 31, 2020. The increase was due to the increase in revenue of ColoClear and Pupu Tube as a result of increase in volume of both products sold and recognized as revenue, increase in revenue per test for ColoClear and increase in revenue per product for Pupu Tube.

The following table sets forth a breakdown of our revenue by test for the years indicated:

	For the year ended December 31,		2020	
	2021	%	RMB'000	%
	<i>RMB'000</i>		<i>RMB'000</i>	
ColoClear	97,216	45.7	37,566	53.2
Pupu Tube	115,466	54.3	31,838	45.1
Others	79	0.0	1,163	1.7
Total revenue	212,761	100.00	70,567	100.0

Note:

1. Amounts and percentage figures included in this table have been subject to rounding adjustments.

For ColoClear, revenue was RMB97.2 million for the year ended December 31, 2021, representing a 158.8% increase as compared to RMB37.6 million for the year ended December 31, 2020, primarily attributable to (i) the increase in volume of ColoClear sold and recognized as revenue; and (ii) the increase in revenue per test due to higher proportion of revenue generated from channels with more favorable revenue per test (such as hospital and direct-to-consumer channels).

For Pupu Tube, revenue was RMB115.5 million for the year ended December 31, 2021, representing a 262.7% increase as compared to RMB31.8 million for the year ended December 31, 2020, primarily attributable to (i) the increase in volume of Pupu Tube sold and recognized as revenue; and (ii) higher revenue per product as a result of higher ex-factory price within each channel and lower proportion of revenue from channels with lower ex-factory price (such as government-sponsored community screening programs).

Management Discussion and Analysis

Cost of Sales

The cost of sales primarily consists of staff costs, manufacturing overhead, raw material costs, depreciation and amortization, utility costs, write-down of inventories and others.

The Group's costs of sales for the year ended December 31, 2021 was RMB58.1 million, representing an increase of approximately 74.4% compared to RMB33.3 million for the year ended December 31, 2020. The increase was primarily attributable to the increase in sales volume of ColoClear and Pupu Tube.

The table below sets forth a breakdown of our cost of sales in absolute amount and as percentage of our total cost of sales for the years indicated:

	For the year ended December 31,		2020	
	2021	%	RMB'000	%
	RMB'000		RMB'000	
ColoClear	23,302	40.1	12,445	37.4
Pupu Tube	32,866	56.6	17,265	51.8
Others	492	0.8	746	2.2
Write-down of inventories	1,456	2.5	2,862	8.6
Total cost of sales	58,116	100.0	33,318	100.0

Note:

1. Amounts and percentage figures included in this table have been subject to rounding adjustments.

Our costs of sales of ColoClear increased from RMB12.4 million for the year ended December 31, 2020 to RMB23.3 million for the year ended December 31, 2021, representing a year-over-year increase of approximately 87.2%. Our costs of sales of Pupu Tube increased from RMB17.3 million for the year ended December 31, 2020 to RMB32.9 million for the year ended December 31, 2021, representing a year-over-year increase of approximately 90.4%, primarily due to the increase in sales volume of ColoClear and Pupu Tube. Our other costs primarily include costs of sales of other cancer screening test.

Write-down of inventories decreased from RMB2.9 million for the year ended December 31, 2020 to RMB1.5 million for the year ended December 31, 2021, representing a year-over-year decrease of approximately 49.1%, which was primarily due to enhancement of our operational management capabilities.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Our gross profit margin represents our gross profit as a percentage of our revenue.

For the year ended December 31, 2021, the gross profit and gross profit margin were RMB154.6 million and 72.7%, respectively, as compared to RMB37.2 million and 52.8%, respectively, for the year ended December 31, 2020. The increase in gross profit was primarily due to the increase in sales volume of ColoClear and Pupu Tube. The increase in gross profit margin was primarily due to the increase in gross profit margin of ColoClear and Pupu Tube.

Management Discussion and Analysis

The table below sets forth a breakdown of our gross profit and gross profit margin by test for the years indicated:

	For the year ended December 31,			
	2021	2020	2021	2020
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
ColoClear	73,914	76.0	25,121	66.9
Pupu Tube	82,600	71.5	14,573	45.8
Others	(413)	(522.8)	417	35.9

Note:

1. Amounts and percentage figures included in this table have been subject to rounding adjustments.

For ColoClear, the gross profit margin was 76.0% for the year ended December 31, 2021, as compared to 66.9% for the year ended December 31, 2020, primarily due to the increase in revenue per test due to higher proportion of revenue generated from channels with more favorable revenue per test (such as hospital and direct-to-consumer channels) in respect of ColoClear.

For Pupu Tube, the gross profit margin was 71.5% for the year ended December 31, 2021, as compared to 45.8% for the year ended December 31, 2020, primarily due to higher revenue per test (both on blended basis and for each individual channel) and lower manufacturing cost per unit in respect of Pupu Tube.

Other Income

Our other income consists of government subsidies, bank interest income, interest income from subscription receivables and others. The Group's other income for the year ended December 31, 2021 was RMB22.7 million, representing an increase of approximately 142.2% compared to RMB9.4 million for the year ended December 31, 2020. The increase was primarily attributable to our increased income from the bank interest of the proceeds from the global offering of the Company.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of staff cost, sales promotion expenses, travel expenses and others.

The Group's selling and marketing expenses for the year ended December 31, 2021 was RMB271.4 million, representing an increase of approximately 316.7% compared to RMB65.1 million for the year ended December 31, 2020. The increase was primarily due to the increase in staff cost and sales promotions expenses.

Management Discussion and Analysis

Research and Development Expenses

The research and development expenses for our Group primarily consist of staff cost, clinical trial and service expenses, cost of research and development materials and equipment and other expenses.

The Group's research and development expenses for the year ended December 31, 2021 was RMB58.9 million, representing an increase of approximately 132.5% compared to RMB25.3 million for the year ended December 31, 2020. The increase was primarily due to the increase in staff costs, expenses for research and development and clinical trials in 2021.

The table below sets forth a breakdown of our research and development expenses in absolute amount and as percentage of our total research and development expenses for the years indicated:

	For the year ended December 31,		2020	
	2021	%	RMB'000	%
	RMB'000		RMB'000	
Research and development expenses				
Staff costs	22,699	38.5	12,981	51.2
Depreciation and amortisation	6,833	11.6	4,061	16.0
Clinic test expenses	3,074	5.2	106	0.4
Materials consumed	19,047	32.3	6,323	25.0
Consultancy fee	2,918	5.0	641	2.5
Travel expenses	388	0.7	250	1.0
Others	3,944	6.7	973	3.9
Total	58,903	100.0	25,335	100.0

Note:

1. Amounts and percentage figures included in this table have been subject to rounding adjustments.

Our staff cost primarily consists of salaries, welfare and pension for our research and development employees. Our depreciation and amortization expenses represent depreciation of equipment and renovation of our research and development facilities as well as amortization of intangible assets. Our clinical test expenses include expenses incurred for conducting clinical trials, including payment to contract research organizations in relation to our clinical trials. Our costs of research and development materials consumed represent expenses on the raw materials used for developing our product candidates. Our consultancy fee represent fees of technology consultation. Others mainly comprise of testing fees and other general expenses incurred for the purpose of research and development. For the years ended December 31, 2020 and 2021, the research and development expenses we spent on ColoClear accounted for 43% and 4.9% of the total research and development expenses, respectively, which were primarily for ColoClear IVD as the most critical component of ColoClear.

Administrative Expenses

The administrative expenses for our Group primarily consist of staff cost, professional service fees, depreciation and amortisation and others. The Group's administrative expenses for the year ended December 31, 2021 was RMB109.3 million, representing an increase of approximately 42.1% compared to RMB77.0 million for the year ended December 31, 2020. The increase was primarily due to the increase in wages and number of employees to support our operational needs for the growth of business.

Management Discussion and Analysis

Impairment Losses on Trade and Other Receivables

The Group's impairment losses on trade and other receivables for the year ended December 31, 2021 was RMB6.6 million, representing an increase of approximately 158.2% compared to RMB2.6 million for the year ended December 31, 2020. The increase was primarily due to the increase in accounts receivable.

Other Expenses

The Group's other expenses for the year ended December 31, 2021 was nil, representing a decrease of 100.0% compared to RMB12.9 million for the year ended December 31, 2020.

Finance Costs

The Group's finance costs for the year ended December 31, 2021 was RMB7.8 million, representing an increase of approximately 0.3% compared to RMB7.7 million for the year ended December 31, 2020. The increase was primarily due to the increase in interest on lease liabilities.

Income Tax Expenses

The Group's income tax expenses for the year ended December 31, 2021 was nil, representing a decrease of 100.0% compared to RMB0.3 million for the year ended December 31, 2020.

Non-IFRS Measures

To supplement our consolidated statements of profit or loss which are presented in accordance with IFRS, we also use adjusted net loss as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain non-operational or non-recurring expenses that do not affect our ongoing operating performance, including fair value gain/loss on preferred shares, share-based payment expenses and listing expenses. Such non-IFRS measures allow investors to consider metrics used by our management in evaluating our performance. Fair value gain/loss of preferred shares represent the changes in fair value of the conversion option associated with the preferred shares, which is non-recurring and non-operational in nature. Share-based payment expenses are non-operational expenses arising from granting shares to selected executives, employees and research and development consultants. The amount of relevant expenses may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities. With respect to share-based payment expenses, determining its fair value involves significant judgment. Historical occurrence of share-based payment expenses is not indicative of any future occurrence. Listing expenses are in relation to the listing and the global offering, which are non-recurring in nature. Therefore, we do not consider fair value gain/loss on preferred shares, share-based payment expenses and listing expenses to be indicative of our ongoing core operating performance and exclude them in reviewing our financial results. From time to time in the future, there may be other items that we may exclude in reviewing our financial results. The use of the non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial condition as reported under IFRS. In addition, the non-IFRS financial measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Management Discussion and Analysis

The following table shows reconciliation of net loss for the year to our adjusted net loss for the years indicated:

	For the year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net loss for the year	(3,085,336)	(788,724)
Fair value loss on preferred shares	2,757,028	578,786
Share-based payment expenses	23,849	14,725
Listing expenses	19,217	26,900
Adjusted net loss	(285,242)	(168,313)

Notes:

1. We consider fair value gain/loss on preferred shares, share-based payment expenses, and listing expenses as non-operational or non-recurring expenses which do not affect our ongoing operating performance. We believe the net loss as adjusted by eliminating potential impacts of the fair value gain/loss on preferred shares, share-based payment expenses, and listing expenses provides useful information to investors in facilitating a comparison of our operating performance from period to period.
2. Amounts and percentage figures included in this table have been subject to rounding adjustments.

Capital Management

The primary goal of the Group's capital management is to maintain the Group's stability and growth while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group reviews and manages its capital structure regularly, and makes timely adjustments to it in light of changes in economic conditions.

The capital structure of the Group consists of net debts, which includes bank borrowings and preferred shares, and net of bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves. The Group will balance its overall capital structure through the new shares issuance as well as the issuance of new debts and redemption of existing debts.

Liquidity and Financial Resources

The Group's cash and cash equivalents as at December 31, 2021 were RMB686.8 million, representing an increase of approximately 52.0% compared to RMB451.8 million for the year ended December 31, 2020. The increase was primarily attributable to the financing from the global offering of the Company completed in 2021.

The major sources of the Group's liquidity are equity financing and bank borrowings. Our bank borrowings are divided into secured loans and unsecured loans.

As of December 31, 2021, our unsecured and unguaranteed bank borrowing was nil. The unsecured and unguaranteed bank borrowings as at December 31, 2020, amounting to RMB20 million at a fixed interest rate (also being the effective interest rate) of 4.80% per annum was settled in full in March 2021.

Management Discussion and Analysis

Our secured bank borrowing was unguaranteed, originally repayable by monthly installments and will mature in November 2022, and carried an original fixed rate interest rate of 6.5% per annum. Pursuant to a supplemental agreement dated May 20, 2021 entered into by the Group and the relevant borrowing bank (the **"Supplemental Agreement"**), the interest rate of the bank borrowing was modified from a fixed interest rate of 6.5% per annum to a fixed interest rate of 4% per annum and the repayment term of the principal amount is modified from monthly instalment to full repayment at the maturity date of the bank borrowings on November 1, 2022. Such bank borrowing was originally secured by our historical and future trade receivables, which was released and substituted by the security of pledged bank deposits amounting to RMB110,000,000, which carried a fixed interest rate of 2% per annum pursuant to the Supplemental Agreement. Furthermore, pursuant to the Supplemental Agreement, the Group is required to pay a 2% fee calculated based on the maximum amount of the borrowing drawdown by the Group during the loan period upon the successful listing of the Company.

As of December 31, 2021, we had utilized RMB79.5 million from our banking facilities, and RMB20.5 million remained unutilized under our banking facilities. The utilization of the remaining balance of the secured banking facilities is subject to certain conditions, including time limits and certain financial performance requirements.

Gearing Ratio

The gearing ratio (calculated by total liabilities divided by total assets) of the Group as at December 31, 2021 was 10%, representing a decrease of 95.9% compared to 233% as at December 31, 2020.

Foreign Exchange Exposure

We have transactional currency exposures. Certain of our time deposits, cash and bank balances, other financial assets, trade and other receivables, trade and other payables and preferred shares are denominated in foreign currency which are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arise.

OUTLOOK AND PROSPECTS

We plan to execute the following strategies to achieve our vision and mission.

Further develop the cancer screening market in China

According to the Healthy China 2030, it is expected that the overall 5-year cancer survival rate will be no less than 43.3% and 46.6% by 2022 and 2030, respectively; the early diagnosis rate of key cancer species in high incidence areas will reach 55% and above and will continue to improve; thereby achieving the regular participation of high risk groups of people in cancer prevention physical examinations. In addition, screening and early detection and early treatment guidelines will be established for key cancers that have high incidence rates and relatively more mature screening methods and technical solutions, such as gastric cancer, oesophageal cancer, colorectal cancer, lung cancer, cervical cancer and breast cancer. Given the low penetration rate in China for cancer screening and PRC's government initiatives to increase cancer early detection rate as mentioned above, we believe it is critical to further promote awareness of cancer screening and increase compliance. We plan to further advance the cancer screening market in China by increasing physician and user awareness and developing other effective cancer screening solutions.

Management Discussion and Analysis

We believe one of the key steps for promoting cancer screening awareness is through hospitals and physicians. We will leverage our strong relationship with KOLs to continue and enhance our efforts in physician education in China. These efforts include sponsoring academic conferences, updating physicians on the latest developments in cancer screening industry, and collaboration with them to increase awareness of cancer screening among mass population. We also plan to directly promote mass market awareness on cancer screening in China through expanded sales of Pupu Tube. Pupu Tube's affordable price and user-friendly features enable colorectal cancer screening among the mass population. We will further promote the awareness of comprehensive colorectal cancer screening products such as ColoClear, once the high risk population is identified by Pupu Tube. We will also further our partnership with multiple anti-cancer associations in China, such as the Cancer Foundation of China, to join their anti-cancer campaigns and other charity events to further improve cancer screening awareness.

Increase market penetration of ColoClear, Pupu Tube and UU Tube in China

We plan to further increase the market penetration of ColoClear, Pupu Tube and UU Tube to reinforce our market-leading position in China's colorectal cancer screening market. We will leverage on our multi-pronged commercialization channels to promote ColoClear. We will take advantage of our leading position as the first and only the NMPA approved molecular cancer screening test to further promote our brand name and enhance awareness not only among KOLs and physicians but also among end-users to further capture the enormous growth potential in the colorectal cancer screening market in China. In addition to colorectal cancer, we plan to promote the market penetration of UU Tube, our stool-based self-conducted screening product for gastric cancer which has been approved by the NMPA as Class III medical device in January 2022. We plan to strengthen our collaboration with leading contract sales organizations in China to further promote our products among physicians and hospitals, by leveraging their sales and marketing expertise and their extensive coverage on hospitals.

In addition, for our ColoClear, Pupu Tube and UU Tube, we plan to advance our academic promotion and engagement with physicians and hospitals to increase sales at our covered hospitals as well as to expand our coverage to cover new physicians and hospitals in China. We also plan to enhance our collaborations with health checkup centers, insurance companies, online healthcare platforms, pharmacies and other authorized agents to market ColoClear, Pupu Tube and UU Tube. To support our marketing efforts, we plan to recruit more talents and expand our commercialization team.

Expand our research and development capabilities and develop our pipeline products

We will prudently make investments in technological innovation to expand our research and development capabilities and such investment is a key to our future success. To support our research and development efforts, we plan to recruit additional experts to strengthen our internal research and development team, and complement our in-house research and development capabilities through collaborations with reputable domestic and international academic and medical institutions.

In addition to colorectal cancer, we plan to develop screening tests for other types of cancers which are curable or preventable at lower treatment costs if detected at early stages. We plan to advance our pipeline products, in particular the late stage candidate CerviClear for cervical cancer screening, to further expand our coverage within the cancer screening market. We plan to initiate the registrational clinical trial of CerviClear in 2022. Leveraging our multi-omics biomarker technology platform and expertise, including our NGS and proteomics technologies and infrastructure, we will further expand our proprietary data base and enhance our biomarker discovery capability and NGS platform for our future cancer screening product development.

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We will leverage our proprietary technologies and know-how, as well as our collaboration with KOLs, to develop new products with significant unmet medical needs. We believe the continued diversification of our product portfolio will help strengthen our market-leading position and generate significant operational efficiency that will drive our profitability.

Improve profitability and support future growth by enhancing our manufacturing and laboratory testing facilities

We have built manufacturing facilities in Hangzhou with an annual capacity of 10 million Pupu Tube, 5 million ColoClear and 10 million UU Tube. Our manufacturing facilities are good manufacturing practices (GMP) certified in China. The facilities have produced all Pupu Tube for its clinical development and commercialization and all ColoClear to support its clinical development. We also have laboratory testing facilities in Beijing and Hangzhou with an aggregate capacity of 1,500,000 tests per year. We have completed construction of our laboratory testing facilities in Guangzhou which has been in full operation since the first quarter of 2021, and we now have laboratory testing facilities in Beijing, Hangzhou and Guangzhou with an aggregate capacity of 2,000,000 tests per year. We plan to enhance our manufacturing and laboratory testing facilities by further investment in automation to enhance manufacturing and testing efficiency and improve our profitability. It will also shorten testing turnaround time to improve customer satisfaction for our tests. We also plan to expand our manufacturing and laboratory testing capacity to support our rapid growth.

Selectively pursue geographic expansion, strategic partnerships and acquisition opportunities

We hold global rights of our products and product candidates through patent registration and protection over proprietary technologies. We plan to enter into partnership arrangements to expand our market coverage and maximize the global value of our products.

We also plan to complement our organic growth with prudent investment, acquisition or partnership. Particularly, we plan to opportunistically acquire product candidates which have significant market potential or cutting-edge technologies, complement our existing product portfolio or have synergies with our existing research and development, manufacturing and commercialization infrastructure. We will adopt a market-driven approach in assessing potential acquisition targets. To pursue such opportunities, we will explore suitable investment and partnership arrangements, including establishing strategic alliances, joint ventures and in-licensing relationships. We believe that our extensive industry knowledge and research and development expertise will not only empower us to promptly identify and capture potential targets to enrich our product portfolio, but also make us a more desirable acquirer or partner than our competitors. Furthermore, we believe that our strong business execution capabilities will enable us to integrate the acquired products and/or business or assets seamlessly into our existing platform.

Management Discussion and Analysis

OTHER INFORMATION

Significant Investments Held

During the Reporting Period, the Group did not have any significant investments, acquisitions or disposals.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As at December 31, 2021, the Group had 804 employees, where their salaries and allowances were determined based on their performance, experience and the then prevailing market rates. We have also invested in continuing education and training programs, including internal and external training, for our management staff and other employees to upgrade their skills and knowledge. We also provide competitive salaries, project and stock incentive plans to our employees especially key employees.

During the Reporting Period, the total staff costs (including Directors' emoluments) were approximately RMB186.0 million (for the year ended December 31, 2020: RMB94.0 million).

Purchase, Sale or Redemption of Listed Securities

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

Capital Expenditure and Commitments

The Group's capital expenditures in 2021 primarily related to purchase of property, plant and equipment, and intangible assets. In 2021, the Group incurred RMB37.1 million in relation to capital expenditures as compared to RMB25.0 million in 2020.

Contingent Liabilities

The Group had no material contingent liability as of December 31, 2021.

Charges on Group Assets

Save for the pledged bank deposits amounting to RMB110,000,000 as security for the secured bank borrowing which will mature in November 2022 as disclosed in this report, as of December 31, 2021, the Group did not have any other charges over its assets.

Future Plans for Material Investments or Capital Assets

As of December 31, 2021, the Group did not have future plans for material investments or capital assets.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

(1) NMPA Approval for Registration Application of UU Tube

On January 6, 2022, the Company received the approval from the NMPA of the registration application for UU Tube as Class III medical device, the Company's stool-based self-conducted screening product for gastric cancer by detecting *H. pylori*, the pathogenic bacteria which is the major causative agent for gastric cancer. The Company obtained the NMPA registration certificate for Class III medical device for UU Tube on January 6, 2022.

(2) Proposed Adoption of 2022 RSU Scheme and 2022 Share Option Scheme

On March 18, 2022, in order to recognize the contributions of certain employees and consultants of the Group and provide incentives to them to further contribute to the Group, the Board conditionally approved the adoption of the 2022 RSU Scheme and the 2022 Share Option Scheme subject to the approval by the shareholders of the Company in the AGM. Please refer to the announcement of the Company of even date for details of the 2022 RSU Scheme and the 2022 Share Option Scheme.

(3) Establishment of Wholly-owned Subsidiary in the PRC

On March 18, 2022, the Board approved to establish a wholly-owned subsidiary in the PRC by Hangzhou New Horizon Health Technology Co., Ltd (杭州諾輝健康科技有限公司), an indirect wholly-owned subsidiary of the Company in order to better manage the Group's supply chain and prepare for the Group's regulatory registration process for future pipeline products.

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Yiyou CHEN (陳一友), aged 50, is a co-founder of our Group. Dr. Chen founded our Group in 2015 and was appointed as the Chairman of the Board and Chief Scientific Officer of our Company on June 7, 2018. Dr. Chen was designated as an executive Director of our Company on October 9, 2020.

Dr. Chen began his career at Genencor International Inc., where he served in various positions including drug discovery project leader and research team member from 1998 to 2003. In 2003, Dr. Chen co-founded Starvax Inc., a biotechnology company which is no longer in operation, and served as the chief scientific officer from its inception to 2006 responsible for leading the entire drug discovery portfolio including prophylaxis vaccine for SARS-CoV-1 and immunotherapeutics for cancer. In 2006, Dr. Chen co-founded Crown Bioscience Inc., a drug discovery and development company currently with facilities in North America, Europe and Asia, and served as the chief scientific officer from its inception to 2012 responsible for leading various drug discovery and research projects including a monoclonal antibody for the potential treatment of acute myeloid leukemia. Dr. Chen presently does not hold any shareholding interests in Starvax Inc. or Crown Bioscience Inc., nor is he involved in their management.

Since March 2013, Dr. Chen has served as a board member of Med Data Quest, Inc., a company engaged in the application of artificial intelligence to improve the healthcare system. Since April 2013, Dr. Chen has served as a director at Beijing Percans Oncology Co., Ltd. (北京智康博藥腫瘤醫學研究有限公司), a company engaged in the research and development of tumour-related medication and medical services. In September 2014, Dr. Chen co-founded Rejuven Dermaceutical Co., Ltd. (杭州觀蘇生物技術有限公司), a company engaged in the research, development and application of novel biologics particularly in the area of medical aesthetics, where he successively served as a director and a supervisor until October 2020 and in which he presently holds a less than 10% equity interest through a wholly-owned entity. Dr. Chen's responsibilities as a director included budget approval and engaging in strategic discussions, whereas as a supervisor, he was responsible for ensuring that management operation and board procedures were carried out in compliance with the company charter. Since May 2018, Dr. Chen has served as a director at Cothera Bioscience, Inc., a company engaged in the research and development of combination therapies for treating cancer. To the best knowledge of the Directors, none of the companies co-founded by Dr. Chen listed above engages in any business that compete or is likely to compete, either directly or indirectly, with the business of the Company.

Dr. Chen has served as a director at NHJK Holding Corporation Limited and Hangzhou Nuohui since 2015 and a director at NH Health USA Inc. since 2019, all three of which are subsidiaries of the Company. With his more than 20 years of research and development experience in the oncology space, Dr. Chen is the inventor of six patents in the U.S. and over 20 patent applications globally, and has authored multiple papers published in peer reviewed medical journals. He is also one of the founding members of the BayHelix Group.

Dr. Chen received his Bachelor's degree in Biochemistry from Peking University in the PRC in July 1992, and obtained his Doctoral degree in Experimental Pathology from the University of Utah in the United States in July 1997.

Biographies of Directors and Senior Management

Mr. Yeqing ZHU (朱葉青), aged 50, is a co-founder of our Group. Mr. Zhu founded our Group in 2015 and was appointed as the Chief Executive Officer of our Company on June 7, 2018. Mr. Zhu was designated as an executive Director of our Company on October 9, 2020.

From July 1996 to September 1999, Mr. Zhu worked as a sales manager at the Beijing office of Samsung Corporation (now known as Samsung C&T Corporation) (三星物產北京辦事處). From August 2000 to December 2013, Mr. Zhu held a number of positions including managing director at GE (China) Co., Ltd. (通用電氣(中國)有限公司). Mr. Zhu has served as a director at Hangzhou Nuohui since 2015, a director at Beijing Xincheng, Beijing Nuoan Lab and Hangzhou Nuokang Lab since 2016 and a director at Guangzhou Nuohui Lab since 2019, all four of which are subsidiaries of the Company. He is currently a council member of the Cancer Foundation of China.

Mr. Zhu received his Bachelor's degree in Biochemistry at Peking University in the PRC in July 1992, and obtained his Master's degree in Business Administration from Guanghua School of Management of Peking University in the PRC in July 2001.

NON-EXECUTIVE DIRECTOR

Mr. Naxin YAO (姚納新), aged 51, joined our Group on November 19, 2015. Mr. Yao was designated as a non-executive Director of our Company on October 9, 2020.

Mr. Yao served in various positions at a number of companies in China and the U.S. during the 1990s to early 2000s. Mr. Yao then co-founded Focused Photonics (Hangzhou), Inc. (聚光科技(杭州)股份有限公司), a company listed on the ChiNext board of Shenzhen Stock Exchange (stock code: 300203), where he served as director and general manager between January 2002 and June 2015. Mr. Yao also served as executive director and general manager at Hangzhou Focused Photonics Environmental Technology Co., Ltd. (杭州聚光環保科技有限公司), a company engaged in product and software development of opto-mechatronics, from December 2007 to June 2019.

Since the 2000s, Mr. Yao has served many directorships at companies operating in various industries, including information technology, environmental technology, biotechnology and investment management. The directorships that Mr. Yao currently serves include: executive director and general manager at Zhejiang Pudu Science And Technology Co., Ltd. (浙江普渡科技有限公司) since August 2009, which is an investment company involved in technology development and corporate governance consultancy; executive director at Hangzhou Haibang Yinzhi Investment Management Co., Ltd. (杭州海邦引智投資管理有限公司) since June 2012, which is an investment management company providing investment and corporate governance consultancy; director at Shanghai Xiaoyi Technology Co., Ltd. (上海小蟻科技有限公司) since September 2014, a company engaged in the manufacturing and development of cameras and computer vision technologies; vice-Chairman of the board at Rejuven Dermaceutical Co., Ltd. (杭州觀蘇生物技術有限公司) since September 2014, a company engaged in the research, development and application of novel biologics particularly in the area of medical aesthetics; and director at Hangzhou Yuyuan Life Technology Co., Ltd. (杭州育源生命科技有限公司) since November 2018, a company engaged in biotechnology product development and services.

Mr. Yao received his Bachelor's degree in Cell Biology and Genetic Engineering from Peking University in the PRC in July 1992, and obtained a Master's Degree from the University of California, Berkeley in the United States in Nutrition in May 1998. Mr. Yao also obtained a Master's Degree from Stanford University in the United States in Management in June 2003.

Biographies of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Danke YU (余丹柯), aged 52, was appointed as an independent non-executive Director of the Company with effect from February 5, 2021.

Between July 1995 and June 2007, Mr. Yu served various finance roles within General Electric Company, including acting as finance director for acquisition integration within the Asia Pacific region, finance project manager for global finance at the group's energy business headquarters, and chief financial officer of General Electric Infrastructure China. Between July 2007 and August 2009, Mr. Yu served as chief financial officer at Xinjiang Goldwind Science & Technology Co., Ltd. (新疆金風科技股份有限公司), a wind turbine technology and energy solutions provider, whose shares are listed on the Shenzhen Stock Exchange (stock code: 002202) and Hong Kong Stock Exchange (stock code: 2208). Between September 2009 and July 2012, Mr. Yu served as a renewable energy consultant in Melbourne, Australia, where he was a senior advisor to a Hong Kong-based private equity firm, and provided consulting services to international investors on the Chinese wind energy industry through the Gerson Lehrman Group Council. Between July 2012 and January 2016, Mr. Yu served as chief financial officer and general manager at Lightway Australia Pty Ltd, based in Melbourne and Beijing, where he led the restructuring of a US\$50 million revenue business. Between February 2016 and February 2017, Mr. Yu served as chief financial officer at the downstream business unit of Trina Solar Limited, where he led the finance team of the solar power project development business. Between June 2017 and May 2018, Mr. Yu worked as chief financial officer at the Wison Group in Shanghai, where he undertook overall finance leadership responsibility. Mr. Yu is currently a freelance consultant in the field of international mergers and acquisitions.

Mr. Yu obtained his Bachelor's degree in Economics from Nanjing University in the PRC in July 1991.

Prof. Hong WU (吴虹), aged 64, was appointed as an independent non-executive Director of the Company with effect from February 5, 2021. Prof. Wu is the Dean and Chair Professor of the School of Life Sciences at Peking University.

Prof. Wu worked at the David Geffen School of Medicine at the University of California, Los Angeles from 1996 to 2013, where she successively held the positions of Assistant Professor, Associate Professor and tenured Full Professor of Molecular and Medical Pharmacology, and was named the inaugural holder of the David Geffen Chair in Medical Research. During her tenure, Prof. Wu also served as the Associate Director of the Genitourinary Oncology Program Area at the Jonsson Comprehensive Cancer Center, as well as the Associate Director for Research and then the Director of the Institute for Molecular Medicine. Prof. Wu has been serving as Dean of the School of Life Sciences at Peking University since 2013.

Prof. Wu first obtained her Bachelor of Medicine degree from the Beijing Medical College, China in July 1983. Prof. Wu then obtained her Doctoral degree in Biological Chemistry and Molecular Pharmacology from Harvard Medical School in the United States in June 1991. Between 1991 and 1996, Prof. Wu was as a postdoctoral fellow at the Whitehead Institute for Biomedical Research, Massachusetts Institute of Technology in the United States.

Prof. Wu holds a number of honorary positions, including Associate Member of the European Molecular Biology Organisation since 2016, and Fellow of the American Association for the Advancement of Science since 2011.

Biographies of Directors and Senior Management

Dr. Donald Kwok Tung LI (李國棟), *S.B.S., J.P.*, aged 67, was appointed as an independent non-executive Director of the Company with effect from February 5, 2021.

Dr. Li is a specialist in Family Medicine in private practice in Hong Kong.

Dr. Li has been a council member of Hong Kong St. John Ambulance since June 2000, the director of Hong Kong St. John Ambulance Association since June 2017, the president of the World Organisation of Family Physicians (WONCA) from November 2018 to October 2021, and the president of the Hong Kong Academy of Medicine from December 2012 to December 2016. Dr. Li is also a honorary steward of the Hong Kong Jockey Club and the chairman of the board of directors of Hong Kong Sheng Kung Hui Welfare Council Limited, and had served as the chairman and is now a director of the Bauhinia Foundation Research Centre.

Since November 2015, Dr. Li has served as an independent non-executive director of UMP Healthcare Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 722). Since December 2017, Dr. Li has served as an independent non-executive director of C-MER Eye Care Holdings Limited, a company listed on the Hong Kong Stock Exchange (stock code: 3309) and since December 2020, Dr. Li has served as an independent non-executive director of Sino Biopharmaceutical Limited, a company listed on the Hong Kong Stock Exchange (stock code: 1177).

Dr. Li received his Bachelor of Arts degree from Cornell University in the United States in June 1975. In August 1980, Dr. Li obtained his Bachelor of Medicine and Bachelor of Surgery degree from The University of Hong Kong. Dr. Li has been a Fellow of The Hong Kong College of General Practitioners (now known as the Hong Kong College of Family Physicians) since September 1987, Fellow of the Hong Kong Academy of Medicine in the specialty of Family Medicine since December 1993, Honorary Fellow of the College of Dental Surgeons of Hong Kong since 2004, Honorary Fellow of the Royal Australian College of General Practitioners since September 2005, Honorary Fellow of the Hong Kong College of Family Physicians since May 2007, Fellow of the Faculty of Public Health of the Royal College of Physicians of the United Kingdom since February 2010, Registered Mainland China Medical Practitioner since November 2012, Fellow of the American College of Physicians since September 2015, Honorary University Fellow of The University of Hong Kong since September 2015, Honorary Fellow of the Chinese University of Hong Kong since June 2016 and Honorary Fellow of the Hong Kong Academy of Medicine since December 2017.

Biographies of Directors and Senior Management

SENIOR MANAGEMENT

Dr. Yiyou CHEN (陳一友), aged 50, is a co-founder of our Group. Dr. Chen founded our Group in 2015 and was appointed as the Chairman of the Board and Chief Scientific Officer of our Company on June 7, 2018. Dr. Chen was designated as an executive Director of our Company on October 9, 2020. For further details, please see the paragraphs headed “Executive Directors” in this section.

Mr. Yeqing ZHU (朱葉青), aged 50, is a co-founder of our Group. Mr. Zhu founded our Group in 2015 and was appointed as the Chief Executive Officer of our Company on June 7, 2018. Mr. Zhu was designated as an executive Director of our Company on October 9, 2020. For further details, please see the paragraphs headed “Executive Directors” in this section.

Mr. Yu GAO (高煜), aged 39, has been the Chief Financial Officer of our Group since June 1, 2020. He is also one of our joint company secretaries since October 9, 2020.

Mr. Gao has over 15 years of healthcare industry experience as a private equity investor, an investment banker, and a management consultant. Prior to joining our Group in 2020, Mr. Gao was a vice-president at FountainVest Partners (方源資本) in Shanghai, focusing on buyout and growth-stage healthcare equity investments globally across medical device, biotechnology, and healthcare service sectors since 2016. From 2014 to 2016, Mr. Gao was an investment banking associate at Bank of America Merrill Lynch in New York, advising healthcare clients on initial public offerings, merger and acquisitions, hostile defense, and other strategic transactions. From 2007 to 2014, Mr. Gao served as a business consultant and various other roles at ZS Associates in New York, advising healthcare clients on commercial strategies, sales operations, and post-merger integrations.

Mr. Gao received his Bachelor’s degree in Electrical Engineering from Shanghai Jiao Tong University in the PRC in July 2005, his Master’s degree in Science from Purdue University in the United States in December 2006, and his Master’s degree in Business Administration from Columbia Business School in the United States in May 2014.

Dr. Ning LU (呂寧), aged 51, has been the Chief Technology Officer of our Group since November 19, 2015. Dr. Lu built up the Company’s product development capability and has been instrumental in aiding ColoClear through the clinical validation and regulatory approval process.

Dr. Lu has over 17 years of experience in molecular diagnostics and medical devices, and 11 years of experience in cutting-edge bioscience research at top-tier institutions. Prior to joining our Group in 2015 as chief technology officer of Hangzhou Nuohui, our principal operating subsidiary, Dr. Lu served as a manager at Roche Diagnostics from 2007, developing IVD products for US and European markets. From 2004 to 2007, Dr. Lu worked as a Senior Scientist in the R&D department of Quest Diagnostics. During his over a decade of IVD experience at multiple global companies including Roche Diagnostics and Quest Diagnostics, Dr. Lu has led the development of eight IVD products. Dr. Lu is one of the inventors of two patents, namely “bordetella detection assay” (published in 2009) and “HAV detection” (published in 2014).

Dr. Lu received his Bachelor’s degree in Biochemistry in July 1992 from Peking University in the PRC, and then received his Doctoral degree of Philosophy in September 1999 from Duke University in the United States, where he co-authored an article titled “ELAV tumor antigen, Hel-N1, increases translation of neurofilament M mRNA and induces formation of neurites in human teratocarcinoma cells” (published in 1999). Subsequently, Dr. Lu served as a postdoctoral researcher at the Department of Biological Sciences, Stanford University where he co-authored an article titled “Localization of Tec29 to ring canals is mediated by Src64 and PtdIns(3,4,5)P3-dependent mechanisms” (published in 2004).

Report of Directors

The Board is pleased to present this annual report together with the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company is the pioneer in China's colorectal cancer screening market. ColoClear, its proprietary, non-invasive, multi-target, FIT-DNA test, is the first and only molecular cancer screening test in China approved by NMPA. ColoClear targets a 120 million high-risk colorectal cancer population in China, and enables users to collect stool sample at home and avoid invasive procedures while delivering high testing sensitivity and specificity. Founded in 2015 by its experienced founders, the Company focuses on the design, development and commercialization of cancer screening tests, in order to capitalize on market opportunity and to address the unmet cancer screening demands in China. The Company's mission is to advance the innovation and accelerate the adoption of cancer screening technologies in China.

There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2021. Please refer to note 36 to the consolidated financial statements for details of the principal activities of the principal subsidiaries of the Group. An analysis of the Group's revenue and operating profit for the year ended December 31, 2021 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 5 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2021, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year ended December 31, 2021, events after the Reporting Period, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman and CEO's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. The review and discussion form part of this Directors' report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the Reporting Period are set out on page 76 of this annual report.

The Board does not recommend the payment of a final dividend in respect of the year ended December 31, 2021.

FINANCIAL SUMMARY

The Company's Shares were listed on the Hong Kong Stock Exchange on February 18, 2021. A summary of the published results, assets and liabilities of the Group for the last four financial years is set out on page 7 of this annual report.

PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in note 14 to the consolidated financial statements on page 120 of this annual report.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that various stakeholders including employees, medical experts, patients, suppliers and other business associates are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationships with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of the Group's workforce, the Group provides employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group believes that it maintains a good relationship with its employees and the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

The Group conducts academic marketing activities to establish and maintain relationships with KOLs in the national medical system. The Group provides these experts with detailed information on its products and helps them make independent comparison among competing products in the market. The Group also maintains long-term cooperative relationships with medical experts to help raise the Group's profile, enhance awareness of Group's products in the medical community and among patients, and provide it with valuable clinical data to improve the Group's products.

For details of an account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company is set out in a separate 2021 Environmental, Social and Governance Report of the Company dated April 28, 2022 (the "2021 ESG Report").

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environmental protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including environmental protection, health and safety, workplace conditions, employment and the environment.

The Group has established detailed internal rules regarding environmental protection, in particular, the discharge of air, water and solid waste and noise control. During the year ended December 31, 2021, we did not incur any additional costs specifically attributable to environmental compliance.

Further details of the Group's environmental policies and performance are disclosed in the separate 2021 ESG Report of the Company.

Report of Directors

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 29 to the consolidated financial statements on page 136 of this annual report.

RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 79 of this annual report. Details of the movement in the reserves of the Company during the Reporting Period is set out in note 38 to the consolidated financial statements on pages 163 to 164 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's distributable reserves, calculated in accordance with relevant rules and regulations, were RM80 million.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or relevant laws and regulations, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on the Stock Exchange on February 18, 2021 and the over-allotment option was exercised in full on March 12, 2021. The Company's net proceeds were approximately HK\$2,190.5 million (after deducting the underwriting commissions and other estimated expenses in connection with the global offering and the exercise of the over-allotment option).

Up to December 31, 2021, HKD624,699,000, or 29% out of the net proceeds have been utilized as specified in the below table. The Company intends to use the remaining net proceeds in the same manner and proportion as set out in the Prospectus under the section headed "Future Plans and Use of Proceeds". The remaining proceeds are expected to be used in the following four years. The completion time of using such proceeds will be determined based on the Company's actual business needs and future business development.

	Use of proceeds as stated in the Prospectus (in HK\$'000) (approximate)	Actual use of proceeds during the year ended December 31, 2021 (in HK\$'000) (approximate)	Actual use of proceeds up to December 31, 2021 (in HK\$'000) (approximate)	Net proceeds unutilized as of December 31, 2021 (in HK\$'000) (approximate)	Expected timeline for usage of proceeds
40% for the commercialization and further development of ColoClear as medical services or as a standalone product	876,200	297,867	297,867	578,333	The amount is expected to be fully utilized by second half of 2025
5% for the ongoing sales and marketing of Pupu Tube through promoting awareness of colorectal cancer screening and increasing market penetration, and to conduct additional clinical assessment of Pupu Tube in various populations	109,525	47,081	47,081	62,444	The amount is expected to be fully utilized by second half of 2025
30% for the ongoing and planned research and development to further develop UU Tube, CerviClear and our other early stage pipeline products	657,150	97,632	97,632	559,518	The amount is expected to be fully utilized by second half of 2025
15% for the continued expansion and diversification of our product portfolio through potential acquisition or in-licensing of product candidates in the cancer screening field	328,575	80,953	80,953	247,622	The amount is expected to be fully utilized by second half of 2025
10% for working capital and other general corporate purposes	219,050	101,166	101,166	117,884	The amount is expected to be fully utilized by second half of 2025
Total	2,190,500	624,699	624,699	1,565,801	

Report of Directors

DIRECTORS

The Board currently consists of the following 6 Directors:

Executive Directors

Dr. Yiyou CHEN (*Chairman*)

Mr. Yeqing ZHU (*Chief Executive Officer*)

Non-executive Director

Mr. Naxin YAO

Independent Non-executive Directors

Mr. Danke YU

Prof. Hong WU

Dr. Donald Kwok Tung LI, *s.B.S., J.P.*

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group as at the date of this annual report are set out on pages 27 to 31 in the section headed “Biographies of Directors and Senior Management” of this annual report.

CHANGE OF INFORMATION OF DIRECTORS

Saved as disclosed in this report and as at the Latest Practicable Date, there are no other changes to the Directors’ and Senior Management’s information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS’ SERVICE CONTRACTS

Each of the executive Directors and non-executive Director(s) has entered into a service contract with the Company under which the initial term of their respective service contract shall commence from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months’ prior notice. Each of the independent non-executive Directors has entered into an appointment letter with the Company effective from the date of the Prospectus, being February 4, 2021. The initial term of their appointment letters shall commence from the date of their appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month’s prior notice in writing.

Save as disclosed above, none of the Directors has entered into any service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation). Save as disclosed above, none of the Directors has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CONTRACT WITH SUBSTANTIAL SHAREHOLDERS

No contract of significance was entered into between the Company or any of its subsidiaries and the substantial shareholders or any of its subsidiaries during the Reporting Period or subsisted at December 31, 2021 and no contract of significance for the provision of services to the Company or any of its subsidiaries by a substantial shareholder or any of its subsidiaries was entered into during the Reporting Period or subsisted at December 31, 2021.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Except the Contractual Arrangements as disclosed below in this report, no transaction, arrangement and contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, and in which a Director or any entity connected with such a Director had a material interest, whether directly or indirectly, subsisted at December 31, 2021 or at any time during the Reporting Period.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors and senior management of the Group receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, contribution to the pension scheme and other share-based compensation. The compensation of Directors and senior management of the Group is determined based on each Director and senior management's responsibilities, qualification, position and seniority. Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 11 to the consolidated financial statements on pages 117 to 119 of this annual report.

For the Reporting Period, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended December 31, 2021.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2021, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

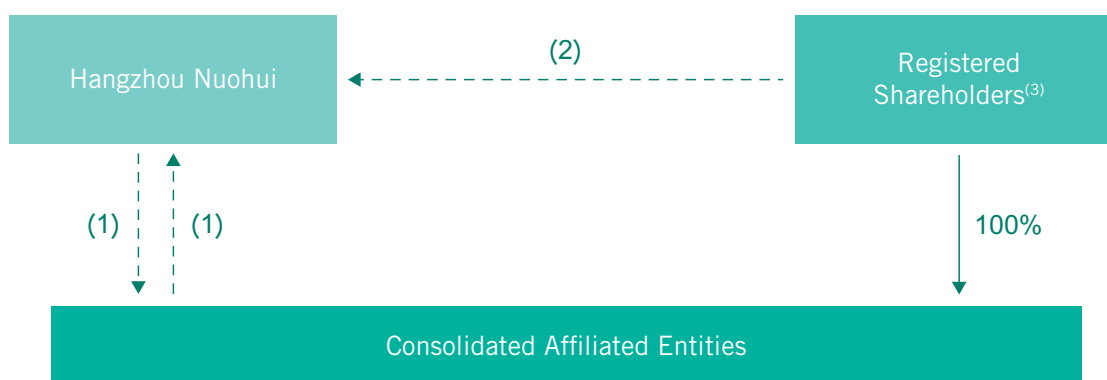
During the Reporting Period, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a Director of the Company and/or its subsidiaries.

From time to time, the Company's non-executive Director(s) may serve on the boards of both private and public companies within the broader healthcare and biopharmaceutical industries. However, as these non-executive Director(s) is/are neither controlling shareholders of the Company nor members of its executive management team, the Company is of the view that their interests in such companies as directors would not render the Company incapable of carrying on its business independently from the other companies in which he/they may hold directorships from time to time.

CONTRACTUAL ARRANGEMENTS AND CONTINUING CONNECTED TRANSACTIONS

In order to comply with PRC laws and regulations while maintaining effective control over all of our operations, the Contractual Arrangements have been entered into by Hangzhou Nuohui with Beijing Xincheng and the Registered Shareholders, whereby Hangzhou Nuohui will acquire effective control over the financial and operational policies of Beijing Xincheng and will become entitled to all the economic benefits derived from its operations.

The following simplified diagram illustrates the flow of economic benefits from Beijing Xincheng to our Group stipulated under the Contractual Arrangements:



“ — ” denotes legal and beneficial interest in the equity interest

“ - - - - ” denotes the Contractual Arrangements

Notes:

(1) Hangzhou Nuohui provides comprehensive business support, technical services, consultancy in exchange for service fees or charges from Beijing Xincheng. Hangzhou Nuohui further agreed that, when it deems necessary, it could at its sole discretion provide financial assistance to Beijing Xincheng or assist Beijing Xincheng to obtain financial assistance. See “Contractual Arrangements – (a) Exclusive Business Cooperation Agreement” of this report for details.

(2) The Registered Shareholders executed option agreements in favour of Hangzhou Nuohui, for the acquisition of 100% of the equity interests in and/or assets in Beijing Xincheng. See “Contractual Arrangements – (b) Exclusive Option Agreement” of this report for details.

The Registered Shareholders pledged as first charge all of their respective equity interests in Beijing Xincheng to Hangzhou Nuohui as collateral security to secure performance of their obligations and Beijing Xincheng’s obligations under the Contractual Arrangements. See “Contractual Arrangements – (c) Equity Pledge Agreement” of this report for details.

The Registered Shareholders executed powers of attorney in favour of Hangzhou Nuohui. See “Contractual Arrangements – (d) Powers of Attorney” of this report for details.

(3) The Registered Shareholders are Mr. Yeqing ZHU (“**Mr. Zhu**”), our CEO and one of our executive Directors, and Ms. ZHU Lijuan, the sister of Mr. Zhu. Beijing Xincheng is held as to 99% by Mr. Zhu and as to 1% by Ms. ZHU Lijuan.

A brief description of each of the specific agreements that comprise the Contractual Arrangements entered into by Hangzhou Nuohui with Beijing Xincheng and the Registered Shareholders, is set out as follows:

(a) Exclusive Business Cooperation Agreement

Beijing Xincheng entered into the Exclusive Business Cooperation Agreement with Hangzhou Nuohui on August 12, 2020, pursuant to which Beijing Xincheng agreed to engage Hangzhou Nuohui as its exclusive provider of comprehensive business support, technical services and consultancy, in exchange for service fees or charges. Hangzhou Nuohui further agreed that, when it deems necessary, it could at its sole discretion provide financial assistance to Beijing Xincheng or assist Beijing Xincheng to obtain financial assistance. Under these arrangements, Hangzhou Nuohui will determine the service fees based on the quantity and commercial value of services provided, and may adjust the service fees at its sole discretion. The service fees are payable on a quarterly basis upon receipt of a payment bill issued.

Pursuant to the Exclusive Business Cooperation Agreement, Hangzhou Nuohui has the exclusive and complete proprietary rights to all intellectual properties developed in performance of obligations under the Exclusive Business Cooperation Agreement, whether developed by Beijing Xincheng, Hangzhou Nuohui, or jointly.

The Exclusive Business Cooperation Agreement shall remain effective until (i) the parties agree to terminate in writing; or (ii) Hangzhou Nuohui exercises its unilateral right to terminate following a breach of obligations by Beijing Xincheng in accordance with the terms of the Exclusive Business Cooperation Agreement. Subject to applicable laws and unless stated otherwise in the agreement, Beijing Xincheng does not have the right to unilaterally terminate the contract.

For the year ended December 31, 2021, under the Exclusive Business Cooperation Agreement, Hangzhou Nuohui provided financial assistance to the Consolidated Affiliated Entities (including but not limited to purchase of services and cash advances) amounting to RMB33,107,000 (2020: RMB9,041,000) and as at December 31, 2021, the balance due from the Consolidated Affiliated Entities to Hangzhou Nuohui is RMB39,886,000 (2020: RMB15,593,000).

(b) Exclusive Option Agreement

Beijing Xincheng and its Registered Shareholders entered into the Exclusive Option Agreement with Hangzhou Nuohui on August 12, 2020, pursuant to which Hangzhou Nuohui (or any designee) was granted an irrevocable, unconditional and exclusive right to purchase all or any of the equity interest in and/or assets of Beijing Xincheng held at present or in the future for a consideration equivalent to the lowest price permitted under PRC laws at the time of purchasing. At Hangzhou Nuohui's request, the Registered Shareholders and/or Beijing Xincheng will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of Beijing Xincheng to Hangzhou Nuohui (or its designee) after Hangzhou Nuohui exercises its purchase right. Subject to relevant PRC laws and regulations, the Registered Shareholders shall compensate Hangzhou Nuohui with an amount equivalent to any purchase price, or profits, distributions, dividends or bonus received from Beijing Xincheng. Pursuant to the Exclusive Option Agreement, Beijing Xincheng and the Registered Shareholders have also entered into covenants imposing certain restrictions on Beijing Xincheng.

The Exclusive Option Agreement will remain effective until (i) all equity interests in and assets of Beijing Xincheng are transferred to Hangzhou Nuohui (and/or its designee) pursuant to the terms of the agreement; (ii) Hangzhou Nuohui agrees to termination of the agreement; or (iii) Hangzhou Nuohui exercises its unilateral right to terminate following a breach of obligations by Beijing Xincheng in accordance with the terms of the Exclusive Option Agreement. Subject to applicable laws and unless stated otherwise in the agreement, Beijing Xincheng and the Registered Shareholders do not have the right to unilaterally terminate the contract.

(c) Equity Pledge Agreement

Beijing Xincheng and its Registered Shareholders entered into the Equity Pledge Agreement with Hangzhou Nuohui on August 12, 2020, pursuant to which Registered Shareholders pledged as first charge all of their respective equity interests in Beijing Xincheng to Hangzhou Nuohui as collateral security to secure performance of their obligations and Beijing Xincheng's obligations under the Contractual Arrangements. In addition, under the Equity Pledge Agreement, none of the Registered Shareholders nor Beijing Xincheng may transfer or permit the encumbrance of any of the equity interests in Beijing Xincheng without Hangzhou Nuohui's prior written consent.

The pledges under the Equity Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations. The Equity Pledge Agreement will remain effective until all obligations under the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement and the Powers of Attorney have been fully performed.

No dividend or other distribution made by Beijing Xincheng to its Registered Shareholders.

(d) Powers of Attorney

Pursuant to the Powers of Attorney dated August 12, 2020 each of the Registered Shareholders irrevocably authorized an individual designated by Hangzhou Nuohui to exercise all of their rights as a registered shareholder of Beijing Xincheng pursuant to applicable laws and the memorandum of association of Beijing Xincheng at the time. The Powers of Attorney also provided that, in order to avoid potential conflicts of interest, where the Registered Shareholders are officers or directors of our Group, the Powers of Attorney are granted in favour of other unrelated officers or Directors of our Group.

The Powers of Attorney remain effective until (i) Hangzhou Nuohui exercises its unilateral right to terminate following a breach of obligations by Beijing Xincheng in accordance with the terms of the Power of Attorney; or (ii) the parties agree to terminate in writing. Subject to applicable laws and unless stated otherwise in the agreement, Beijing Xincheng and the Registered Shareholders do not have the right to unilaterally terminate the contract.

(e) Spouse Undertakings

Each of the spouses of the Registered Shareholders executed an irrevocable undertaking dated August 12, 2020, whereby he/she expressly acknowledged and undertook that, among others, (i) he/she does not hold any right or interest in any equity interests held by his/her spouse as a registered shareholder in Beijing Xincheng; (ii) he/she will not take any measures that are in conflict with the Contractual Arrangements; and (iii) if regulatory authorities demand him/her to amend the spouse undertakings, he/she will unconditionally cooperate in an overall and timely way.

Each of the spouses of the Registered Shareholders also undertook that should he/she by any reason hold any equity interest in Beijing Xincheng, he/she will be bound by, as amended from time to time, the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Equity Pledge Agreement and the Powers of Attorney. He/she undertook to comply with the obligations of Beijing Xincheng's shareholders as set out in the aforementioned agreements, and for this purpose, to execute agreements on substantially similar terms as the aforementioned agreements upon Hangzhou Nuohui's request.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our Consolidated Affiliated Entities during the year ended December 31, 2021. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2021.

For the year ended December 31, 2021, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2021, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our PRC Operating Entities under the Contractual Arrangements.

The Consolidated Affiliated Entities do not contribute any revenue to the Group for the years ended December 31, 2020 and 2021. The Consolidated Affiliated Entities attributed approximate to 2.8% (2020: 4.1%) of total assets to the Group.

Reasons for Adopting the Contractual Arrangements

We conduct business operations, including the collection of human genetic information and resources for early stage cancer screening, the research, development and application of such screening technology and test for diagnosis purposes, and the development and application of gene diagnosis and treatment technology (the “**Relevant Businesses**”), through Beijing Xincheng and its subsidiaries. Our products and tests utilizes FIT-DNA, FIT, immuno-based or qPCR technologies to analyze human stool or urine samples and therefore process human tissues and specimen, which are considered as human genetic resources.

Since the Relevant Businesses are classified as foreign investment prohibited businesses under applicable PRC laws, regulations or rules, in order to comply with PRC laws and regulations and maintain effective control over our research in the R&D and application field, our Group entered into the Contractual Arrangements with Beijing Xincheng and the Registered Shareholders.

Report of Directors

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and our Company's internal control procedures are adequate and effective to ensure that transactions are so conducted. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules.

Risks Relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

- If the PRC government finds that these Contractual Arrangements do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to penalties or be forced to relinquish our interests in those operations.
- Substantial uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law (《中華人民共和國外商投資法》), its implementation regulations and how they may impact the viability of our current corporate structure, business, financial condition and results of operations.
- Our Contractual Arrangements may not be as effective in providing operational control as direct ownership, and the Consolidated Affiliated Entity or Registered Shareholders may fail to perform their obligations under our Contractual Arrangements.
- We may lose the ability to use and enjoy licenses, approvals and assets held by our Consolidated Affiliated Entity that are material to our business operations if our Consolidated Affiliated Entity declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.
- The Registered Shareholders, directors and executive officers of the Consolidated Affiliated Entity may potentially have a conflict of interest with us, and they may breach their contractual arrangements with us or cause such arrangements to be amended in a manner contrary to our interests.
- If we exercise the option to acquire equity ownership or assets of Consolidated Affiliated Entity, the ownership or asset transfer may subject us to certain limitations and substantial costs.
- Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of the investment of our Shareholders.

Our Group has adopted measures to ensure the effective operation of our Group's businesses with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements, including:

- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- our independent non-executive Directors will review the overall performance of and compliance with the Contractual Arrangements annually;
- our Company will disclose the arrangements in place and compliance with the Contractual Arrangements in our annual reports; and
- our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board in reviewing the implementation of the Contractual Arrangements, as well as in reviewing the legal compliance of Hangzhou Nuohui (as a wholly foreign owned enterprise) and the Consolidated Affiliated Entities and to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Zhu (CEO and executive Director) and Ms. Lijuan Zhu (sister of Mr. Zhu), are connected persons. Accordingly, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject however to the following conditions:

- (a) no change without independent non-executive Directors' approval;
- (b) no change without independent Shareholders' approval;
- (c) the Contractual Arrangements shall continue to enable our Group to receive the entire economic benefits derived by Beijing Xincheng;

Report of Directors

- (d) on the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and Beijing Xincheng, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements;
- (e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

For further details of the waivers granted by the Stock Exchange, please refer to the Prospectus.

Annual Review by the Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

- (a) the transactions carried out during the year ended December 31, 2021 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- (b) no dividends or other distributions have been made by Beijing Xincheng to the Registered Shareholders which are not otherwise subsequently assigned or transferred to our Group; and
- (c) any new contracts entered into, renewed or reproduced between our Group and Beijing Xincheng during the relevant financial period are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

Confirmation from the Company's Independent Auditor

Deloitte Touche Tohmatsu, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 revised "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in connection with Equity Pledge Agreement and the Exclusive Business Cooperation Agreement for the year ended December 31, 2021 in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange that nothing has come to his attention that cause him to believe that the Continuing Connected Transactions:(i) have not been approved by the Company's board of directors; (ii) were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iii) was any dividend or other distribution made by Beijing Xincheng to its registered shareholders which are not otherwise subsequently assigned or transferred to our Group.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

NON-COMPETITION ARRANGEMENTS

No non-competition agreements or arrangement has been provided by the substantial shareholders as at December 31, 2021 or at any time during the Reporting Period.

MANAGEMENT CONTRACTS

Other than the Directors and senior managements' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at December 31, 2021 or at any time during the Reporting Period.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, the Company has not entered into any equity-linked agreement during the Reporting Period.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the Reporting Period.

LOAN AND GUARANTEE

Except as set out in notes 21 and 36 to the consolidated financial statements contained herein, during the Reporting Period, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors and senior management of the Company, the controlling shareholders of the Company (if any) or their respective connected persons.

PRE-IPO SHARE INCENTIVE PLAN

The Company adopted the Pre-IPO Share Incentive Plan on October 10, 2018, which was further amended and approved on August 17, 2020. The Pre-IPO Share Incentive Plan is not subject to the provisions of Chapter 17 of the Listing Rules as it does not involve the grant of options by the Company to subscribe for new Shares upon the Listing. For details, please refer to "Statutory and General Information – D. Pre-IPO Share Incentive Plan" in Appendix IV in the Prospectus.

The Pre-IPO Share Incentive Plan shall be subject to the administration of the Board or one or more committees appointed by the Board (the "**Administrator**"). Each award granted under the Pre-IPO Share Incentive Plan shall be evidenced by an award agreement between the Company and the participant, the form of which shall be approved by the Administrator.

Report of Directors

Summary of Terms

The following is a summary of the principal terms of the Pre-IPO Share Incentive Plan:

(a) Purpose

The purpose of the Pre-IPO Share Incentive Plan is to promote the success of the Company and the interests of Shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons.

(b) Scope of Participants

The participants of Pre-IPO Share Incentive Plan are our Directors, senior management and employees of the Company and its subsidiaries.

(c) Duration

Subject to the termination provisions under the Pre-IPO Share Incentive Plan, the Pre-IPO Share Incentive Plan shall be valid and effective for the period of ten years commencing on the adoption date after which period no further options will be granted and has remaining term of approximately six years as at the date of this report, but the provisions of the Pre-IPO Share Incentive Plan shall in all other respects remain in full force and effect and the participants may exercise the options in accordance with the terms upon which the options are granted.

(d) Type of Awards

- (i) **Options and share appreciation rights.** Subject to the Pre-IPO Share Incentive Plan, the Administrator shall be entitled to make an offer to any eligible participant to take up options or share appreciation rights in respect of such number of Class A Ordinary Shares (which have been converted into Shares on a one-to-one basis by way of re-designation and re-classification before Listing) as the Administrator may determine and at the exercise price determined by the Administrator in its sole discretion and disclosed under the award agreement. Any exercisable option or share appreciation right will be deemed to be exercised when (a) the applicable exercise procedures in the related award agreement have been satisfied (or, in the absence of any such procedures in the related award agreement, the Company has received written notice of such exercise from the participant), (b) in the case of an option, the Company has received any required payment made in accordance with the Pre-IPO Share Incentive Plan, and (c) the Company has received any written statement required pursuant to the Pre-IPO Share Incentive Plan.
- (ii) **Restricted share units.** A restricted share unit may be earned in whole or in part upon the attainment of performance criteria, passage of time or other factors or any combination thereof and may be settled by cash, Shares or other securities and/or past services rendered to the Company or any of its affiliates as established by the Administrator.

(e) Maximum Number of Shares

The maximum number of Shares that may be delivered pursuant to awards granted under the Pre-IPO Share Incentive Plan shall not exceed 31,686,768 Shares in the aggregate, representing approximately 7.37% of the total issued share capital of the Company as at December 31, 2021 and approximately 7.37% of the total issued share capital of the Company as at the date of this report.

(f) Payment

The consideration to be paid for the Shares to be issued under the Pre-IPO Share Incentive Plan, including the method of payment, shall be determined by the Administrator subject to the provisions in the Pre-IPO Share Incentive Plan and applicable law. The tax withholding to be paid for the Shares shall be determined according to the provisions in the Pre-IPO Share Incentive Plan and applicable law. No consideration is payable upon the grant of options under the Pre-IPO Share Incentive Plan.

(g) Options, share appreciation rights and restricted share units granted

As at December 31, 2021, options to subscribe for an aggregate of 28,113,326 Shares had been granted to Directors, senior management and employees of the Group, of which (1) options to subscribe for 20,322,932 Shares had been exercised; (2) options to subscribe for 93,728 Shares had terminated following the resignation of certain employees and were capable of being re-allocated to other grantees; and (3) options to subscribe for 7,696,666 Shares were outstanding and held by grantees. As at December 31, 2021, 3,573,442 Shares representing Shares underlying ungranted awards under the Pre-IPO Share Incentive Plan had been allotted and issued to Ever Thriving Ventures Limited to be held on trust for the benefit of eligible participants. Ever Thriving Ventures Limited is owned and managed by Trident Trust Company (HK) Limited (the “**Trustee**”), which has agreed to act as the trustee to facilitate the administration of the Pre-IPO Share Incentive Plan. As at December 31, 2021, there was no option that has lapsed under the Pre-IPO Share Incentive Plan.

As at December 31, 2021, no share appreciation rights or restricted share units had been granted pursuant to the Pre-IPO Share Incentive Plan.

List of grantees under the Pre-IPO Share Incentive Plan

As at December 31, 2021, share options granted to 167 grantees, including two Directors, two non-Director members of the senior management and 163 other employees of our Group (who were granted options to subscribe for 18,574,140 Shares, 4,000,000 Shares and 5,445,458 Shares, respectively), to subscribe for an aggregate of 28,019,598 Shares, of which a portion of the options corresponding to 20,322,932 Shares have been exercised.

Report of Directors

Below is a list of Directors and senior management of our Group who are grantees of options under the Pre-IPO Share Incentive Plan, and the number of underlying Shares of their respective options (exercised or outstanding) as at December 31, 2021.

Name of Grantee	Position	Exercise Price (US\$/Share)	Date of Grant	Vesting Period	Total Number of Shares Underlying the Exercised Options	Total Number of Shares Underlying the Outstanding and Unexercised Options as of the Latest Practicable Date
Dr. Yiyou CHEN	Chairman of the Board and Executive Director	0.4221	May 14, 2019	(Note 1)	0	5,521,070
Mr. Yeqing ZHU	CEO and Executive Director	0.1657-0.6000	October 10, 2018 – April 24, 2020	(Notes 1,2,3)	13,053,070	0
Dr. Ning LU	Chief Technology Officer	0.1657-0.6000	October 10, 2018 – April 24, 2020	(Note 2)	778,378	1,221,622
Mr. Yu GAO	Chief Financial Officer	0.6000	June 1, 2020	(Notes 4, 5)	2,000,000	0

Notes:

- (1) The options granted on May 14, 2019 to Dr. Yiyou CHEN and Mr. Yeqing ZHU each shall vest and become exercisable in installments. Upon achievement of the first milestone event, the option shall vest and become exercisable as to 20% of the shares subject to the option. Upon achievement of the second milestone event, namely that the Company has completed a qualified initial public offering before March 31, 2021, the option shall vest and become exercisable as to 20% of the shares subject to the option. The option shall vest and become exercisable as to the remaining 60% of the total number of shares subject to the option (the “**Remaining Option Shares**”) in the following manner: the option shall vest and become exercisable as to 25% of the Remaining Option Shares on the first anniversary of the vesting commencement date, and the option shall vest and become exercisable as to the remaining 75% of the Remaining Option Shares in equal monthly installments over the subsequent 36 months thereafter.
- (2) The options shall vest and become exercisable as to 25% of the total number of shares subject to the option on the first anniversary of the vesting commencement date, and the option shall vest and become exercisable as to the remaining 75% of the total number of shares subject to the option in equal monthly installments over the subsequent 36 months thereafter.
- (3) On August 31, 2020, an aggregate of 13,053,070 share options granted to Mr. Yeqing ZHU were early-exercised and concurrently transferred to the Trustee. As a result, on the same day, an aggregate of 13,053,070 Shares underlying the early-exercised options were issued to NHXT Holdings Ltd., an entity owned and managed by the Trustee, to be held on trust for Mr. Yeqing ZHU and certain of his family members as beneficiaries. As the aggregate of 13,053,070 Shares were acquired prior to the time that they would have become vested in accordance with the vesting schedule set out in the relevant option agreements at the time of grant, pursuant to a share vesting agreement entered into between the Company and Mr. Yeqing ZHU dated August 31, 2020, the Shares held by NHXT Holdings Ltd. are restricted shares and are subject to a right of repurchase by the Company. The restricted shares will vest, and the repurchase right of the Company will lapse, as of the date(s) that the early-exercised options would have otherwise become vested in accordance with the relevant option agreements entered into.

Report of Directors

- (4) The options granted on June 1, 2020 to Mr. Yu GAO to purchase 1,600,000 shares shall vest and become exercisable as to 400,000 shares on the first anniversary of the vesting commencement date, and shall vest and become exercisable as to the remaining 1,200,000 shares in equal monthly installments over the subsequent 36 months thereafter. The option to purchase 400,000 shares has become exercisable based on the achievement of a milestone event as defined in the relevant award agreement.
- (5) On August 31, 2020, an aggregate of 6,491,484 share options granted between January 24, 2017 and June 1, 2020 to 13 employees of the Company (the “**Early Exercise Participants**”), including Mr. Yu GAO, were early-exercised and concurrently transferred to the Trustee. As a result, on the same day, an aggregate of 6,491,484 Shares were issued to Ever Thriving Ventures Limited, an entity owned and managed by the Trustee, to be held on trust for the relevant employees as beneficiaries. As the aggregate of 6,491,484 Shares were acquired prior to the time that they would have become vested in accordance with the vesting schedule set out in the relevant option agreements at the time of grant, pursuant to share vesting agreements entered into between the Company and each of the Early Exercise Participants dated August 31, 2020, the Shares held by Ever Thriving Ventures Limited are restricted shares and are subject to a right of repurchase by the Company. The restricted shares will vest, and the repurchase right of the Company will lapse, as of the date(s) that the early-exercised options would have otherwise become vested in accordance with the relevant option agreements entered into.

The following table summarizes the number of underlying Shares of the options (exercised or outstanding, but not including the terminated ones) granted to individuals other than the Directors and senior management of the Group under the Pre-IPO Share Incentive Plan.

Exercise price (US\$/Share)	Date of Grant	Vesting Period	Total Number of Shares Underlying the Exercised Options	Total Number of Shares Underlying the Outstanding and Unexercised Options as of the Latest Practicable Date
0.1657	January 24, 2017	(Notes 1, 2, 3)	472,186	0
0.1657	October 10, 2018	(Notes 1, 3)	2,749,298	338,702
0.6000	April 24, 2020	(Notes 1, 3)	1,270,000	276,000
0.6000	June 10, 2020	(Note 1)	0	339,272

Notes:

- (1) These options shall vest and become exercisable as to 25% of the total number of shares subject to the option on the first anniversary of the vesting commencement date, and the option shall vest and become exercisable as to the remaining 75% of the total number of shares subject to the option in equal monthly installments over the subsequent 36 months thereafter.
- (2) These options were granted to certain employees of Hangzhou Nuohui under the Hangzhou Nuohui share incentive plan on January 24, 2017, and which were replaced and exchanged for options to purchase Shares under the Pre-IPO Share Incentive Plan pursuant to the Company’s board resolution dated October 10, 2018. The vesting commencement date for these options is therefore January 24, 2017.
- (3) On August 31, 2020, an aggregate of 6,491,484 share options granted between January 24, 2017 and June 1, 2020 to the Early Exercise Participants, including Mr. Yu GAO, were early-exercised and concurrently transferred to the Trustee. As a result, on the same day, an aggregate of 6,491,484 Shares were issued to Ever Thriving Ventures Limited, an entity owned and managed by the Trustee, to be held on trust for the relevant employees as beneficiaries. As the aggregate of 6,491,484 Shares were acquired prior to the time that they would have become vested in accordance with the vesting schedule set out in the relevant option agreements at the time of grant, pursuant to share vesting agreements entered into between the Company and each of the Early Exercise Participants dated August 31, 2020, the Shares held by Ever Thriving Ventures Limited are restricted shares and are subject to a right of repurchase by the Company. The restricted shares will vest, and the repurchase right of the Company will lapse, as of the date(s) that the early-exercised options would have otherwise become vested in accordance with the relevant option agreements entered into.

Report of Directors

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2021, interests or short positions of Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are registered in the register that the Company must keep in accordance with the section 352 of the Securities and Futures Ordinance; or which shall be separately notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, are as follows:

Interests of our Directors in the Shares or Underlying Shares of the Company

Long Position in the Shares

Name of Director	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total Shares in issue of the Company*
Dr. Yiyu CHEN	Beneficial Interest ⁽¹⁾	40,904,625	9.52%
	Trustee ⁽²⁾	9,840,981	2.29%
Mr. Yeqing ZHU	Settlor and beneficiary of a discretionary trust ⁽³⁾	28,146,010	6.55%
Mr. Naxin YAO	Settlor and beneficiary of a discretionary trust ⁽⁴⁾	40,603,670	9.45%

Notes:

* The calculation is based on the total number of 429,739,898 Shares issued as at December 31, 2021.

- (1) Dr. Yiyu CHEN, one of the executive Directors and chairman of the Board, directly holds 35,383,555 Shares as beneficial owner. He is also entitled to receive up to 5,521,070 Shares pursuant to the options granted to him, subject to the conditions (including vesting conditions) of those options.
- (2) Dr. Yiyu CHEN is the trustee of the Yiyu Chen Grantor Retained Annuity Trust, with certain of his family members as beneficiaries. Under the SFO, he is therefore deemed to be interested in the Shares held by the Yiyu Chen Grantor Retained Annuity Trust.
- (3) NHYJ Holdings directly holds 15,092,940 Shares as beneficial owner. NHYJ Holdings is held as to 100% by NH Trinity Limited, an entity managed by the Trustee, and holds Shares on trust for the benefit of Mr. Yeqing ZHU and certain of his family members. Mr. Yeqing ZHU is able to direct the Trustee as to its exercise of voting rights in NHYJ Holdings. Under the SFO, as settlor and beneficiary of such trust, Mr. Yeqing ZHU is deemed to be interested in the Shares held by NHYJ Holdings.

- (4) NHXC Holdings directly holds 17,559,052 Shares as beneficial owner, and is held as to 40.29% by MST Development Limited. MST Development Limited itself directly holds 23,044,618 Shares as beneficial owner. MST Development Limited is held as to 100% by Bancasa Holding Limited and ultimately owned by the Trustee, and holds Shares on trust for the benefit of Mr. Naxin YAO, one of our non-executive Directors, and certain of his family members as beneficiaries. Under the SFO, as settlor and beneficiary of such trust, Mr. Naxin YAO is deemed to be interested in the Shares held through MST Development Limited.

Interests of our Directors in the Shares or Underlying Shares of Associated Corporations

Beijing New Horizon Xincheng Health Technology Co., Ltd.

Long Position in the Shares

Name of Director	Nature of Interest	Amount of Registered Capital Subscribed (RMB) as at December 31, 2021	Approximate percentage of shareholding as at December 31, 2021
Mr. Yeqing ZHU	Beneficial Interest	11,880,000	99%

Save as disclosed above, so far as the Directors are aware, as at December 31, 2021, none of our Directors or chief executives has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

So far as the Directors or chief executive of the Company are aware, as at December 31, 2021, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in 5% or more of the respective type of Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Report of Directors

Long Position in the Shares

Name of Shareholder	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the total Shares in issue of the Company*
Legend Capital Co., Ltd. (君聯資本管理股份有限公司)	Interest in controlled corporation ⁽¹⁾	41,381,746	9.63%
SBCVC Fund V, L.P.	Interest in controlled corporation ⁽²⁾	22,559,012	5.25%
Qiming Corporate GP V, Ltd	Interest in controlled corporation ⁽³⁾	35,891,538	8.35%
Trident Trust Company (HK) Limited	Trustee ⁽⁴⁾	78,814,606	18.34%
Ms. Lili CHEN	Interest of spouse ⁽⁵⁾	51,525,606	11.99%
Ms. Yang JIAO	Interest of spouse ⁽⁶⁾	28,146,010	6.55%
Ms. MAK Siu Hang Viola	Interest in controlled corporation ⁽⁷⁾	25,698,282	5.98%
The Capital Group Companies, Inc.	Interest in controlled corporation	21,897,179	5.09%

Notes:

* The calculation is based on the total number of 429,739,898 Shares issued as at December 31, 2021.

(1) High Diamond Limited directly holds 24,836,898 Shares and Good Rise Holdings Limited directly holds 16,544,848 Shares.

To the best knowledge of the Company, High Diamond Limited is wholly-owned by LC Healthcare Fund I, L.P., which is controlled by its general partner, LC Healthcare Fund I GP, L.P.. LC Healthcare Fund I GP, L.P. is controlled by its general partner LC Fund GP Limited, which is in turn wholly-owned by Union Season Holdings Limited. Union Season Holdings Limited is wholly-owned by Legend Capital Co., Ltd. (君聯資本管理股份有限公司), which is held as to 80% by Beijing Juncheng Hezhong Investment Management Partnership Enterprises (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) and 20% by Legend Holdings Corporation (stock code: 3396). The general partner of Beijing Juncheng Hezhong Investment Management Partnership Enterprises (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) is Beijing Junqi Jiarui Business Management Limited (北京君祺嘉睿企業管理有限公司). As such, under the SFO, each of LC Healthcare Fund I, L.P., LC Healthcare Fund I GP, L.P., LC Fund GP Limited, Union Season Holdings Limited, Legend Capital Co., Ltd. (君聯資本管理股份有限公司), Beijing Juncheng Hezhong Investment Management Partnership Enterprises (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) and Beijing Junqi Jiarui Business Management Limited (北京君祺嘉睿企業管理有限公司) (through its interest in a controlled corporation or controlled corporations, as the case may be) are deemed to be interested in the 24,836,898 Shares held by High Diamond Limited.

To the best knowledge of the Company, Good Rise Holdings Limited is wholly-owned by Tianjin Junlian Zhihui Business Management Partnership (Limited Partnership) (天津君聯致輝商業管理合夥企業(有限合夥)), which is in turn held as to 99.99% by Beijing Junlian Yikang Equity Investment Partnership (Limited Partnership) (北京君聯益康股權投資合夥企業(有限合夥)). The general partner of Tianjin Junlian Zhihui Business Management Partnership (Limited Partnership) (天津君聯致輝商業管理合夥企業(有限合夥)) and of Beijing Junlian Yikang Equity Investment Partnership (Limited Partnership) (北京君聯益康股權投資合夥企業(有限合夥)) is Lasa Junqi Business Management Limited (拉薩君祺企業管理有限公司), which is wholly-owned by Legend Capital Co., Ltd. (君聯資本管理股份有限公司). As such, under the SFO, each of Tianjin Junlian Zhihui Business Management Partnership (Limited Partnership) (天津君聯致輝商業管理合夥企業(有限合夥)), Beijing Junlian Yikang Equity Investment Partnership (Limited Partnership) (北京君聯益康股權投資合夥企業(有限合夥)), Lasa Junqi Business Management Limited (拉薩君祺企業管理有限公司), Legend Capital Co., Ltd. (君聯資本管理股份有限公司), Beijing Juncheng Hezhong Investment Management Partnership Enterprises (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) and Beijing Junqi Jiarui Business Management Limited (北京君祺嘉睿企業管理有限公司) (through its interest in a controlled corporation or controlled corporations, as the case may be) are deemed to be interested in the 16,544,848 Shares held by Good Rise Holdings Limited.

Based on the above, under the SFO, Legend Capital Co., Ltd. (君聯資本管理股份有限公司), Beijing Juncheng Hezhong Investment Management Partnership Enterprises (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) and Beijing Junqi Jiarui Business Management Limited (北京君祺嘉睿企業管理有限公司) (through its interest in controlled corporations) are deemed to be interested in the 41,381,746 Shares collectively held by High Diamond Limited and Good Rise Holdings Limited.

- (2) SBCVC V PH Company Limited directly holds 22,559,012 Shares. To the best knowledge of the Company, SBCVC V PH Company Limited is a wholly-owned subsidiary of SBCVC Fund V Pte. Ltd, which is in turn a wholly-owned subsidiary of SBCVC Fund V, L.P.. SBCVC Management V, L.P. is the general partner of SBCVC Fund V, L.P., and in turn SBCVC Limited is the general partner of SBCVC Management V, L.P.. SBCVC Limited is held as to 90.1% by Star Pioneer Investment Holdings Limited, which is in turn held as to 100% by Lin Ye Song. As such, under the SFO, each of SBCVC Fund V Pte. Ltd, SBCVC Fund V, L.P., SBCVC Management V, L.P., SBCVC Limited, Star Pioneer Investment Holdings Limited and Lin Ye Song (through its interest in a controlled corporation or controlled corporations, as the case may be) are deemed to be interested in the 22,559,012 Shares held by SBCVC V PH Company Limited.
- (3) Qiming Venture Partners V, L.P. directly holds 34,805,418 Shares and Qiming Managing Directors Fund V, L.P. directly holds 1,086,120 Shares. Under the SFO, (i) as the general partner of Qiming Venture Partners V, L.P., Qiming GP V, L.P. (through its interest in a controlled corporation) is deemed to have an interest in the 34,805,418 Shares; and (ii) as the general partner of both Qiming GP V, L.P. and Qiming Managing Directors Fund V, L.P., Qiming Corporate GP V, Ltd. (through its interest in controlled corporations) is deemed to be interested in an aggregate of 35,891,538 Shares held by Qiming Venture Partners V, L.P. and Qiming Managing Directors Fund V, L.P..
- (4) NH Trinity Limited indirectly holds 15,092,940 Shares, through NHYJ Holdings, on trust for Mr. Yeqing ZHU and certain of his family members as beneficiaries. MST Development Limited directly holds 23,044,618 Shares and a 40.29% interest in NHXC Holdings on trust for Mr. Naxin YAO and certain of his family members as beneficiaries. NHXC Holdings directly holds 17,559,052 Shares. NHXT Holdings Ltd. and Ever Thriving Ventures Limited each hold 13,053,070 and 10,064,926 Shares, respectively, underlying awards under the Pre-IPO Share Incentive Plan on trust for the benefit of participants under the Pre-IPO Share Incentive Plan. Each of NH Trinity Limited, MST Development Limited, NHXT Holdings Ltd. and Ever Thriving Ventures Limited are owned and managed by the trustee, Trident Trust Company (HK) Limited. As such, Trident Trust Company (HK) Limited is deemed to be interested in the aggregate of 78,814,606 Shares (as trustee) held through NH Trinity Limited, MST Development Limited, NHXT Holdings Ltd. and Ever Thriving Ventures Limited. The exercise of voting rights in the Shares by Trident Trust Company (HK) Limited is nevertheless subject to the directions of (i) Mr. Zhu, in relation to the Shares held through NH Trinity Limited, (ii) Mr. Naxin YAO, in relation to the Shares held through MST Development Limited, (iii) Mr. Zhu and Dr. Lu, in relation to the Shares held through NHXT Holdings Ltd. and (iv) any person appointed by the Board to administrate the Pre-IPO Share Incentive Plan, in relation to the Shares held through Ever Thriving Ventures Limited.

Report of Directors

- (5) Ms. Lili CHEN is the spouse of Dr. Yiyou CHEN. By virtue of the SFO, Ms. Lili CHEN is deemed to be interested in the Shares held by Dr. Yiyou CHEN. With respect to certain changes in the interest of spouse, given that the resulting change of the total deemed interest of Ms. Lili CHEN as a substantial shareholder, as a percentage of all Shares in issue, did not cross over whole percentage level, the change did not trigger a disclosure obligation under the SFO and therefore the information shown in the table as of December 31, 2021 reflects that of Ms. Lili CHEN's interests positions as required to be disclosed under the SFO.
- (6) Ms. Yang JIAO is the spouse of Mr. Yeqing Zhu. By virtue of the SFO, Ms. Yang JIAO is deemed to be interested in the Shares held by Mr. Yeqing ZHU.
- (7) Sino Felicity Limited directly holds 21,485,201 Shares and VMS Investment Group Limited directly holds 4,213,081 Shares.

To the best knowledge of the Company, Sino Felicity Limited is a wholly-owned subsidiary of VMS Proprietary Investment Limited, and VMS Proprietary Investment Limited is in turn a wholly-owned subsidiary of VMS Proprietary Investment Group Limited. VMS Proprietary Investment Group Limited is a wholly-owned subsidiary of VMS Holdings Limited, which is held as to 92% by Ms. MAK Siu Hang Viola. VMS Investment Group Limited is in turn wholly owned by Ms. MAK Siu Hang Viola. As such, under the SFO, Ms. MAK Siu Hang Viola (through her interest in a controlled corporation or controlled corporations, as the case may be) is deemed to be interested in the aggregate 25,698,282 Shares consisting of 21,485,201 Shares held by Sino Felicity Limited and 4,213,081 Shares held by VMS Investment Group Limited.

Except as disclosed in this section, as far as the Directors are aware, as at December 31, 2021, no person owns interests and short positions in the Shares and underlying Shares which shall be disclosed in accordance with Divisions 2 and 3 of Part XV of the SFO, or interests or short positions in 5% or above of relevant class of Shares that the Company must record in the register according to section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

None of the Company, its holding company or any of its subsidiaries has entered into any arrangement at any time from the Listing Date to the Latest Practicable Date, so that the Directors would benefit from the purchase of Shares or debt securities (including debentures) of the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

The main target customers of the Group are hospitals and other medical institutions, as well as doctors and end users, in China.

During the Reporting Period, the Group's largest customer accounted for 19.0% of the Group's total revenue. The Group's five largest customers accounted for 44.5% of the Group's total revenue. The Group's length of relationship with its five largest customers was on average approximately two years. A limited number of customers accounted for a substantial portion of our revenue during the Reporting Period, and any decreases in our future sales to them could adversely affect our results of operations. However, the Company would continue to explore business opportunities with other potential customers.

In the Reporting Period, the Group's largest supplier accounted for 13.9% of the Group's total purchase. The Group's five largest suppliers accounted for 44.5% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

As at the date of this annual report, the Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

HUMAN RESOURCES

The Group had 804 employees as at December 31, 2021. The Group enters into employment contracts with its employees to cover matters such as wages, benefits, and grounds for termination.

Remuneration of the Group's employees includes salary, bonus and allowance elements. The compensation programs are designed to remunerate the employees based on their performance, measured against specified objective criteria. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies. We provide periodic training to our employees in order to improve their quality, skills and knowledge, including introductory training for new employees, technical training, professional and management training and health and safety training, as well as extensive training to our sales and marketing team. The Group also has in place incentive schemes for its employees, the details of which are set out in the section headed "Pre-IPO Share Incentive Plan".

RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to this retirement benefits schemes is to make the specified contributions.

Details of the pension obligations of the Company are set out in note 35 to the consolidated financial statements in this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 31 to the consolidated financial statements contained herein.

The related party transactions disclosed in note 31 were not regarded as connected transactions or continuing connected transactions in Chapter 14A to the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

Report of Directors

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) in relation to the director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the CG Code. Throughout the Reporting Period, the Company has complied with all the applicable code provisions in the CG Code.

In order to maintain high standards of corporate governance, the Board will continuously review and monitor the Company's corporate governance code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 58 to 71 of this annual report.

DONATIONS

During the Reporting Period, the Company made donations of RMB4.2 million.

AUDITOR

The Shares were only listed on the Stock Exchange on February 18, 2021, and there has been no change in auditors since the Listing Date. The consolidated financial statements for the Reporting Period have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, who are proposed for reappointment at the forthcoming 2021 annual general meeting.

COMPLIANCE WITH LAWS AND REGULATIONS

For the Reporting Period, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

KEY RISKS AND UNCERTAINTIES

There are certain key risks and uncertainties involved in our operations, some of which are beyond our control. Set out below are the material risks and uncertainties that we face:

- our ability to develop and commercialize our cancer screening solutions candidates, including the commercialization of ColoClear and Pupu Tube for high-risk and average-risk colorectal cancer population in China;
- our financial position;
- our ability to obtain additional financing to fund our operations;
- our ability to identify additional cancer screening solutions candidates;
- our success in demonstrating safety and efficacy of our cancer screening solutions candidates to the satisfaction of regulatory authorities or produce positive results in our clinical trials;

- material aspects of the research, development and commercialization of our products being heavily regulated;
- in conducting cancer screening solutions discovery and development, we face potential liabilities, in particular, product liability claims or lawsuits could cause us to incur substantial liabilities;
- lengthy, time-consuming and inherently unpredictable regulatory approval processes of the regulatory authorities for our cancer screening solutions candidates;
- changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies;
- our business benefits from certain discretionary financial incentives granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations;
- competition in the cancer screening market where the Group serves; and
- our ability to obtain and maintain patent protection for our cancer screening solutions candidates.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming AGM will be held on Friday, June 24, 2022. The notice of the AGM will be published and despatched in due course in the manner as required by the Listing Rules.

The register of member of the Company will be closed from Tuesday, June 21, 2022 to Friday, June 24, 2022 (both days inclusive), in order to determine the eligibility of the holders of shares to attend and vote at the AGM. The holder of shares whose names appear on the share register of members of the Company on Friday, June 24, 2022 will be entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, June 20, 2022.

On behalf of the Board

Dr. Yiyou Chen

Chairman

Hong Kong, March 18, 2022

Corporate Governance Report

The Board of the Company is pleased to present this corporate governance report in this annual report (the “**Corporate Governance Report**”) for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company’s corporate governance practices are based on the principles as set out in the CG Code.

The Board is of the view that throughout the Reporting Period, the Company has complied with all the code provisions as set out in the CG Code.

The Board will examine and review, from time to time, the Company’s corporate governance practices and operations in order to meet the relevant provisions under the Listing Rules.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has devised its own code of conduct for the trading of securities by its Directors and members of senior management of the Group (who are likely to possess inside information about the securities of the Company due to their offices or employments in the Company or its subsidiaries) on terms that no less exacting than the required standard set out in the Model Code. Having made specific enquiry by the Company, all Directors and members of senior management of the Group have confirmed that they have complied with the required standard set out in the Model Code throughout the period from the Listing Date to December 31, 2021. The Company continues and will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

BOARD OF DIRECTORS

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

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Corporate Governance Report

Board Composition

As at the Latest Practicable Date, the Board comprised 6 Directors, consisting of 2 executive Directors, 1 non-executive Director and 3 independent non-executive Directors as follows:

Executive Directors

Dr. Yiyou CHEN (*Chairman*)

Mr. Yeqing ZHU (*Chief Executive Officer*)

Non-executive Director

Mr. Naxin YAO

Independent Non-executive Directors

Mr. Danke YU

Prof. Hong WU

Dr. Donald Kwok Tung LI, *S.B.S., J.P.*

The biographical information of the Directors are set out in the section headed “Biographies of Directors and Senior Management” of this annual report and the relationships between the Directors are disclosed in the respective Director’s biography.

Except for the relationships between the Directors set forth in the respective Director’s biography under the section headed “Biographies of Directors and Senior Management”, the Directors do not have financial, business, family or other material/relevant relationships with one another.

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are held by Dr. Yiyou CHEN and Mr. Yeqing ZHU respectively, thus we have complied with code provision C.2.1 of the CG Code. The division of responsibilities between the Chairman and the Chief Executive Officer has been clearly established.

Independent Non-executive Directors

Throughout the Reporting Period, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Corporate Governance Report

Appointment and Re-election of Directors

The non-executive Directors (including independent non-executive Directors) of the Company are appointed for a specific term of three years and are eligible for re-election upon expiry of their term of office in accordance with the Articles of Association.

According to the Articles of Association, Directors shall be elected or replaced at general meetings and their term of office shall be three years. Directors are eligible for re-election upon expiry of their term of office. Without violating the relevant laws, regulations and regulatory rules of the locality where the Company's shares are listed, a person newly appointed as director by the Board to fill a casual vacancy or as an addition to the existing Board shall serve until the first shareholders' general meeting of the Company after his/her appointment or until the next annual general meeting of the Company, respectively, at which time the said person is eligible for re-election.

Responsibilities of the Directors

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

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

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

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities.

Corporate Governance Report

Continuous Professional Development of Directors

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

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

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

During the Reporting Period, all Directors attended training sessions on the respective obligations of the Directors and senior management. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the period from the Listing Date to December 31, 2021 is summarized as follows:

Directors	Type of Training ^{Note}
<i>Executive Directors</i>	
Dr. Yiyou CHEN	B
Mr. Yeqing ZHU	B
<i>Non-executive Directors</i>	
Mr. Naxin YAO	B
Ms. Nisa Bernice Wing-Yu LEUNG, J.P. (resigned on February 28, 2022)	B
Mr. Quan ZHOU (retired on June 18, 2021)	–
Mr. Siu Wai NG (retired on June 18, 2021)	–
<i>Independent Non-executive Directors</i>	
Mr. Danke YU	B
Prof. Hong WU	B
Dr. Donald Kwok Tung LI, S.B.S., J.P.	B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Corporate Governance Report

Board Diversity Policy

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) which sets out the objective and approach to achieve and maintain diversity of the Board, in order to enhance the effectiveness of the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Directors have a balanced mixed of knowledge and skills, including but not limited to business management, finance, investment and accounting, as well as professional experiences in the biotechnology, clinical research and life sciences industries. The Board of Directors is of the view that our Board satisfies the Board Diversity Policy.

The Nomination Committee is responsible for reviewing the diversity of the Board. Since the listing of the shares of the Company, the Nomination Committee will monitor and evaluate the implementation of the Board Diversity Policy from time to time to ensure its continued effectiveness.

Nomination Policy

The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board of Directors on matters relating to the appointment of Directors.

The Company has adopted Director Nomination Policy which sets out the objectives, selection criteria and nomination procedures for identifying and recommending candidates for appointment or reappointment of Directors.

During the Reporting Period, save as disclosed in this annual report, there was no other change in the composition of the Board.

BOARD COMMITTEES

The Board has established 3 committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company’s affairs.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authorities and duties. The terms of reference of the Board committees are posted on the Company’s website and the Stock Exchange’s website and are available to shareholders upon request.

Audit Committee

The Audit Committee consists of two independent non-executive Directors, namely Mr. Danke YU and Dr. Donald Kwok Tung LI, and one non-executive Director, namely Mr. Naxin YAO (appointed on February 28, 2022) and Ms. Nisa Bernice Wing-Yu LEUNG (resigned on February 28, 2022). Mr. Danke YU is the chairperson of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

Corporate Governance Report

The main duties of the Audit Committee include but are not limited to:

- assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group and overseeing the audit process;
- handling relationship with the external auditor of the Company;
- reviewing the financial information of the Company; and
- other matters as authorized by the Board.

During the Reporting Period, the Audit Committee held two meetings to review material controls including the draft audited annual consolidated financial statements and significant issues on the financial reporting, the draft annual results announcement, the draft annual report, the draft interim results announcement, the draft interim report, the effectiveness and sufficiency of the risk management and internal control systems, the standard of resources, staff qualifications and experience in the internal audit function, the sufficiency of training courses received by employees and the relevant budgets, and the appointment of external auditors.

The Audit Committee also met the external auditors once without the presence of the Executive Directors.

The attendance records of the Audit Committee during the Reporting Period are set out under “Attendance Records of Directors and Committee Members”.

Remuneration Committee

The Remuneration Committee consists of one executive Director, namely Mr. Yeqing ZHU and two independent non-executive Directors, namely Prof. Hong WU and Mr. Danke YU. Prof. Hong WU is the chairperson of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Remuneration Committee include but are not limited to:

- making recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- reviewing and approving the management’s proposal on remuneration based on the corporate goals and objectives set by the Board, including assessing performance of executive Directors and approving the terms of executive Directors’ service contracts;
- reviewing the appraisal and remuneration management system which includes but is not limited to performance appraisal criteria and procedures, the main appraisal system, and the principal plan and system regarding incentive and penalty;

Corporate Governance Report

- making recommendations to the Board for the remuneration package of individual executive Directors and senior management. This includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- making recommendations to the Board on the remuneration of non-executive Directors;
- considering salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;
- reviewing and approving the compensation due to executive Directors and senior management for any loss or termination of office or appointment, so as to ensure that such compensation is consistent with the contractual terms; if such compensation is not consistent with the contractual terms, ensuring that it is fair and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of Directors for misconduct, so as to ensure that such arrangements are consistent with the contractual terms; if such compensation is not consistent with the contractual terms, ensuring that it is reasonable and appropriate;
- ensuring that no Director or any of his/her associates is involved in the determination of his remuneration;
- operating the Company's share option scheme or other incentives schemes as they apply to, and recommend to the general meeting of shareholders grants of options to be made to Directors and/or senior management;
- reviewing the Group's policy on expense reimbursements for Directors and senior management; and
- other matters as authorized by the Board.

During the Reporting Period, the Remuneration Committee held one meeting to review and make recommendations to the Board for the remuneration package of the Directors and senior management of the Company and the Company's remuneration policies, practices and related matters.

The attendance records of the Remuneration Committee during the Reporting Period are set out under "Attendance Records of Directors and Committee Members".

The remuneration payable to the senior management of the Company (who are not the Directors) is shown in the following table by band:

	2021 Number of Individual(s)	2020 Number of Individual(s)
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
	2	2

Corporate Governance Report

Further details of the remuneration payable to the Directors and the five highest paid individuals for the year ended December 31, 2021 are set out in note 11 to the Consolidated Financial Statements in this report.

Nomination Committee

The Nomination Committee consists of one executive Director, namely Dr. Yiyou CHEN, and two independent non-executive Directors, namely Prof. Hong WU and Mr. Danke YU. Dr. Yiyou CHEN is the chairperson of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The main duties of the Nomination Committee include but are not limited to:

- reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, as well as formulating, or assisting the Board to formulate, a board diversity policy for the Company;
- identifying individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorship;
- assessing the independence of independent non-executive Directors on an annual basis;
- reviewing annually the time required from non-executive Directors to assess whether the non-executive Directors are spending enough time in fulfilling their duties;
- keeping up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- formulating plans for succession for both executive and non-executive Directors; and
- other matters as authorized by the Board.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held one meeting to consider and make recommendation to the Board for the re-election of Directors at the Company's annual general meeting, to review the Board Diversity Policy and Director Nomination Policy. The attendance records of the Nomination Committee during the Reporting Period are set out under "Attendance Records of Directors and Committee Members".

Corporate Governance Report

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Code Provision A.2.1 of the CG Code, including (a) to develop and review Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Reporting Period, the Board had reviewed and determined the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director during their tenure of office at the Board and Board Committee meetings and the general meeting of the Company held during the Reporting Period is set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Dr. Yiyou CHEN	4/4	N/A	N/A	1/1	1/1
Mr. Yeqing ZHU	4/4	N/A	1/1	N/A	1/1
Mr. Naxin YAO	4/4	N/A	N/A	N/A	1/1
Ms. Nisa Bernice Wing-Yu LEUNG <i>(resigned on February 28, 2022)</i>	3/4	2/2	N/A	N/A	1/1
Mr. Quan ZHOU <i>(retired on June 18, 2021)</i>	2/4	N/A	N/A	N/A	1/1
Mr. Siu Wai NG <i>(retired on June 18, 2021)</i>	2/4	N/A	N/A	N/A	1/1
Mr. Danke YU	4/4	2/2	1/1	1/1	1/1
Prof. Hong WU	4/4	N/A	1/1	1/1	1/1
Dr. Donald Kwok Tung LI	4/4	2/2	N/A	N/A	1/1

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The Company recognizes that risk management is critical to the success of its business. The Company has adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with its strategic objectives on an on-going basis. Our Audit Committee and ultimately our Directors supervise the implementation of our risk management policies. Risks identified by our management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to our Directors.

Corporate Governance Report

The following key principles outline our Group's approach to risk management and internal control:

- The senior management oversees and manages the overall risks associated with the Group's business operations, including (i) reviewing and approving its risk management policy to ensure that it is consistent with the Group's corporate objectives; (ii) monitoring the most significant risks associated with the Group's business operations and its management's handling of such risks; and (iii) ensuring the appropriate application of the risk management framework across the Group.
- The legal and internal control personnel are responsible for developing and implementing the risk management policy and carrying out our day-to-day risk management practice, such as assessing risks on key business operations, advising risk responses and optimizing risk management policies. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operation or function; (iv) implement appropriate risk responses where necessary; and (v) develop and maintain an appropriate mechanism to facilitate the application of the Group's risk management framework.
- For the purpose of intellectual property rights risk management, the legal department is responsible for approving contracts, monitoring any changes in the applicable laws and regulations and ensuring the ongoing compliance of the Group's operations with the applicable law and regulations. The intellectual property department assists in conducting searches to help ensure that all of the Group's intellectual property is under the protection of relevant laws and regulations, and also helps ensure the application for trademark, copyright or patent registrations for, as well as filing with relevant authorities of, all of the products. The intellectual property department shall then administer the execution process of obtaining the necessary filings, approvals, and/or licenses. Other than some standard contracts which have been reviewed and adopted by the legal department, all the contracts of our Company are required to be reviewed and approved by the legal department prior to execution. In addition, policies for intellectual property infringement notices to help ensure timely monitoring of the infringement incidents have been established.

The Company consider that its Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Internal Control

The Board is responsible for establishing the internal control system and reviewing its effectiveness. During the Reporting Period, the Company has regularly reviewed and enhanced its internal control system.

The Group has adopted various measures and procedures regarding each aspect of its operations, such as protection of intellectual property, environmental protection and occupational health and safety. The Group provides periodic training on these measures and procedures for employees as part of the employee-training program. It also regularly monitors the implementation of those measures and procedures through its on-site internal control team for each stage of the produce development process. The Directors, with assistance from legal advisors, periodically review the Group's compliance status with all relevant laws and regulations.

Corporate Governance Report

The Audit Committee shall (i) make recommendations to the Directors on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting as well as oversee the risk management and internal control procedures of our Group.

The Company has engaged a compliance adviser to provide advice to the Directors and management team regarding matters relating to the Listing Rules. The compliance adviser is expected to provide support and advice regarding the requirements of relevant regulatory authorities, including those relating to corporate governance, on a timely basis. The Company has also engaged a PRC legal advisor to advise it on, and keep it abreast with, PRC laws and regulations. The Company will continue to arrange various training to be provided by external legal advisors.

The Group maintains strict anti-corruption policies among its sales personnel and distributors in our sales and marketing activities, which clearly define the key areas and key steps of its anti-fraud function and the responsibilities and authorities of relevant departments in carrying out the anti-fraud function, and set up the internal protocols for reporting, investigation and remedy procedures, reporting channels and whistle-blower protection mechanisms. The Group also monitors its sales and marketing personnel to ensure their compliance with applicable promotion and advertising requirements, and limitations on industry-sponsored scientific and educational activities. Further, the Group maintains a comprehensive treasury policy, detailing specific functions and internal control measures for capital use.

The Group has adopted internal protocols governing both the confidentiality and privacy for patient sample and data. There is standard operation procedure in place for sample/data collection, test procedures, data storage as well as data access. Such data access is on an as-needed basis for internal employees, and external access is not allowed and requires written approvals from the head of the quality control/compliance department.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Board confirms its responsibilities for risk management and internal control systems which covers all material controls including financial, operational and compliance controls, and for reviewing the effectiveness of such risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed annually the effectiveness of the internal audit function and the risk management and the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff in the aforementioned systems and of the Company's accounting and financial reporting function, and the adequacy of their training programs and budget.

During the Reporting Period, the Board, through a review, considered that the risk management and internal control system of the Group was effective and adequate.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

AUDITORS' REMUNERATION

The remuneration paid or payable to the Company's external auditors of the Group in respect of audit services and non-audit services for the year ended December 31, 2021 is set out below:

Service Category	Fees Paid/Payable RMB'000
Audit Services	2,080
Non-audit Services	
– Interim review service	900
– Other assurance services	88
Total	3,188

JOINT COMPANY SECRETARIES

During the period from the Listing Date to December 31, 2021, Mr. Yu GAO (“**Mr. Gao**”), Ms. Ming Wai MOK (“**Ms. Mok**”) (appointed on June 11, 2021) and Ms. Ching Man YEUNG (resigned on June 11, 2021) were the joint company secretaries of the Company. Mr. Gao, who is also the Chief Financial Officer, is the primary corporate contact person at the Group.

Each of Mr. Gao and Ms. Mok has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the Reporting Period.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices related matters.

SHAREHOLDERS' RIGHTS

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

Corporate Governance Report

Convening Shareholders' General Meetings

A shareholders' annual general meeting is required to be held once every year within six months following the end of the previous financial year.

Pursuant to Article 58 of the Articles of Association, the Board may, whenever it thinks fit, call extraordinary general meetings. Extraordinary general meetings shall also be convened on the written requisition to the Board or the Secretary of the Company of one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions under the Articles of Association or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a Director.

Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such requisition. The contents of such proposals shall fall within the functions and powers of the general meeting, shall feature definite topics and specific issues for resolution, and shall be in compliance with relevant requirements of laws, administrative regulations, listing rules for stock exchanges where the Company's shares are listed and the Articles of Association.

For proposal of a person for election as Director, pursuant to Article 85 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his/her intention to propose such person for election, and also a notice signed by the person to be proposed of his/her willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The minimum length of the period during which such notice(s) are given shall be at least seven days, and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

For procedures of nomination of candidates for directorship by Shareholders, please refer to the website of the Company.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, Shareholders may supervise the operations of the Company, and to make suggestions and enquiries accordingly.

Corporate Governance Report

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (For the attention of the Board of Directors)

Fax: +852 2980 1333

Email: is-enquiries@hk.tricorglobal.com

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

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website (ir.newhorizonbio.com), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Changes to the Articles of Association

The existing Articles of Association were adopted on October 9, 2020 with effect from the Listing Date. During the Reporting Period, no changes were made to the Articles of Association.

The Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

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

Dividend Policy

The Company has adopted a policy on payment of dividends pursuant to code provision F.1.1 of the CG Code taking into consideration of various elements including but not limited to, among other things, the earnings, cash flow, financial conditions, capital requirements, statutory fund reserve requirements of the Group and any other conditions which the Board may deem relevant. The policy sets out the factors in consideration, procedures and methods of the payment of dividends with an objective to provide the Shareholders with continuing, stable and reasonable returns on investment while maintaining the Company's business operation and achieving its long-term development goal. The distribution of dividends will be formulated by our Board, and will be subject to Shareholders' approval.

Independent Auditor's Report

Deloitte.

德勤

To the Shareholders of New Horizon Health Limited
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of New Horizon Health Limited (the “**Company**”) and its subsidiaries and consolidated affiliated entities (collectively referred to as “**the Group**”) set out on pages 76 to 164, which comprise the consolidated statement of financial position as at December 31, 2021, and the 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 December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (the “**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“**ISAs**”) issued by the International Auditing and Assurance Standards Board. 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 International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

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.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of trade receivables</i></p> <p>We identified impairment assessment of trade receivables as a key audit matter due to the involvement of management estimates in evaluating the expected credit losses (“ECL”) of the Group’s trade receivables at the end of the reporting period.</p> <p>As at December 31, 2021, the Group’s net trade receivables amounting to RMB105,995,000 represented 4.5% of the total assets of the Group, and out of these trade receivables of approximately RMB16,344,000 were past due 90 days or more.</p> <p>As disclosed in note 34(b) to the consolidated financial statements, the management of the Group estimates amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors, after considering ageing, historical settlement record 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. As disclosed in note 20 to the consolidated financial statements, the Group’s lifetime ECL recognised on trade receivables as at December 31, 2021 amounted to approximately RMB8,633,000.</p>	<p>Our procedures in relation to impairment assessment of trade receivables included:</p> <ul style="list-style-type: none"> • 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 December 31, 2021, 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 judgements in determining credit loss allowance on trade receivables as at December 31, 2021, including their identification of significant outstanding and credit-impaired balances, the reasonableness of management’s grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in 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 20 and 34(b) 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 OF THE COMPANY 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 IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 ISAs 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 ISAs, 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.

Independent Auditor's Report

- 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 of the Company.
- Conclude on the appropriateness of the directors of the Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 Chan Chun Kit Tommy.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 18, 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2021

	Notes	Year ended December 31,	
		2021 RMB'000	2020 RMB'000
Revenue	5	212,761	70,567
Cost of sales		(58,116)	(33,318)
Gross profits		154,645	37,249
Other income	6A	22,731	9,386
Other gains and losses	7	(2,789,513)	(617,591)
Impairment losses on trade and other receivables		(6,632)	(2,569)
Selling and marketing expenses		(271,378)	(65,123)
Research and development expenses		(58,903)	(25,335)
Administrative expenses		(109,310)	(76,950)
Listing expenses		(19,217)	(26,900)
Other expenses	6B	–	(12,853)
Finance costs	8	(7,759)	(7,735)
Loss before tax	9	(3,085,336)	(788,421)
Income tax expense	10	–	(303)
Loss for the year		(3,085,336)	(788,724)
Other comprehensive expense for the year, net of income tax		(594)	–
Total comprehensive expenses for the year		(3,085,930)	(788,724)
Loss per share	12		
– Basic (RMB)		(8.15)	(6.64)
– Diluted (RMB)		(8.15)	(6.64)

Consolidated Statement of Financial Position

At December 31, 2021

		At December 31,	
	Notes	2021 RMB'000	2020 RMB'000
Non-current assets			
Property and equipment	14	61,056	40,061
Intangible assets	15	18,006	20,023
Right-of-use assets	16	38,890	30,123
Deposits paid for acquisition of property and equipment and intangible assets	17	2,160	2,567
Financial assets at fair value through profit or loss ("FVTPL")	18A	55,468	–
Investments in associates measured at FVTPL	18B	9,351	–
Other receivables and deposits	20	12,697	6,425
Amounts due from related parties	21	57,108	19,328
Time deposits over three months	23	40,000	–
		294,736	118,527
Current assets			
Inventories non-research and development related	19	14,646	5,955
Inventories research and development related	19	44,318	175
Trade and other receivables	20	133,715	56,664
Amounts due from related parties	21	510	48,705
Financial assets at FVTPL	18A	10,000	–
Contract costs	22	13,891	5,724
Time deposits over three months	23	1,045,235	130,498
Pledged bank deposits	23	110,000	–
Bank balances and cash	23	686,817	451,796
		2,059,132	699,517
Current liabilities			
Trade and other payables	24	38,680	48,132
Accrued payroll and welfare expenses		39,466	15,785
Contract liabilities	25A	21,943	10,872
Refund liabilities	25B	2,639	2,594
Bank borrowings	26	79,498	70,209
Lease liabilities	27	11,132	8,997
		193,358	156,589
Net current assets		1,865,774	542,928
Total assets less current liabilities		2,160,510	661,455

Consolidated Statement of Financial Position

At December 31, 2021

	Notes	At December 31,	
		2021 RMB'000	2020 RMB'000
Non-current liabilities			
Bank borrowings	26	–	46,025
Other payables	24	1,543	665
Lease liabilities	27	32,307	24,323
Convertible redeemable preferred shares ("Preferred Shares")	28	–	1,680,356
		33,850	1,751,369
Net assets (liabilities)		2,126,660	(1,089,914)
Capital and reserves			
Share capital	29	141	48
Treasury shares		(1)	(1)
Share premium		6,412,484	118,865
Reserves		(4,285,964)	(1,208,826)
Total equity (deficit)		2,126,660	(1,089,914)

The consolidated financial statements on page 76 to 164 were approved and authorised for issue by the board of directors on March 18, 2022 and are signed on its behalf by:

DR. YIYOU CHEN
Director

MR. YEQING ZHU
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2021

	Attributable to owners of the Company							Total equity (deficit) RMB'000
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Translation reserve RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	
At January 1, 2020	40	-	48,227	(72,297)	-	12,093	(353,639)	(365,576)
Loss and total comprehensive expenses for the year	-	-	-	-	-	-	(788,724)	(788,724)
Recognition of equity-settled share-based payments (note 30)	-	-	-	-	-	14,725	-	14,725
Exercise of share options (note 30a)	7	-	67,231	-	-	(17,577)	-	49,661
Vesting of restricted shares	-	-	3,407	-	-	(3,407)	-	-
Issuance of shares held on trust (note 29v)	1	(1)	-	-	-	-	-	-
At December 31, 2020	48	(1)	118,865	(72,297)	-	5,834	(1,142,363)	(1,089,914)
Loss for the year	-	-	-	-	-	-	(3,085,336)	(3,085,336)
Other comprehensive expense for the year, net of income tax	-	-	-	-	(594)	-	-	(594)
Total comprehensive expenses for the year	-	-	-	-	(594)	-	(3,085,336)	(3,085,930)
Recognition of equity-settled share-based payments (note 30)	-	-	-	-	-	23,849	-	23,849
Automatic conversion of Preferred Shares upon the Listing (note 28)	65	-	4,437,319	-	-	-	-	4,437,384
Exercise of share options	-	-	1,044	-	-	(534)	-	510
Vesting of restricted shares	-	-	15,404	-	-	(15,404)	-	-
Issue of new shares of the Company (note 29)	28	-	1,956,204	-	-	-	-	1,956,232
Cost of issuing new shares	-	-	(115,471)	-	-	-	-	(115,471)
At December 31, 2021	141	(1)	6,413,365	(72,297)	(594)	13,745	(4,227,699)	2,126,660

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES		
Loss before tax	(3,085,336)	(788,421)
Adjustments for:		
Write-down of inventories	1,456	2,862
Write-down of contract costs	1,814	2,406
Impairment loss on trade and other receivables	6,632	2,569
Written-off of advances and payments to a supplier	–	11,128
Bank interest income	(15,100)	(2,294)
Interest income from subscription receivables	(1,255)	(1,829)
Net loss on disposal of property and equipment	32	106
Depreciation of property and equipment	9,900	7,370
Depreciation of right-of-use assets	8,488	6,703
Amortisation of intangible assets	886	801
Amortisation of contract costs	23,695	9,978
Fair value loss on Preferred Shares	2,757,028	578,786
Transaction costs directly attributable to the issuance of Preferred Shares	–	1,720
Net investment loss (gain) on structured deposits	319	(43)
Initial fair value change recognised for early exercise promissory notes	–	3,239
Fair value loss on early exercise promissory notes	5,587	1,467
Loss on fair value changes of financial assets at FVTPL	375	–
Non-cash settlement of director remuneration	–	1,393
Net unrealised foreign exchange loss	36,290	33,661
Finance costs	7,759	7,735
Share-based payment expenses	23,849	14,725
Operating cash flow before movements in working capital	(217,581)	(105,938)
Increase in trade and other receivables	(93,884)	(25,966)
Increase in inventories	(62,459)	(45)
Increase in contract costs	(10,144)	(3,157)
Increase in trade and other payables	18,358	20,360
Increase (decrease) in contract liabilities	11,071	(16,326)
Increase (decrease) in refund liabilities	45	(697)
Cash used in operations	(354,594)	(131,769)
Income tax paid	–	(533)
NET CASH USED IN OPERATING ACTIVITIES	(354,594)	(132,302)

Consolidated Statement of Cash Flows

For the year ended December 31, 2021

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
INVESTING ACTIVITIES		
Bank interest received	13,226	2,294
Placement of time deposits over three months	(4,015,497)	(264,205)
Withdrawal of time deposits over three months	3,031,761	127,680
Placement of pledged bank deposits	(110,000)	–
Payments for rental deposits	(785)	(65)
Purchase of and deposits paid for intangible assets	(1,734)	(3,232)
Purchase of and deposits paid for property and equipment	(35,354)	(20,825)
Proceed from disposal of property and equipment	14	129
Placement of structured deposits	(124,926)	(8,000)
Disposal of structured deposits	114,607	8,043
Advances to related parties	–	(24,713)
Repayments from related parties	7,156	15,995
Investments in financial assets and associate at FVTPL	(65,777)	–
Loans to employees	–	(2,748)
NET CASH USED IN INVESTING ACTIVITIES	(1,187,309)	(169,647)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,956,232	–
Issue cost paid	(112,672)	(2,771)
New bank borrowings raised	–	70,000
Repayments of bank borrowings	(36,736)	(4,266)
Repayments of lease liabilities	(14,808)	(9,796)
Interest paid	(8,195)	(6,865)
Proceeds from capital injection and additional capital injection of Beijing New Horizon Xincheng Health Technology Co., Ltd. (“Beijing Xincheng”)	–	22,080
Proceeds from issuance of Series D Preferred Shares (note 28)	–	141,658
Proceeds from issuance of Series E Preferred Shares (note 28)	–	209,545
Transaction costs directly attributed to the issuance of Preferred Shares paid	–	(1,720)
Proceeds from issuance of Preferred Shares for the group reorganisation	–	14,041
Advances from related parties	–	5
Repayment to related parties	–	(16)
Proceeds from exercise of share options	–	540
NET CASH FROM FINANCING ACTIVITIES	1,783,821	432,435
NET INCREASE IN CASH AND CASH EQUIVALENTS	241,918	130,486
Effects of exchange rate changes	(6,897)	(25,124)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	451,796	346,434
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTING BY BANK BALANCES AND CASH	686,817	451,796

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

1. GENERAL

New Horizon Health Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from February 18, 2021 (the “**Listing**”). The respective address of the registered office and the principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company is an investment holding company. The Company’s subsidiaries and consolidated affiliated entities are principally engaged in research and development of screening products for colorectal cancer, cervical cancer and other types of cancer.

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

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time, which are mandatorily effective for the annual periods beginning on or after January 1, 2021 for the preparation of the consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the IASB issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments ³
Amendments to IFRS 3	Reference to the Conceptual Framework ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond June 30, 2021 ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendment to IAS 8	Definition of Accounting Estimates ³
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018 – 2020 ²

¹ Effective for annual periods beginning on or after April 1, 2021.

² Effective for annual periods beginning on or after January 1, 2022.

³ Effective for annual periods beginning on or after January 1, 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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 IFRSs issued by the IASB. 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 includes applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) 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 set out below.

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

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

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

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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 the entities (including the consolidated affiliated entities) controlled by the Company and its subsidiaries and consolidated affiliated entities. Control is achieved when the Company:

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries and consolidated affiliated entities to bring their accounting policies in line with the Group's accounting policies.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Investments in associates

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.

The Group has invested in certain equity interests in private entities as a preferred shareholder. As the Group has the right to appoint a director of the private entities, the Group exercises significant influence, but not control, over the private entities. The Group records such investment as investments in associates. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, as the preferred shares of the private entities in-substance is not the same as the ordinary shares of the private entities, such investments in associates are accounted for in accordance with IFRS 9 and measured at FVTPL.

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 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.

If the Group expects to be entitled to a breakage amount in contract liabilities, that amount is recognised as revenue in proportion to the pattern of service treatments utilised by the customers, if it is able to be estimated reliably. If the Group does not expect to be entitled to a breakage amount, revenue for the expected breakage amount should be recognised when the likelihood of the customer exercising its remaining rights becomes remote.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Sale with a right of return/exchange

For a sale of products with a right of return/exchange, the Group recognises all of the following:

- (a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned/exchanged);
- (b) a refund liability/contract liability; and
- (c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers and are presented as right to returned goods asset.

Contract costs

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its sales of ColoClear and other products. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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 on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 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.

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use assets 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 Consolidated Financial Statements

For the year ended December 31, 2021

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 its estimated useful life and the lease term.

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

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments (“**IFRS 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.

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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)

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 reviews 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, less any lease incentives receivable, 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 Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

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 exchanges 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.

Borrowing costs

All borrowing costs except for directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

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

Government grants 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".

Employee benefits

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are charged 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 IFRS 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, annual leave and sick leave) after deducting any amount already paid.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Share-based payments

Equity-settled share-based payment 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-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. 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-based payments reserve will be transferred to accumulated losses.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share premium.

Modification to the terms and conditions of the share-based payment arrangements

When the terms and conditions of an equity-settled share-based payment arrangement are modified, the Group recognises, as a minimum, the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, if the Group modifies the vesting conditions (other than a market condition) in a manner that is beneficial to the employees, for example, by reducing the vesting period, the Group takes the modified vesting conditions into consideration over the remaining vesting period.

If the modification reduces the total fair value of the share-based arrangement, or is not otherwise beneficial to the employee, the Group continues to account for the original equity instruments granted as if that modification had not occurred.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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 loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in these 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 of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, consolidated affiliated entities and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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 rate (and tax laws) that have been enacted or substantively enacted by the end of each 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 each 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 Consolidated Financial Statements

For the year ended December 31, 2021

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 IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

Current and deferred tax are recognised in profit or loss.

Property and equipment

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

Assets under installation for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such assets under installation are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of 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 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 and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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 assets 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 assets;
- 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 assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on property and equipment, intangible assets, right-of-use assets and contract costs

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Impairment on property and equipment, intangible assets, right-of-use assets and contract costs (Continued)

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

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU 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 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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15 Revenue from Contracts with Customers (“IFRS 15”), the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the CGU to which they belong for the purpose of evaluating impairment of that CGU.

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.

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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Impairment on property and equipment, intangible assets, right-of-use assets and contract costs (Continued)

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 estimate selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur 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, 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 each 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.

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 IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 and financial liabilities at FVTPL are recognised immediately in profit or loss.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

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.

All other financial assets are subsequently measured at FVTPL.

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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated at 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 includes any interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit losses (“**ECL**”) model on financial assets (including trade and other receivables, amounts due from related parties, time deposits over three months, pledged bank deposits and bank balances) which are subject to impairment assessment under IFRS 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 each reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or credit-impaired, and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless 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 Consolidated Financial Statements

For the year ended December 31, 2021

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 subject to impairment assessment under IFRS 9 *(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 each 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;
- 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 Consolidated Financial Statements

For the year ended December 31, 2021

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 subject to impairment assessment under IFRS 9 (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; or
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(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. 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 Consolidated Financial Statements

For the year ended December 31, 2021

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 subject to impairment assessment under IFRS 9 *(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 and 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 rating where available.

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

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

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire.

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.

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.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Preferred Shares

The Preferred Shares that the Group has contractual obligation to redeem and the conversion option of which may be settled by the exchange of variable number of the Group's own equity are measured at FVTPL. The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of Preferred Shares is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability. Fair value is determined in the manner described in note 28.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

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

3.2 Significant accounting policies *(Continued)*

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the “other gains and losses” line item in profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss.

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.

Modification of financial liabilities

When the contractual terms of a financial liability are modified, the Group assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities’ original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, 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 following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in these consolidated financial statements.

Research and development expenses

Development expenses incurred on the Group's product pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development expenses which do not meet these criteria are expensed when incurred. The management of the Group assesses the progress of each of the research and development projects and determine that certain of the Group's product pipelines met the above said capitalisation criteria. During the year ended December 31, 2020, development costs of RMB1,273,000 (2021: nil), were capitalised as intangible assets as set out in note 15.

Key sources of estimation uncertainty

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

Provision of impairment loss allowance for trade receivables

Trade receivables with significant balances and/or credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the remaining trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the 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 34(b).

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTIES (Continued)

Key sources of estimation uncertainty (Continued)

Estimation on refund liabilities arising from sales of Pupu tube

In estimating the amount of refund liabilities arising from sales of Pupu tube, the management of the Group has to make estimation based on its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. The estimation involves high degree of estimation and uncertainty. When the actual return rates are less than expected or more than expected, a material reversal or a material provision of refund liabilities may arise accordingly. As at December 31, 2021, the carrying amount of refund liabilities is RMB2,639,000 (2020: RMB2,594,000).

Estimate of breakage revenue of ColoClear

The sales of ColoClear consists of delivery of sample collection kits to customers and provision of screening test in the Group's laboratories upon the end users sending back their samples for testing. ColoClear sample collection kits have a shelf life of 12 months. In certain of the sales arrangements, customers may make payments to the Group upon the sample collection kits have been delivered to them in accordance with contractual terms and the amounts received by the Group are recognised as contract liabilities. Revenue is recognised at a point in time at the earlier of (i) the Group completed the testing service and delivered the screening report to the consumer; or (ii) the later of ColoClear product delivered to the customers are expired or the expiry of product exchange period granted to selected customers.

The transaction price received is generally non-refundable and customers/end users may not utilise all of their contracted rights within the services period, which referred as breakage. If the Group expects to be entitled to a breakage amount in contract liabilities, that amount is recognised as revenue in proportion to the pattern of service utilised by the customers/end users. If the Group does not expect to be entitled to a breakage amount, revenue for the expected breakage amount should be recognised when the likelihood of the customer/end user exercising its remaining rights becomes remote. As such, the directors of the Company are required to make estimation over the pattern of service utilisation with reference to historical experience.

During the year ended December 31, 2021, the directors of the Company have referenced to the past years historical utilisation pattern of customers/end users and noted a stable redemption rate for certain sales channels. For sales under those channels, the Group recognised revenue in proportion to the pattern of service utilised by the customers/end users over the balance of contract liabilities (on individual customer basis) and true up any difference between contracted amount and the expected breakage amount. For other sales, breakage in contract liabilities is recognised upon the later of the expiry of product or the product exchange period granted.

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For the year ended December 31, 2021

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTIES (Continued)

Key sources of estimation uncertainty (Continued)

Impairment assessment of intangible assets from capitalised development costs

Intangible assets from capitalised development costs are stated at cost less accumulated amortisation and impairment, if any. In determining whether such intangible asset is impaired, the directors of the Company have to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicator that may affect the recoverable amount of such intangible assets; (2) whether the carrying amount of such intangible assets 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 such intangible assets; 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 such intangible assets, the directors of the Company estimate the recoverable amount of the CGU to which such intangible asset belongs. Changing the assumptions and estimates, including the discount rates or the estimations of cash inflows/outflows include budgeted sales and gross margin, could materially affect the net present value used in the impairment test.

As at December 31, 2021, the carrying amounts of intangible assets from capitalised development costs are RMB15,518,000 (2020: RMB16,582,000). Details of the assessment of impairment are disclosed in note 15.

Fair value of financial instruments

Some of the Group's financial assets are measured at fair value for financial reporting purposes. The management of the Group is responsible for determining the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market observable data to the extent it is available. When Level 1 inputs are not available, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 34(c) provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various types of financial instruments.

Notes to Consolidated Financial Statements

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5. REVENUE AND SEGMENT INFORMATION

The Group derives its revenue from the transfer of goods and services in the following major product lines:

	Year ended December 31,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
ColoClear	97,216	37,566
Pupu tube	115,466	31,838
Others	79	1,163
	212,761	70,567

For sale through internet sales, the Group receives payment of the transaction price prior to delivery of product to customer. For sale through other sale channels, the Group normally grants a credit period of 0 to 90 days upon issuance of invoice and may grant a credit term up to 180 days to certain customers. The Group may request advances from certain customers upon signing sales agreements or placing orders.

Based on the Group's sales contract with customers, selected customers can request for one-time exchange of products within 3 months upon expiry of ColoClear products and 2 months prior to expiry of Pupu tube products; whereas the other customers can only return or request for refund if the product delivered to the customer does not meet the pre-specified quality requirement.

ColoClear

The transaction price received by the Group is recognised as a contract liability until when revenue is recognised at a point in time at the earlier of (i) the Group completed the testing service and delivered the screening report to the customer/end user; or (ii) the later of ColoClear product delivered to the customers are expired or the expiry of product exchange period granted to selected customers.

Since the transaction price received is generally non-refundable and customers/end users may not utilise all of their contracted rights within the services period which is referred to as breakage, the Group recognised the breakage amount when the likelihood of customer exercising its remaining rights become remote. The directors of the Company have referenced to the past years historical utilisation pattern of customers/end users and noted a stable redemption rate for certain sales channels. For sales under those channels, the Group recognised revenue in proportion to the pattern of service utilised by the customers/end users over the balance of contract liabilities (on individual customer basis) and true up any difference between contracted amount and the expected breakage amount. For other sales, breakage in contract liabilities is recognised upon the later of the expiry of product or the product exchange period granted.

The Group sells ColoClear IVD as a standalone product to hospitals and other medical institutions. The revenue is recognised at a point in time when the Group delivers the products to the customers.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

5. REVENUE AND SEGMENT INFORMATION (Continued)

Pupu tube and others

Revenue is recognised at a point in time when the Group delivers the products to the customers and/or service are rendered to its customers.

Transaction price allocated to the remaining performance obligation for contracts with customers

The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied in respect of Pupu tube and others as the Group's contract has an original expected duration of less than one year.

Occasionally, customers enter into framework agreements with the Group and place orders when they require delivery. Advances received from customers with no orders have been placed are recognised as contract liabilities. The expected timing of revenue recognition is uncertain as it is based on the request by them.

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) in respect of sale of ColoClear as at the end of each reporting period and the expected timing of recognising revenue that orders have been placed.

	At December 31,	
	2021 RMB'000	2020 RMB'000
Within one year	7,193	8,346

Segment information

For the purpose of resource allocation and assessment of segment performance, the executive directors of the Company, being the chief operating decision makers, focus and review on the overall results and financial position of the Group as a whole which are prepared based on the same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of the single segment is presented.

Geographical information

Substantially all of the Group's operations and non-current assets are located in the People's Republic of China ("PRC") while all of the Group's revenue from external customers are located in the PRC.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

5. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Customer A	40,343	29,098
Customer B	22,942	–

6A. OTHER INCOME

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Bank interest income	15,100	2,294
Government subsidies (note)	6,125	5,202
Interest income from subscription receivables (note 21)	1,255	1,829
Others	251	61
	22,731	9,386

Note: The amount represents government grants received from various PRC government authorities in connection with the enterprise development support and fiscal subsidies which had no conditions imposed by the respective PRC government authorities.

6B. OTHER EXPENSES

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Transaction costs directly attributable to the issuance of Preferred Shares	–	1,720
Written-off of advances and payments to a supplier (note)	–	11,128
Others	–	5
	–	12,853

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

6B. OTHER EXPENSES (Continued)

Note: In April 2018, the Group entered into a strategic collaboration agreement with a supplier pursuant to which the Group is committed to purchase the diagnostic testing kits of an aggregate amount of RMB80 million with a pre-specified purchase amount on an annual basis from 2019 to 2023 (the “**Strategic Collaboration Agreement**”). During the year ended December 31, 2018 and 2020, the Group paid RMB1 million and RMB4 million, respectively, as advances for the purchase of inventories. In 2019 and 2020, inventories amounting to RMB36,000 and RMB72,000, respectively, were supplied. However, the inventories did not meet with the quality control requirement of the Group, and after negotiation and taking into consideration of the production ability of the supplier, the directors of the Company considered that there is uncertainty that the supplier can refund the remaining advances or supply up to quality products in the foreseeable future. As such, the Group had written-off the amounts paid. In August 2020, the supplier brought a breach of contract claim against Hangzhou New Horizon Health Technology Co., Ltd# (杭州諾輝健康科技有限公司) (“Hangzhou Nuohui”) and alleged that Hangzhou Nuohui did not perform the contractual payment obligations according to the Strategic Collaboration Agreement and sought for the second annual payment of RMB10 million plus any accrued interest from Hangzhou Nuohui. On November 18, 2020, Hangzhou Nuohui and the supplier entered into a settlement agreement that Hangzhou Nuohui agreed to pay a total amount of RMB7.2 million to terminate the Strategic Collaboration Agreement and the litigation was withdrawn. Therefore, the advances and the settlement amount has been recognised as other expenses during the year ended December 31, 2020. During year ended December 31, 2020, the Group paid RMB2.4 million to the supplier and the remaining RMB4.8 million was fully paid on March 25, 2021.

7. OTHER GAINS AND LOSSES

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Net investment (loss) gain on structured deposits	(319)	43
Net foreign exchange loss	(26,172)	(37,275)
Fair value loss of Preferred Shares (note 28)	(2,757,028)	(578,786)
Fair value loss of early exercise promissory notes	(5,587)	(1,467)
Net loss on disposal of property and equipment	(32)	(106)
Loss on fair value changes of financial assets at FVTPL (note 18A)	(375)	–
	(2,789,513)	(617,591)

8. FINANCE COSTS

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Interest on bank borrowings	5,100	5,583
Interest on lease liabilities	2,659	2,152
	7,759	7,735

English name is for identification purpose only

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

9. LOSS BEFORE TAX

	Year ended December 31,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss before tax for the year has been arrived at after charging (crediting):		
Depreciation of property and equipment	16,460	12,534
Depreciation of right-of-use assets	16,160	14,216
Amortisation of intangible assets	2,017	1,045
	<u>34,637</u>	<u>27,795</u>
Capitalised in inventories	<u>(15,363)</u>	<u>(12,921)</u>
	<u>19,274</u>	<u>14,874</u>
Analysed as:		
Charged in administrative expenses	11,987	10,757
Charged in selling and marketing expenses	454	56
Charged in research and development expenses	6,833	4,061
	<u>19,274</u>	<u>14,874</u>
Auditors' remuneration	2,080	1,250
Cost of inventories recognised as cost of sales	50,796	25,769
Write-down of inventories (included in cost of sales)	1,456	2,862
Write-down of contract costs on finished goods delivered (included in cost of sales)	1,814	2,406
Directors' remuneration (note 11)	24,987	16,455
Other staff cost		
Salaries and other benefits	123,485	61,028
Retirement benefit scheme contributions	11,348	2,322
Discretionary bonus (note)	20,554	7,429
Share-based payments	5,663	6,792
	<u>186,037</u>	<u>94,026</u>
Capitalised in inventories	<u>(13,033)</u>	<u>(7,391)</u>
	<u>173,004</u>	<u>86,635</u>

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For the year ended December 31, 2021

9. LOSS BEFORE TAX (Continued)

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Analysed as:		
Charged in administrative expenses	63,712	43,307
Charged in selling and marketing expenses	86,593	30,347
Charged in research and development expenses	22,699	12,981
	173,004	86,635
Research and development expenses		
Staff cost	22,699	12,981
Depreciation and amortisation	6,833	4,061
Clinic test expenses	3,074	1,380
Materials consumed	19,047	6,323
Consultancy fee	2,918	641
Travel expenses	388	250
Others	3,944	972
	58,903	26,608
Capitalised in intangible assets	-	(1,273)
	58,903	25,335

Note: Discretionary bonus is determined at the end of the reporting period based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

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10. INCOME TAX EXPENSE

The Company is tax exempt under the laws of the Cayman Islands.

Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first Hong Kong dollar (“**HK\$**”) 2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. No provision of Hong Kong Profits Tax was made in these consolidated financial statements as the entities comprising the Group had no assessable profit subject to Hong Kong Profits Tax during the reporting period.

Under the US Tax Cuts and Jobs Act, the US corporate income tax rate has charged at flat rate of 21%.

Under the law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and implementation regulations of the EIT Law, the basic tax rate of the Company’s PRC subsidiaries and consolidated affiliated entities is 25%.

Hangzhou Nuohui has been accredited as a “High and New Technology Enterprise” by the Science and Technology Bureau of Hangzhou City and relevant authorities, and has been registered with the local tax authorities for enjoying the reduced 15% Enterprise Income Tax (“**EIT**”) rate from 2018 to 2020 and continued to enjoy the reduced EIT rate from 2021 to 2023.

In addition, a foreign subsidiary was subjected to pay withholding tax on interest income related to the inter-company loan paid from PRC entities to foreign company and the related tax expenses amounting to RMB303,000 (2021: nil) for the year ended December 31, 2020.

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

	Year ended December 31,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss before tax	(3,085,336)	(788,421)
Tax charge at the PRC EIT rate of 25%	(771,334)	(197,105)
Tax effect of expenses not deductible for tax purpose	741,827	168,108
Tax effect of income not taxable for tax purpose	(3,456)	–
Tax effect of research and development expenses that are additionally deducted (note)	(9,571)	(4,068)
Tax effect of tax losses not recognised	40,608	28,439
Utilisation of tax losses previously not recognised	–	(2)
Tax effect of deductible temporary differences not recognised	3,726	5,080
Utilisation of deductible temporary differences previously not recognised	(1,800)	–
Tax effect of different tax rates of subsidiaries and consolidated affiliated entities	–	(452)
Withholding tax charged on inter-company income	–	303
	–	303

Note: Pursuant to Caishui 2018 circular No. 99, Hangzhou Nuohui enjoys super deduction of 175% on qualifying research and development expenditures throughout both years.

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For the year ended December 31, 2021

10. INCOME TAX EXPENSE (Continued)

As at December 31, 2021, the Group has unrecognised deductible temporary differences of RMB42,747,000 (2020: RMB35,043,000). The unrecognised deductible temporary difference mainly consists of expenses accrual and provision of impairment loss allowance for trade receivables. As at December 31, 2021, the Group has tax losses of approximately RMB540,307,000 (2020: RMB378,954,000) and taxable temporary difference on capitalisation of development expenses of RMB15,518,000 (2020: RMB16,582,000). As at December 31, 2021, deferred tax assets and liabilities on tax losses and development expense capitalisation of RMB2,328,000 (2020: RMB2,487,000) have been recognised and offset for presentation purpose. No deferred tax asset has been recognised in respect of the remaining deductible temporary differences or tax losses due to the unpredictability of future profit streams. The unrecognised tax losses will be carried forward and expire in years as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
2021	–	16
2022	7,542	7,542
2023	9	9
2024	1,761	1,761
2025	6,776	6,776
2026	20,475	15,253
2027	33,606	33,606
2028	79,244	79,244
2029	110,515	110,515
2030	102,719	102,719
2031	152,684	–
Indefinite	9,458	4,931
	524,789	362,372

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For the year ended December 31, 2021

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments paid or payable by the entities comprising the Group to the directors and Chief Executive Officer of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) for their services during the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, are as follows:

	Date of appointment as director of the Company	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payments RMB'000	Discretionary bonus (note) RMB'000	Total RMB'000
For the year ended December 31, 2021							
<i>Chief Executive Officer and executive director:</i>							
Mr. Yeqing Zhu ("Mr. Zhu")	June 7, 2018	-	3,238	53	10,310	660	14,261
<i>Chairman and executive director:</i>							
Dr. Yiyou Chen ("Dr. Chen")	June 7, 2018	-	1,973	31	7,876	144	10,024
<i>Non-executive directors</i>							
Mr. Naxin Yao ("Mr. Yao")	July 26, 2018	-	-	-	-	-	-
Leung Nisa Bernice Wing-Yu	July 26, 2018	-	-	-	-	-	-
Zhou Quan (retired on June 18, 2021)	July 26, 2018	-	-	-	-	-	-
Ng Siu Wai (retired on June 18, 2021)	May 14, 2019	-	-	-	-	-	-
<i>Independent non-executive directors</i>							
Mr. Danke YU	February 5, 2021	234	-	-	-	-	234
Prof. Hong WU	February 5, 2021	234	-	-	-	-	234
Dr. Donald Kwok Tung LI	February 5, 2021	234	-	-	-	-	234
		702	5,211	84	18,186	804	24,987
For the year ended December 31, 2020							
<i>Chief Executive Officer and executive director:</i>							
Mr. Yeqing Zhu	June 7, 2018	-	4,014	39	5,828	1,500	11,381
<i>Chairman and executive director:</i>							
Dr. Yiyou Chen	June 7, 2018	-	2,968	1	2,105	-	5,074
<i>Non-executive directors</i>							
Mr. Naxin Yao	July 26, 2018	-	-	-	-	-	-
Zhou Quan	July 26, 2018	-	-	-	-	-	-
Leung Nisa Bernice Wing-Yu	July 26, 2018	-	-	-	-	-	-
Ng Siu Wai	May 14, 2019	-	-	-	-	-	-
		-	6,982	40	7,933	1,500	16,455

Notes to Consolidated Financial Statements

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11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

During the year ended December 31, 2020, RMB1,393,000 (2021: nil) of the remuneration of Mr. Zhu was settled by offsetting its current account.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were paid for their services as directors of the Company and its subsidiaries and consolidated affiliated entities, if applicable.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Five highest paid employees

The five highest paid individuals of the Group included 2 (2020: 2) directors of the Company for the year ended December 31, 2021, details of whose remuneration are set out above. Details of the remuneration for the remaining 3 (2020: 3) highest paid employees for the year ended December 31, 2021 are as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Salary and other benefits	4,907	4,260
Retirement benefit scheme contribution	165	71
Share-based payments	4,385	4,527
Discretionary bonus (note)	1,320	790
	10,777	9,648

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

The emoluments of these employees (excluding the directors) are within the following bands:

	Number of individual	
	Year ended December 31,	
	2021	2020
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	–	1
HK\$7,000,001 to HK\$7,500,000	1	–
	3	3

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For the year ended December 31, 2021

11. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES (Continued)

Five highest paid employees (Continued)

During the year ended December 31, 2020 and 2021, no emoluments were paid by the Group to the management of the Group or the five highest paid employees of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the management of the Group and five highest paid employees of the Group has waived any emoluments during the both years.

Except for those disclosed in note 21, during the year ended December 31, 2020 and 2021, there are no other loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities. Also, there are no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of both reporting periods or at any time during both years.

In addition, no director's termination benefit subsisted at the end of the year or at any time during the year ended December 31, 2020 and 2021. There are also no consideration provided to or receivable by third parties for making available director's services subsisted at the end of the year or at any time during the year ended December 31, 2020 and 2021.

12. LOSS PER SHARE

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

	Year ended December 31,	
	2021	2020
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share (RMB'000)	(3,085,336)	(788,724)
Weighted average number of ordinary share for the purpose of basic and diluted loss per share ('000)	378,499	118,787

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share has been determined on the assumption that the share subdivision as disclosed in note 29(iii) had been effected since January 1, 2020. The computation of basic loss per share for both years excluded the unvested share options (note 30a) and unvested restricted shares (note 30b) of the Company.

For the year ended December 31, 2020 and 2021, the computation of diluted loss per share did not assume the exercise of share options, unvested restricted shares and over-allotment option before exercise since their assumed conversion or exercise would result in a decrease in loss per share.

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13. DIVIDENDS

No dividend was paid or declared by the Company for the year ended December 31, 2020 and 2021.

14. PROPERTY AND EQUIPMENT

	Leasehold improvement RMB'000	Machinery RMB'000	Motor vehicle RMB'000	Furniture and fixture RMB'000	Assets under installation RMB'000	Total RMB'000
COST						
At January 1, 2020	34,147	17,179	82	3,819	866	56,093
Additions	2,461	4,122	–	754	13,979	21,316
Disposals	–	(339)	–	(228)	–	(567)
Transfers	6,764	402	–	–	(7,166)	–
At December 31, 2020	43,372	21,364	82	4,345	7,679	76,842
Additions	1,163	18,985	78	1,773	15,502	37,501
Disposals	–	(70)	–	(137)	–	(207)
Transfers	8,874	14,304	–	3	(23,181)	–
At December 31, 2021	53,409	54,583	160	5,984	–	114,136
DEPRECIATION						
At January 1, 2020	17,163	5,525	21	1,870	–	24,579
Provided for the year	7,985	3,564	19	966	–	12,534
Eliminated on disposals	–	(222)	–	(110)	–	(332)
At December 31, 2020	25,148	8,867	40	2,726	–	36,781
Provided for the year	9,998	5,684	24	754	–	16,460
Eliminated on disposals	–	(43)	–	(118)	–	(161)
At December 31, 2021	35,146	14,508	64	3,362	–	53,080
CARRYING AMOUNT						
At December 31, 2021	18,263	40,075	96	2,622	–	61,056
At December 31, 2020	18,224	12,497	42	1,619	7,679	40,061

The above items of property and equipment, other than assets under installation, are depreciated on a straight-line basis, after taking into account of the residual value, at the rate per annum as follows:

Leasehold improvement	Shorter of the lease term or 20% per annum
Machinery	19% per annum
Motor vehicle	23.75% per annum
Furniture and fixture	19%-31.67% per annum

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15. INTANGIBLE ASSETS

	Patent right RMB'000	Computer software RMB'000	Trademarks RMB'000	Development costs RMB'000	Software under development RMB'000	Total RMB'000
COST						
At January 1, 2020	350	3,886	120	15,486	–	19,842
Additions	–	353	–	1,273	323	1,949
At December 31, 2020	350	4,239	120	16,759	323	21,791
Transfers	–	323	–	–	(323)	–
At December 31, 2021	350	4,562	120	16,759	–	21,791
DEPRECIATION						
At January 1, 2020	114	585	24	–	–	723
Provided for the year	35	820	13	177	–	1,045
At December 31, 2020	149	1,405	37	177	–	1,768
Provided for the year	35	905	13	1,064	–	2,017
At December 31, 2021	184	2,310	50	1,241	–	3,785
CARRYING AMOUNT						
At December 31, 2021	166	2,252	70	15,518	–	18,006
At December 31, 2020	201	2,834	83	16,582	323	20,023

Patent right and trademarks consists of registration costs incurred for Pupu tube and development costs represents cost capitalised on developing ColoClear.

The above intangible assets, other than software under development, have finite useful lives, which are determined based on estimated economic lives of the relevant assets, and are amortised on a straight-line basis as follows:

Patent right	10% per annum
Computer software	20% per annum
Trademarks	10% per annum
Development costs	6.70% per annum

The management of the Group conducted impairment assessment on the Group's capitalised development costs. The recoverable amounts have been determined based on a value in use calculation using cash flow projection which is based on financial forecast approved by the directors of the Company as at December 31, 2020 and 2021. The growth rate used to extrapolate the cash flows subsequent to the forecast period is 3%, which is closed to long-term inflation rate. The pre-tax discount rate applied to the cash flow projections is 26.7% (2020: 26.7%) and reference to the average discount rate with similar business risk and after taking into account the risk premium in connection with the related research and development efforts. Apart from the discount rate as stated above, the estimation of cash inflows/outflows include budgeted sales and gross margin which are based on management's expectation for the market development.

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16. RIGHT-OF-USE ASSETS

	Office premises <i>RMB'000</i>	Machinery <i>RMB'000</i>	Total <i>RMB'000</i>
CARRYING AMOUNT			
At January 1, 2020	14,633	19,028	33,661
Additions	10,678	–	10,678
Depreciation charge for the year	(10,210)	(4,006)	(14,216)
At December 31, 2020	15,101	15,022	30,123
Additions	24,927	–	24,927
Depreciation charge for the year	(12,154)	(4,006)	(16,160)
At December 31, 2021	27,874	11,016	38,890
	Year ended December 31,		
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Total cash outflow for leases	17,467	11,948	

For both years, the Group leases various offices and equipments for its operations. Lease contracts are entered into for fixed term of 1 to 5 (2020: 1 to 5) 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.

To optimise lease costs during the contract period, the Group leased a machinery in which the monthly lease payment is based on the actual number of production of the previous month and a minimum lease payment guarantee at the end of the lease term. The Group initially estimates and recognises amounts expected to be payable under minimum lease payment guarantees as part of the lease liability.

Restrictions or covenants on leases

As at December 31, 2021, lease liabilities of RMB43,439,000 (2020: RMB33,320,000) are recognised with related right-of-use assets of RMB38,890,000 (2020: RMB30,123,000). 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.

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For the year ended December 31, 2021

17. DEPOSITS PAID FOR ACQUISITION OF PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

During the year ended December 31, 2021, the Group entered into a patent transfer agreement with an university and its cancer research center pursuant to which the university and its cancer research center agreed to transfer its patent of nasopharynx cancer screening to the Group for an aggregate consideration of RMB10 million. Furthermore, pursuant to the patent transfer agreement, the Group and the university and its cancer research center agreed to collaborate on the research of nasopharynx cancer screening. The consideration of RMB10 million is to be settled in 9 milestone payments. At December 31, 2021, the condition for the first milestone payment is met and the Group paid the first milestone payment of RMB1.3 million to the university and its cancer research center.

18A. FINANCIAL ASSETS AT FVTPL

	At December 31,	
	2021 RMB'000	2020 RMB'000
Investment in a private equity fund (note a)	34,535	—
Investment in a convertible loan (note b)	20,933	—
Investment in a structured deposit (note c)	10,000	—
	65,468	—
Analysed as:		
Non-current	55,468	—
Current	10,000	—
	65,468	—

Notes:

- (a) On August 20, 2021, the Group entered into a limited partnership agreement with an independent third party, being a limited partnership fund (the “Fund”), and subscribed for an aggregate of US\$30 million (equivalent to RMB194,952,000) as a limited partner of the Fund. The Fund has a total fund size of US\$100 million with a primary focus of investing in the areas of molecular diagnostic technology used for disease screening and early detection in the field of cancer and other major disease categories. At December 31, 2021, the Group paid US\$5.4 million (equivalent to RMB34,535,000) to the Fund.
- (b) On July 19, 2021, the Group entered into a convertible loan agreement pursuant to which the Group subscribed for a convertible loan of a private entity established in Switzerland amounting to Swiss Franc (“CHF”) 3,000,000 (equivalent to RMB21,308,000). Pursuant to the convertible loan agreement, the convertible loan carries at a fixed coupon rate of 0.5% per annum and shall be convertible into shares of the private entity at a conversion price of the latest round of financing price per share. If there are no early conversion, the convertible loan will be mature on September 30, 2023.
- (c) At December 31, 2021, the Group invested in financial products managed by a financial institution. The principal is guaranteed by the relevant financial institution while the return of the financial products was linked to the exchange rate of EUR to USD.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

18B. INVESTMENTS IN ASSOCIATES MEASURED AT FVTPL

On September 10, 2021 and December 16, 2021, the Group subscribed 332,121 and 1,001,063 preferred shares of two private entities incorporated in Israel and USA for consideration of US\$467,000 (equivalent to RMB3,014,000) and US\$1,000,000 (equivalent to RMB6,365,000). Pursuant to the preferred shares subscription agreements, the Group is entitled to appoint a director to the investees and therefore the Group has significant influence but not control over the investees. As the preferred shares of the investees in-substance is not the same as the ordinary shares of the investees, the Group measures such investments in associates at FVTPL in accordance with IFRS 9. Details of the investments are summarised as follows:

	At December 31, 2021	
	RMB'000	
Cost of investments		9,351
	Place of incorporation	Ownership interests held at December 31, 2021
Arion Bio, Inc.	Israel	7.41%
Orbit Genomic, Inc.	USA	9.03%

19. INVENTORIES

Inventories non-research and development related

	At December 31,	
	2021	2020
	RMB'000	RMB'000
Raw material	9,343	4,355
Work in process	403	186
Finished goods	4,138	1,056
Goods in transit to customers	762	358
	14,646	5,955

During the year ended December 31, 2021, write-down of inventories amounted to RMB1,456,000 (2020: RMB2,862,000) has been recognised and included in cost of sales.

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For the year ended December 31, 2021

19. INVENTORIES (Continued)

Inventories research and development related

	At December 31,	
	2021 RMB'000	2020 RMB'000
Blood samples (note)	43,511	–
Others	807	175
	44,318	175

Note: On August 17, 2021, the Group entered into a purchase agreement with an independent third party, a molecular diagnostics company whose common shares are listed in the Frankfurt Stock Exchange focused on blood-based test for colorectal cancer, pursuant to which the Group acquired certain non-essential blood samples for an aggregate consideration of US\$6.7 million (equivalent to RMB43,511,000). These blood samples will be used mainly for research and development purpose.

20. TRADE AND OTHER RECEIVABLES

	At December 31,	
	2021 RMB'000	2020 RMB'000
Trade receivables	114,628	36,210
Less: Impairment loss allowance	(8,633)	(3,791)
	105,995	32,419
Rental deposits	3,468	2,683
Prepaid expenses	16,792	3,890
Staff advance	1,143	–
Advances to suppliers	513	198
Deferred issue costs (note i)	–	5,620
Value added tax recoverables	5,209	4,762
Bank interest receivables	1,874	–
Loan receivables from employees (note ii)	2,916	2,782
Early exercise promissory notes (note iii)	7,017	8,119
Other Deposits	1,225	469
Others	260	2,147
	40,417	30,670
	146,412	63,089
Analysed as:		
Non-current	12,697	6,425
Current	133,715	56,664
	146,412	63,089

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20. TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- i. Deferred issue costs represent the qualifying portion of issue costs incurred, which was charged to equity of the Company as share issue costs in respect of the issue of new shares upon the Listing.
- ii. The amounts represent loans to certain employees in respect of withholding tax for employees' individual income tax arising from the exercise of their respective share options. These loans are unsecured and carried interest at 4.35% per annum if the loan is repaid within 1 year, 4.75% per annum if the loan is repaid between 1 to 5 years, or 4.90% per annum if the loan is repaid after 5 years. Furthermore, under the mutual agreement between the Group and each individual borrower, the loan can be further extended or repaid any time before the expiry of the loan. As at December 31, 2020, since the employees are able to sell their shares after the Listing, in the opinion of the directors of the Company, the loan receivables are classified as current assets as the employees would repay thereafter. During the year ended December 31, 2021, the directors of the Company reconsidered that these employees may not settle the outstanding loan balances within the next twelve months from the date of issuance of these consolidated financial statements, the loan receivables from employees of RMB2,916,000 are reclassified as non-current assets.
- iii. Details of the early exercise promissory notes are set out in note 30(a). As at December 31, 2021, RMB7,017,000 (December 31, 2020: RMB3,742,000) of the balances are expected to be received after twelve months from the end of the reporting period and classified as non-current assets. These balances are measured by using a discount rate of 4.35% per annum for the balances expected to be repaid within 1 year and 4.75% per annum for the remaining balances. During the year ended December 31, 2020, the difference between the principal amount of promissory notes and initial fair value recognised amounted to RMB537,000 was included in respective employees' staff cost. The fair value change after initial recognition for the year ended December 31, 2021 amounted to RMB1,102,000 (2020: RMB270,000) was included in other gains and losses.

At January 1, 2020, trade receivables amounted to RMB17,885,000 (net of impairment loss allowance of RMB1,222,000). The Group allows credit period of 0 to 180 days to its trade customers. The following is an aged analysis of trade receivables, net of impairment loss allowance, presented based on revenue recognition dates at the end of the reporting period:

	At December 31,	
	2021 RMB'000	2020 RMB'000
0 – 60 days	78,143	20,539
61 – 90 days	13,985	2,399
91 – 180 days	4,763	4,365
181 – 365 days	4,886	1,478
Over 1 year	4,218	3,638
	105,995	32,419

At December 31, 2021, included in the Group's trade receivables balances are debtors with aggregate carrying amount of RMB16,344,000 (2020: RMB13,096,000), which are past due 90 days or more as at reporting date. RMB8,897,000 (2020: RMB10,732,000) of such receivables are not considered as in default as they are due from counterparties with good reputation and lower risk of default.

Details of impairment assessment of trade and other receivables are set out in note 34.

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For the year ended December 31, 2021

20. TRADE AND OTHER RECEIVABLES (Continued)

As at December 31, 2020, trade receivables of RMB32,419,000 and the Group's future trade receivables were pledged to secure the Group's bank borrowings as disclosed in note 26. The guarantee was released in full in 2021 as detailed in note 26.

The Group's other receivables that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	At December 31,	
	2021 RMB'000	2020 RMB'000
US\$	7,017	8,119

21. AMOUNTS DUE FROM RELATED PARTIES

Particulars of the amounts due from related parties are disclosed as follows:

	Relationship and details	At December 31,	
		2021 RMB'000	2020 RMB'000
Mr. Zhu	(note i)		
– subscription receivables for issuance of restricted shares	(note ii)	12,292	13,496
– withholding tax	(note iii)	–	4,240
– loan receivable	(note iv)	7,614	7,263
– early exercise promissory note	(note v)	25,296	28,890
Dr. Ning Lu (“Dr. Lu”)	(note i)		
– subscription receivables for issuance of restricted shares	(note ii)	5,334	5,221
– withholding tax	(note iii)	–	1,462
– receivables for exercise of share options	(note vi)	510	–
Mr. Yu Gao (“Mr. Gao”)	(note i)		
– loan receivable	(note iv)	57	55
– early exercise promissory note	(note v)	6,515	7,406
		57,618	68,033
Analysed as:			
Non-current		57,108	19,328
Current		510	48,705
		57,618	68,033

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21. AMOUNTS DUE FROM RELATED PARTIES (Continued)

Notes:

- i. Being directors of the Company or key management personnel of the Group.
- ii. The balance represents subscription receivables for issuance of restricted shares to Mr. Zhu and Dr. Lu and the amounts are unsecured, carried fixed interest rate at 5% per annum and will be due for payment upon transfer of interest in the restricted shares from restricted shares holders to other investors after vesting in accordance with the Share Incentive Plan (as defined in note 30). On July 9, 2020, 918,429 shares (before share subdivision) were transferred from Mr. Zhu to other investors. Subscription receivables of RMB1,464,000 related to the transferred portion was settled in January 2021.

For the remaining balances, in the opinion of the directors of the Company, the terms of the promissory notes are fair and on normal commercial terms. During the year ended December 31, 2020, the directors of the Company expected that the balances will be repaid in full in accordance with the terms of the promissory notes. During the year ended December 31, 2021, the directors of the Company reconsidered that they may not settle the outstanding loan balances within the next 12 months from the date of issuance of these consolidated financial statements, the outstanding subscription receivables for issuance of restricted shares as at December 31, 2021 are reclassified as non-current assets.

- iii. The balance represents the amounts due from Mr. Zhu and Dr. Lu in respect of withholding tax for their individual income tax with vested restricted share. The receivables from Mr. Zhu and Dr. Lu are unsecured, interest-free and repayable on demand. These balances were settled in full in the current year.
- iv. The amounts represent the loans to Mr. Zhu and Mr. Gao in respect of withholding tax for individual income tax arising from the exercise of their respective share options. The amounts are unsecured and carried interest at 4.35% per annum if the loan is repaid within 1 year, 4.75% per annum if the loan is repaid between 1 to 5 years, or 4.90% per annum if the loan is repaid after 5 years. Furthermore, under the mutual agreement between the Group and each of individual borrower, the loan can be further extended or repaid any time before the expiry of the loan. In the opinion of the directors of the Company, the amounts are not expected to be settled within one year and as such the loan receivables are classified as non-current assets. In the opinion of the directors of the Company, the terms of the loans to Mr. Zhu and Mr. Gao are fair and on normal commercial terms.
- v. Details of the early exercise promissory notes are set out in note 30(a). As at December 31, 2021, RMB25,296,000 and RMB6,515,000 (December 31, 2020: RMB15,528,000 and RMB3,800,000) due from Mr. Zhu and Mr. Gao, respectively, are expected to be received after twelve months from the end of the reporting period and therefore classified as non-current assets. These balances were measured by using a discount rate of 4.35% for the balances expected to be repaid within 1 year and 4.75% for the remaining balances. During the year ended December 31, 2020, the difference between the principal amount of promissory notes and initial fair value recognised amounted to RMB2,702,000 was included in the staff cost of Mr. Zhu and Mr. Gao. The fair value change after initial recognition for the year ended December 31, 2021 amounted to RMB4,485,000 (2020: RMB1,197,000) was included in other gains and losses.
- vi. The balance represents the amounts due from Dr. Lu in respect of exercise of his fully vested share options. Such amount is unsecured, interest-free and repayable on demand. The balance was fully settled on February 25, 2022.

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21. AMOUNTS DUE FROM RELATED PARTIES (Continued)

The Group's amounts due from related parties that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	At December 31,	
	2021 RMB'000	2020 RMB'000
US\$	49,947	55,013

For amounts due from related parties of non-trade nature, the maximum amount outstanding during the reporting period is as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Mr. Yao	–	100
Dr. Chen	–	902
Mr. Zhu	53,889	74,372
Dr. Lu	6,683	6,849
Mr. Gao	7,461	8,226

22. CONTRACT COSTS

	As at December 31,	
	2021 RMB'000	2020 RMB'000
Costs to fulfill contracts		
– Finished goods delivered	13,891	5,561
– Commission	–	163
	13,891	5,724

Contract costs relating to the sales commission fees are capitalised when they are paid or payable to CSOs whose selling activities resulted in customers entering into contracts with the Group and finished goods delivered to customers to fulfil the sales of ColoClear.

Contract costs relating to sales commission fees are recognised as part of selling and marketing expenses while costs of finished goods delivered to the customers are recognised as part of the cost of goods sold in the consolidated statement of profit or loss and other comprehensive income upon revenue is recognised.

During the year ended December 31, 2021, capitalised sales commission fee paid or payable recognised in selling and marketing expenses amounting to RMB163,000 (2020: RMB1,285,000), and capitalised costs of finished goods delivered to customers recognised in cost of sales amounting to RMB23,532,000 (2020: RMB8,693,000). During the year ended December 31, 2021, contract costs relating to capitalised costs of finished goods delivered to customers amounted to RMB1,814,000 (2020: RMB2,406,000), have been impaired and included in cost of sales due to the termination of the relevant contracts under mutual agreement by the Group and the customers.

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23. BANK BALANCES AND CASH/TIME DEPOSITS OVER THREE MONTHS/PLEDGED BANK DEPOSITS

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits carry interests at market rates ranging from 0.01% to 3% (2020: 0.73% to 2.03%) per annum as at December 31, 2021.

The Group's bank balances and cash that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	At December 31,	
	2021 RMB'000	2020 RMB'000
US\$	124,379	305,327
HK\$	431,943	1,970

Time deposits over three months

The Group held time deposits of US\$59,917,000 (equivalent to RMB382,013,000) (2020: US\$20,000,000 (equivalent to RMB130,498,000)), HK\$682,429,000 (equivalent to RMB557,954,000) (2020: nil) and RMB105,268,000 (2020:nil) as at December 31, 2021, with original maturity of more than 3 months which carried effective interest rates ranging from 0.15% to 3.79% (2020: 0.73%) per annum. These time deposits will mature within 12 months.

The Group held time deposits of RMB40,000,000 (2020: nil), with original maturity of more than 3 months which carried effective interest rates ranging from 3.30% to 3.36% (2020: nil) per annum. These time deposits will mature over 12 months.

Pledged bank deposits

The Group placed pledged bank deposits amounted to RMB110,000,000 (2020: nil), which carries a fixed interest of 2% per annum.

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24. TRADE AND OTHER PAYABLES

	At December 31,	
	2021 RMB'000	2020 RMB'000
Trade payables	23,592	8,561
Payables for:		
– research and development fees	120	265
– business promotion fee	634	329
– security deposits	1,453	2,010
– customers deposits	–	630
– acquisition of property and equipment	617	–
– others	782	603
Accruals for:		
– legal and professional fees	3,471	1,983
– selling and promotion expenses	4,288	2,706
– research and development fees	25	314
– travel expenses	828	957
– service fees	2,040	909
– other expenses (note 6B)	–	4,800
– issue costs and fees in relation to the Listing	–	16,210
Accrued interest expense	532	968
Retention monies payable to constructors	1,598	1,775
Other tax payables	243	5,777
	16,631	40,236
	40,223	48,797
Analysed as:		
Non-current	1,543	665
Current	38,680	48,132
	40,223	48,797

The credit period on purchases of goods/services of the Group is ranging from 0 to 60 days.

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24. TRADE AND OTHER PAYABLES (Continued)

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

	At December 31,	
	2021 RMB'000	2020 RMB'000
0 – 60 days	21,171	7,940
61 – 90 days	2,385	616
Over 90 days	36	5
	23,592	8,561

The Group's other payables that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	At December 31,	
	2021 RMB'000	2020 RMB'000
US\$	356	13,655
HK\$	–	2,555

25A. CONTRACT LIABILITIES

	At December 31,	
	2021 RMB'000	2020 RMB'000
Amounts received in advance prior to the performance of services or delivery of products	21,943	10,872

The significant increase in contract liabilities for the year ended December 31, 2021 was mainly due to the advanced from online channel which the performance obligations were not yet satisfied.

As at 1 January 2020, contract liabilities amounted to RMB27,198,000.

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25A. CONTRACT LIABILITIES (Continued)

The amount of revenue recognised related to carried-forward contract liabilities:

	For the year ended December 31,	
	2021 RMB'000	2020 RMB'000
ColoClear	6,261	20,929

There were no revenue recognised in the current year that related to performance obligations that were satisfied in prior year.

25B. REFUND LIABILITIES

	At December 31,	
	2021 RMB'000	2020 RMB'000
Refund liabilities arising from Pupu tube	2,639	2,594

The refund liabilities relate to customers' right to exchange products within 2 months prior to expiry of Pupu tube products. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be exchanged. The Group based on accumulated historical experiences to estimate the number of exchanges on a portfolio level using the expected value method.

26. BANK BORROWINGS

	At December 31,	
	2021 RMB'000	2020 RMB'000
Secured (note i)	79,498	96,234
Unsecured (note ii)	–	20,000
	79,498	116,234

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26. BANK BORROWINGS (Continued)

	At December 31,	
	2021 RMB'000	2020 RMB'000
The carrying amounts of the above bank borrowing are repayable*:		
Within one year	79,498	70,209
Within a period of more than one year but not exceeding two years	-	46,025
	79,498	116,234
Less: Amounts due within 12 months shown under current liabilities	(79,498)	(70,209)
Amounts shown under non-current liabilities	-	46,025

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes:

- i. The amount was secured, unguaranteed, mature in November 2022. As at December 31, 2020, the borrowing was carried at fixed interest rate (also being the effective interest rate) of 6.5% per annum. Such bank borrowing was secured by the Group's trade receivables amounting to RMB32,419,000 as at December 31, 2020 and the Group's future trade receivables. On May 20, 2021, the Group entered into a supplementary agreement with a bank to modify the terms and conditions of the Group's existing bank borrowings with the bank. Pursuant to the supplementary agreement, the Group is required to place pledged bank deposits amounting to RMB110,000,000, which carried a fixed interest rate of 2% per annum, as security to the existing bank borrowings with carrying amount of RMB79,498,000 and the original security of the Group's trade receivables and the Group's future trade receivables is released at the date of modification of the bank borrowings. Furthermore, the interest rate of the bank borrowings is modified from a fixed interest rate of 6.5% per annum to a fixed interest rate of 4% per annum and the repayment term of the principal amount is modified from monthly instalment to full repayment at the maturity date of the bank borrowings on November 1, 2022. Furthermore, upon the Listing, the Group is required to pay a 2% fee calculated based on the maximum amount of the borrowing drawdown by the Group during the loan period ("Success Fee"). For the year ended December 31, 2021, the Group recognised RMB730,000 (2020: RMB715,000) success fee in finance costs. During the year ended December 31, 2020, the Group paid RMB1,000,000 of Success Fee.
- ii. The bank borrowing as at December 31, 2020, amounting to RMB20,000,000, was unsecured, unguaranteed and carried at fixed interest rate (also being the effective interest rate) of 4.80% per annum. The borrowing was settled in full in March 2021.

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27. LEASE LIABILITIES

	At December 31,	
	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
Within one year	11,132	8,997
Within a period of more than one year but not exceeding two years	7,763	5,857
Within a period of more than two years but not exceeding five years	24,544	18,466
	43,439	33,320
Less: Amounts due for settlement with 12 months shown under current liabilities	(11,132)	(8,997)
Amounts due for settlement after 12 months shown under non-current liabilities	32,307	24,323

28. PREFERRED SHARES

Details of the key terms, presentation, classification and fair value movement of Preferred Shares for the year ended December 31, 2020 were set out in note 26A to the consolidated financial statements included in the Group's annual report for the year ended December 31, 2020.

Upon the Listing, all Preferred Shares were automatically converted into ordinary shares and the fair value of the Preferred Shares were measured at the IPO issue price of HK\$26.66 per share. As a result, all Preferred Shares were reclassified to share capital and share premium of the Company amounting to RMB65,000 and RMB4,437,319,000, respectively. Changes in fair value of the Preferred Shares were include in "other gains and losses".

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29. SHARE CAPITAL

	Number of class A shares (note iv)	Number of class B shares (note iv)	Share capital <i>US\$'000</i>
Ordinary shares			
Ordinary shares of US\$0.0001 each (before share subdivision) and US\$0.00005 each (after share subdivision)			
Authorised			
At January 1, 2020	382,500,979	34,167,268	42
Reclassification and re-designation on issuance of Series D Preferred Shares (note i)	(8,320,160)	–	(1)
Reclassification and re-designation on issuance of Series E Preferred Shares (note ii)	(8,320,159)	–	(1)
Share subdivision (note iii)	365,860,660	34,167,268	–
At December 31, 2020	731,721,320	68,334,536	40
Automatic conversion of Preferred Shares to class A shares of the Company upon the Listing (note 28)	199,944,144	–	10
At December 31, 2021	931,665,464	68,334,536	50

	Number of class A shares	Number of class B shares	Total Amount <i>US\$'000</i>	Equivalent amount of ordinary shares <i>RMB'000</i>
Issue and fully paid				
At January 1, 2020	24,738,672	34,167,267	6	40
Transferred and converted from class B ordinary shares into class A ordinary shares (note iv)	2,618,530	(2,618,530)	–	–
Issuance of ordinary shares in relation to exercise of share options (note 30)	10,011,860	–	1	7
Issuance of shares held on trust (note v)	1,786,721	–	–	1
Share subdivision (note iii)	39,155,783	31,548,737	–	–
At December 31, 2020	78,311,566	63,097,474	7	48
Issuance of new shares upon the Listing (note vi)	88,087,500	–	4	28
Issuance of ordinary shares in relation to exercise of share options (note 30)	299,212	–	–	–
Automatic conversion of Preferred Shares upon the Listing (note 28)	199,944,144	–	10	65
At December 31, 2021	366,642,422	63,097,474	21	141

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29. SHARE CAPITAL (Continued)

Notes:

- (i) On March 31, 2020, the Company re-designated and reclassified 8,320,160 class A shares in its authorised share capital into Series D Preferred Shares.
- (ii) On July 1, 2020, the Company re-designated and reclassified 8,320,159 class A shares in its authorised share capital into Series E Preferred Shares.
- (iii) On October 9, 2020, the Company underwent the share subdivision whereby each issued and unissued share of par value US\$0.0001 each in the Company's authorised share capital was subdivided into two shares of US\$0.00005 par value each, such that immediately following such share subdivision, the Company's authorised share capital was US\$50,000 with par value of US\$0.00005 each divided into (a) 731,721,320 class A Ordinary Shares, (b) 68,334,536 class B Ordinary Shares, (c) 44,469,630 Series A-1 Preferred Shares, (d) 6,234,042 Series A-2 Preferred Shares, (e) 37,185,342 Series B Preferred Shares, (f) 78,774,492 Series C Preferred Shares, (g) 16,640,320 Series D Preferred Shares and (h) 16,640,318 Series E Preferred Shares.
- (iv) Class B ordinary shares are held by the founder parties, i.e. Mr. Zhu and Dr. Chen. The holder with each class A Ordinary Share shall have one vote for each share held while the holder with each class B Ordinary Share shall have 1.14052169 vote for each share held.

On July 9, 2020, an aggregate of 2,618,530 class B Ordinary Shares have been transferred by the founder parties, i.e. Mr. Zhu and Dr. Chen to other investors. The class B Ordinary Shares transferred were immediately converted into class A Ordinary Shares.
- (v) On September 2, 2020, the Company allotted and issued 1,786,721 class A Ordinary Shares to Ever Thriving Ventures Limited, to be held on trust for the benefit of eligible participants under the Share Incentive Plan (as defined in note 30).
- (vi) In connection with the Listing, 76,598,000 and 11,489,500 ordinary shares of US\$0.00005 par value each were issued at HK\$26.66 per share for the Company's global offering and the over-allotment of shares, on February 18, 2021 and March 17, 2021, for gross cash proceeds of HK\$2,042,103,000 and HK\$306,310,000 (equivalent to RMB1,699,948,000 and RMB256,284,000), respectively.

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30. SHARE-BASED PAYMENT TRANSACTIONS

On January 24, 2017, the board of directors of Hangzhou Nuohui resolved to grant to certain of its employees with options to purchase equity interests in NHXC Holdings Limited (“**NHXC Holdings**”), (“**Hangzhou Nuohui Share Incentive Plan**”). Further on November 7, 2017, the Hangzhou Nuohui Share Incentive Plan was revised and the board of directors of Hangzhou Nuohui resolved to grant 187,236 restricted shares to a director and an employee through NHXC Holdings and Hangzhou New Horizon Zihui Investment Management Partnership (“**Nuohui Zihui**”). A portion of the ordinary shares of NHXC Holdings and the entire ordinary shares of Nuohui Zihui are set up to hold the equity interest on behalf of Hangzhou Nuohui for future issuance of employees shares.

Upon completion of the group reorganisation and on October 10, 2018, the board of directors of the Company approved the Pre-IPO Share Incentive Plan (the “**Plan**”). The purpose of the Plan is to promote the success of the Company and to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons. For shares options, pursuant to a board resolution of the Company on October 10, 2018, the options granted to certain employees of Hangzhou Nuohui under the Hangzhou Nuohui Share Incentive Plan were replaced and exchanged for options to purchase the Company’s ordinary shares under the Plan. For restricted shares, upon the group reorganisation, the restricted shares under Hangzhou Nuohui through NHXC Holdings and Nuohui Zihui was replaced by the restricted shares under the Company through NHXC Holdings and NHYJ Holdings Ltd. The Hangzhou Nuohui Share Incentive Plan was then terminated. The overall limit on the number of the underlying shares which may be delivered pursuant to all awards granted under the Plan is 15,843,384 shares of the Company.

(a) Share options

Except as provided otherwise in the grant letter or offer in any other form by the board of directors, the option shall vest and become exercisable as to 25% of the total number of option granted on the first anniversary of the vesting commencement date, and the option shall vest and become exercisable as to the remaining 75% of the total number of options granted in equal monthly instalments over the subsequent thirty-six months thereafter.

Option C is subject to non-market conditions that the respective portions of options shall be vested upon the relevant milestones are reached. On April 24, 2020, the Company entered into a supplementary option agreement with Option C holders that one milestone date was extended. On October 9, 2020, the Company entered into another supplementary agreement with Option C holders that two milestone dates were further extended. The fair value of the share-based payments arrangement has been remeasured on the modification date using Binomial Option Pricing Model and the incremental of fair value is considered to be insignificant.

200,000 share options granted under Option E are subject to the market performance that the entire share options granted shall vest and become exercisable when the diluted market capitalisation of the Company reaches US\$3,000,000,000 for any 60 transaction days within 5 years.

Notes to Consolidated Financial Statements

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30. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(a) Share options *(Continued)*

On August 31, 2020, 9,772,277 share options granted to certain participants (the “**Early Exercise Participants**”) under the Plan were early-exercised and concurrently transferred to the Trident Trust Company (HK) Limited (the “**Trustee**”). The exercise price of the share options was paid by delivering a promissory note to the Company payable by each of the Early Exercise Participants (the “**Early Exercise Promissory Notes**”). As a result, on the same day, an aggregate of 9,772,277 Class A Ordinary Shares underlying the early-exercised share options were issued to NHXT Holdings Ltd. and Ever Thriving Ventures Limited, both being entities owned by the Trustee, to be held on trust for the benefit of the Early Exercise Participants.

Pursuant to share vesting agreements entered into between the Company and each of the Early Exercise Participants on August 31, 2020, it was agreed that the shares held by NHXT Holdings Ltd. and Ever Thriving Ventures Limited would be subject to the same vesting schedule as that set out in the relevant option agreements at the time of grant. The Early Exercise Promissory Notes are not interest bearing and will mature on the earlier of (i) the severance date of the Early Exercise Participant’s employment or consulting relationship with the Group, whereby the note will be due and payable with respect to the exercise price of the restricted shares that have not become vested, and (ii) the date on which the restricted shares are transferred, assigned, encumbered or disposed of, whereby the note will be due and payable with respect to the restricted shares transferred, assigned, encumbered or disposed of. The Early Exercise Participant shall pay the amounts due under the Early Exercise Promissory Note in full to the Company within 90 days after the maturity date.

Further, in the event of termination of the employment or consulting relationship between the Early Exercise Participant and the Group, the Company shall upon the severance date have an irrevocable, exclusive option at any time from such date to (i) in the event of a termination without cause, to repurchase all or any portion of the restricted shares that have not yet vested at a price per restricted share equal to the exercise price (adjusted for any share subdivision, share dividends and the like), or (ii) in the event of a termination with cause, unless otherwise approved by the board, to repurchase all or any portion of the restricted shares, whether such restricted shares have vested or not, at an aggregate repurchase price of US\$1.00 (the “**Early Exercise Repurchase Option**”). As such, the shares issued upon the early exercise is considered as restricted shares and shall vest in accordance with the original vesting schedules as set out in the relevant option agreements at the time of grant. In the opinion of the directors of the Company, the above said early exercise arrangement did not modify the underlying terms and conditions of the equity instruments granted, and do not expect to have material impact to fair value of the original options.

On September 21, 2020, Dr. Lu exercised 239,583 fully vested share options and the Company allotted and issued 239,583 Class A ordinary shares to Dr. Lu for a total consideration of US\$79,000 (equivalent to RMB540,000). On September 23, 2021, Dr. Lu exercised 299,212 fully vested share options and the Company allotted and issued 299,212 Class A ordinary shares to Dr. Lu for a total consideration of US\$80,000 (equivalent to RMB510,000).

During the year ended December 31, 2021, an aggregate amount of RMB534,000 (2020: RMB17,577,000) was transferred from share-based payments reserve to share premium upon the exercise of fully vested options.

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For the year ended December 31, 2021

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Share options (Continued)

Set out below are details of the movements of the outstanding options granted under the Hangzhou Nuohui Share Incentive Plan and the Plan during the reporting period:

For the year ended December 31, 2021

Option	Name of grantee	Date of grant	Exercise price (after share subdivision)	Outstanding as at 1.1.2021	Forfeited during the year	Exercised as at 23.9.2021	Outstanding as at 31.12.2021
Director							
Option C	Director	May 14, 2019	US\$0.42	5,521,070	-	-	5,521,070
Employees							
Option B	Employees	October 10, 2018	US\$0.165	749,536	(8,000)	(229,167)	512,369
Option D	Employees	April 24, 2020	US\$0.6	1,289,000	(33,000)	(70,045)	1,185,955
Option F	Employees	June 10, 2020	US\$0.6	400,000	(50,768)	-	349,232
				<u>7,959,606</u>	<u>(91,768)</u>	<u>(299,212)</u>	<u>7,568,626</u>
		Exercisable at the end of the year					3,964,275
		Weighted average exercise price (after share subdivision)		<u>US\$0.44</u>	<u>US\$0.562</u>	<u>US\$0.267</u>	<u>US\$0.439</u>

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For the year ended December 31, 2021

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Share options (Continued)

For the year ended December 31, 2020

Option	Name of grantee	Date of grant	Exercise price (after share subdivision)	Outstanding as at 1.1.2020	Granted during the period	Exercised and converted to restricted shares as at 31.8.2020	Exercised as at 21.9.2020	Share Subdivision on 9.10.2020	Outstanding as at 31.12.2020
Director									
Option B	Director	October 10, 2018	US\$0.165	2,500,000	-	(2,500,000)	-	-	-
Option C	Director	May 14, 2019	US\$0.42	5,521,070	-	(2,760,535)	-	2,760,535	5,521,070
Option D	Director	April 24, 2020	US\$0.6	-	1,250,000	(1,250,000)	-	-	-
Employees									
Option A-1	Employees	January 24, 2017	US\$0.165	236,093	-	(236,093)	-	-	-
Option B	Employees	October 10, 2018	US\$0.165	1,995,000	-	(1,380,649)	(239,583)	374,768	749,536
Option D	Employees	April 24, 2020	US\$0.6	-	1,289,500	(645,000)	-	644,500	1,289,000
Option E	Employees	June 1, 2020	US\$0.6	-	1,000,000	(1,000,000)	-	-	-
Option F	Employees	June 10, 2020	US\$0.6	-	200,000	-	-	200,000	400,000
				<u>10,252,163</u>	<u>3,739,500</u>	<u>(9,772,277)</u>	<u>(239,583)</u>	<u>3,979,803</u>	<u>7,959,606</u>
									<u>380,067</u>
			Weighted average exercise price (after share subdivision)	<u>US\$0.61</u>	<u>US\$1.2</u>	<u>US\$0.73</u>	<u>US\$0.33</u>		<u>US\$0.44</u>

The shares issued upon the Early Exercise Participants exercised their share options were converted to restricted shares subject to the original vesting terms and the following table summarised the Group's unvested restricted shares movement:

	Numbers of unvested restricted shares
Issue of shares upon early exercise of options on August 31, 2020	9,772,277
Vested	(3,132,829)
Share subdivision	7,152,020
Unvested as at January 1, 2021	13,791,468
Vested	(6,617,243)
Unvested as at December 31, 2021	7,174,225

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(a) Share options (Continued)

The fair value of the options granted during the year ended December 31, 2020 was determined using the Binomial Option Pricing Model. These fair values and corresponding inputs into the model (prior to share subdivision) were as follows:

	Option D Directors	Option D Employee	Option E Employee	Option F Employee
Share price	US\$0.86	US\$0.86	US\$1.55	US\$1.55
Exercise price	US\$1.20	US\$1.20	US\$1.20	US\$1.20
Expected volatility	57%	57%	57%	57%
Risk-free rate	0.60%	0.60%	0.66%	0.66%
Expected dividend yield	0%	0%	0%	0%
Grant date option fair value per share	US\$0.45	US\$0.42	US\$0.97	US\$0.91
Fair value at grant date	RMB4,004,000	RMB3,931,000	RMB6,825,000	RMB1,295,000

The directors of the Company estimated the risk-free interest rate based on the yield of the United States Treasury Bonds with a maturity life close to the option life of the share option. Volatility was estimated at grant date based on average of historical volatilities of the comparable companies with length commensurable to the time to maturity of the share options. Dividend yield is based on management estimation at the grant date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised the total expense of RMB23,833,000 (2020: RMB14,615,000) for the year ended December 31, 2021 in relation to share options granted by the Company.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Restricted shares

On November 7, 2017, directors of Hangzhou Nuohui resolved to issue restricted shares that are equivalent to RMB187,236 paid-in capital of Hangzhou Nuohui to a director and an employee for an aggregate subscription price of RMB17,487,000 under the Hangzhou Nuohui Share Incentive Plan (the “**2017 Restricted Shares Plan**”).

(i) A director

On November 7, 2017, Hangzhou Nuohui granted restricted shares that are equivalent to RMB99,900 and RMB27,396 paid-in capital of Hangzhou Nuohui to Mr. Zhu at a subscription price of RMB10,000,000 and RMB2,428,000 through NHXC Holdings and Nuohui Zhihui, respectively.

The restricted shares shall initially be unvested and subject to repurchase by Hangzhou Nuohui at subscription price paid by the employees upon voluntary or involuntary termination of employment and upon the group reorganisation, a new share repurchase option has been signed with the Company (the “**Repurchase Option**”). One forth (25%) of the restricted shares shall vest on the first anniversary year from the commencement date and the remaining portion (75%) of the restricted shares shall be vested rateably on a monthly basis over a 36-months vesting period and released from the Repurchase Option, except for vesting due to specific clause and reasons. First vesting commencement date for restricted shares issued under NHXC Holdings and Nuohui Zhihui was July 1, 2015 and July 18, 2017, respectively.

(ii) An employee

On November 7, 2017, Hangzhou Nuohui granted restricted shares that are equivalent to RMB59,940 paid-in capital of Hangzhou Nuohui to Dr. Lu at a subscription price of RMB5,059,000 through NHXC Holdings.

The restricted shares shall initially be unvested. Among the 59,940 shares, 9,500 shares are vested on July 26, 2018. For the remaining 50,440 shares, one forth (25%) of the restricted shares shall vest on July 1, 2015 and the remaining portion (75% of the restricted shares) shall be vested rateably on a monthly basis over a 36-months vesting period and released from the Repurchase Option, except for vesting due to specific clause and reasons. Upon the group reorganisation, each unvested share was converted at a conversion ratio of 66.4964 which is the same as other conversion ratio of other equity investors in the group reorganisation.

The eligible employee shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of any unvested shares and the eligible employee shall not transfer any vested shares, or any interest therein until the employee have offered the Company the right to purchase the vested shares at the same price and on the same terms and conditions as those offered to any prospective transferee.

The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for restricted shares granted to an employee and a director of the Company are RMB16,000 (2020: RMB110,000) for the year ended December 31, 2021.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

30. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Restricted shares (Continued)

(ii) An employee (Continued)

The restricted shares were valued by the directors with reference to the valuation carried out by ValueLink Management Consultants Limited, on the grant date of the restricted shares. The fair value of the restricted shares was determined by discounted cash flow and back-solve method and equity allocation using the OPM. The fair value of the restricted shares was determined to be US\$20.84 (equivalent to RMB141.08) per paid-in capital.

The following table summarised the Group's unvested restricted shares movement under the 2017 Restricted Shares Plan:

	Numbers of unvested restricted shares	Weighted average grant date fair value per paid-in capital/share <i>RMB</i>
Unvested as at January 1, 2020	721,118	2.12
Vested	(569,304)	2.12
Share subdivision	379,536	N/A
Unvested as at December 31, 2020	531,350	1.06
Vested	(531,350)	1.06
Unvested as at December 31, 2021	-	-

31. RELATED PARTY TRANSACTIONS

Save for disclosed in elsewhere of these consolidated financial statements, the Group has the following transactions and balances with its related parties during the reporting period.

(a) Related party transactions

	Year ended December 31,	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income on subscription receivable (note 21)		
– Mr. Zhu	886	1,318
– Dr. Lu	233	465
– Mr. Gao	2	1
	1,121	1,784

Notes to Consolidated Financial Statements

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31. RELATED PARTY TRANSACTIONS (Continued)

(b) Related party balances

Details of the outstanding balances with related parties are set out in note 21.

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the reporting period were as follows:

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Salary and other benefits	8,851	10,527
Retirement benefit scheme contribution	196	73
Share-based payments	22,394	12,177
Discretionary bonus (note)	1,464	1,690
	32,905	24,467

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

32. CAPITAL COMMITMENT

	At December 31,	
	2021 RMB'000	2020 RMB'000
Capital expenditure contracted for but not provided in these consolidated financial statements:		
– Property and equipment	328	4,037
– Intangible assets	–	43
	328	4,080

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33. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts, which includes bank borrowings and Preferred Shares, and net of bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt and redemption of existing debts.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At December 31,	
	2021 RMB'000	2020 RMB'000
Financial assets		
Amortised cost	2,023,597	654,531
FVTPL	113,647	44,415
	2,137,244	698,946
Financial liabilities		
Amortised cost	108,294	130,407
Preferred Shares designated as at FVTPL	–	1,680,356
	108,294	1,810,763

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from related parties, financial assets at FVTPL, investments in associates measured at FVTPL, time deposits over three months, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, and Preferred Shares at FVTPL. Details of these financial assets and liabilities are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

Certain time deposits, pledged bank deposits, bank balances and cash, other receivables, amounts due from related parties, other payables, financial assets at FVTPL, investments in associates measured at FVTPL and Preferred Shares at FVTPL are denominated in foreign currency of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	At December 31,	
	2021 RMB'000	2020 RMB'000
Assets		
US\$	607,242	498,957
HK\$	989,897	1,970
CHF\$	20,933	–
Liabilities		
US\$	356	1,680,356

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$, HK\$ or CHF\$, the foreign currency with which the Group may have a material exposure. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive (negative) number below indicates a decrease (increase) in loss where RMB strengthens 5% against US\$, HK\$ or CHF\$. For a 5% weakening of RMB against US\$, HK\$ or CHF\$, there would be an equal and opposite impact on loss for the year.

	For the year ended December 31,	
	2021 RMB'000	2020 RMB'000
<i>Impact on profit or loss</i>		
US\$	(30,344)	59,070
HK\$	(49,495)	(99)
CHF\$	(1,047)	–

The directors of the Company considered the sensitivity analysis is unrepresentative of the foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the relevant periods.

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to lease liabilities, fixed-rate time deposits, pledged bank deposits, financial assets at FVTPL, loan receivables and subscription receivables due from related parties, loan receivables from employees, fixed-rate bank borrowings and cash flow risk in relation to variable-rate bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Company considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

(iii) Other price risk

The Group is exposed to other price risk arising from its investments in a private equity fund, investments in associates measured at FVTPL, a convertible loan and Preferred shares which were classified as financial assets and financial liabilities at FVTPL.

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For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(iii) Other price risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date for financial liabilities at FVTPL.

If the equity value of the Group had been changed based on the 5% higher/lower, the post-tax loss of the Group for the year ended December 31, 2020 would increase by approximately RMB77,624,000 and decrease by approximately RMB77,808,000.

Credit risk and impairment assessment

The Group's maximum exposures to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Normally, the Group grants a credit period of 0-90 days and grants credit term up to 180 days for certain long term customers. The Group may request advances from new or certain customers upon signing sales agreements or placing orders to minimise the credit risks.

The Group has concentration of credit risk as 33% (2020: 51%) of the total trade receivables was due from the Group's largest customer, and 71% (2020: 56%) of the total trade receivables was due from the five largest customers, as at December 31, 2021, respectively.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for debtors with significant outstanding balances or credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit-risk characteristics by reference to 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. Assessment is performed 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. Details of the quantitative disclosures are set out below in this note.

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For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment (Continued)

Bank balances, time deposits over three months and pledged bank deposits

The credit risks on bank balances, time deposits over three months and pledged bank deposits are limited because the counterparties are mainly reputable banks and financial institutions with high credit ratings assigned by international credit-rating agencies. The Group assesses 12m ECL for bank balances, time deposits over three months and pledged bank deposits by reference to information relating to average loss rates of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the ECL on bank balances, time deposits over three months and pledged bank deposits is considered insignificant.

Other receivables and refundable deposits

The management of the Group makes periodic individual assessment on the recoverability of other receivables and refundable deposits based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information under ECL model upon application of IFRS 9. The Group writes off other receivables and refundable deposits 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.

Amounts due from related parties

For the purpose of impairment assessment of amounts due from related parties, the loss allowance is measured at an amount equals to 12m ECL. In assessing the probability of defaults of amounts due from related parties, the management has taken into account the financial position of the counterparties as well as forward looking information that is available without undue cost or effort. Management considered the ECL provision of amounts due from related parties is insignificant.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The Group's credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/items
Low	Low risk types customers represent the counterparty with good reputation and repayment history (refer to as Stage 1)	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired (refer to as Stage 2)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk and impairment assessment (Continued)

The table below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

December 31, 2021

	Notes	External credit ratings	Internal credit ratings	12m or lifetime ECL	Gross carrying amount
Trade receivables	20	N/A	Note	Lifetime ECL (provision matrix)	66,949
			Low	Lifetime ECL	38,256
			Loss	Lifetime ECL – credit-impaired	9,423
					114,628
Other receivables	20	N/A	Low	12m ECL	9,743
Amounts due from related parties	21	N/A	Low	12m ECL	25,807
Time deposits over three months	23	AAA	N/A	12m ECL	1,085,235
Pledged bank deposits	23	AAA	N/A	12m ECL	110,000
Bank balances	23	AA to AAA	N/A	12m ECL	686,817

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For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

December 31, 2020

	Notes	External credit ratings	Internal credit ratings	12m or lifetime ECL	Gross carrying amount
Trade receivables	20	N/A	Note	Lifetime ECL (provision matrix)	15,214
			Low	Lifetime ECL	18,551
			Loss	Lifetime ECL – credit-impaired	2,445
					36,210
Other receivables	20	N/A	Low	12m ECL	8,081
Amounts due from related parties	21	N/A	Low	12m ECL	31,737
Time deposits over three months	23	AAA	N/A	12m ECL	130,498
Bank balances	23	AA to AAA	N/A	12m ECL	451,796

Note: For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECL on these items by using a provision matrix for debtors grouped by internal credit rating and by past due status. As part of the Group's credit risk management, the Group applies internal credit rating for its customers.

As at December 31, 2021, trade receivables with significant outstanding balances and with aggregate gross carrying amount of RMB38,256,000 (2020: RMB18,551,000) are assessed individually. These balances are from counterparties which have low risk of default as the counterparties with good reputation. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 4.24% (2020: 6.03%) as at December 31, 2021 and impairment allowance of RMB1,622,000 (2020: RMB1,119,000) was provided by the Group as at December 31, 2021.

Trade receivables that are credit-impaired with an aggregate gross carrying amount of RMB9,423,000 (2020: RMB2,445,000) as at December 31, 2021. The exposure to credit risk for these balances is assessed within lifetime ECL (credit-impaired) with an average loss rate of approximately 70.24% (2020: 95.83%) as at December 31, 2021 and impairment allowance of RMB6,619,000 (2020: RMB2,343,000) was provided by the Group as at December 31, 2021.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

Net loss allowance of RMB1,790,000 (2020: RMB nil) were made and wrote down on other receivables with significant balances and credit-impaired debtors during the year ended December 31, 2021.

As part of the assessment of the lifetime ECL for each credit-impaired trade receivables, the management of the Group has obtained an analysis on the counterparties' credit risk characteristics by reviewing the trading history and historical settlement pattern with the Group. The management of the Group estimates the amount of lifetime ECL based on expectation on cash flows that take into account the credit risk characteristics of individual debtors taking into consideration of historical settlement record adjusted to reflect current conditions and forward-looking information that is reasonably and supportably available to directors of the Company without undue cost or effort, and are updated at each reporting date if considered to be required.

The remaining trade receivables with gross carrying amount of RMB66,949,000 (2020: RMB15,214,000) as at December 31, 2021 are assessed based on debtors' aging. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired):

Gross carrying amount as at December 31, 2021

	Average loss rate (%)	Trade receivables RMB'000
0 – 90 days past due	0.37	64,950
91 – 180 days past due	1.41	1,131
181 – 365 days past due	10.48	821
1 – 2 years past due	100.00	47
		66,949

Gross carrying amount as at December 31, 2020

	Average loss rate (%)	Trade receivables RMB'000
0 – 90 days past due	0.00	10,746
91 – 180 days past due	0.51	2,537
181 – 365 days past due	10.60	717
1 – 2 years past due	19.77	1,214
		15,214

During the year ended December 31, 2021, the Group recognised net loss allowance based on the provision matrix for trade receivables of RMB63,000 (2020: RMB174,000). Net loss allowance of RMB4,779,000 (2020: RMB2,395,000) were made on trade receivables with significant balances and credit-impaired debtors during the year ended December 31, 2021.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk and impairment assessment (Continued)

The following table shows the movement in impairment loss allowance for trade and other receivables:

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
At January 1, 2020	465	757	1,222
Impairment loss allowance recognised	1,333	1,236	2,569
Transfer to credit-impaired	(350)	350	–
At December 31, 2020	1,448	2,343	3,791
Impairment loss allowance recognised	2,426	4,206	6,632
Transfer to credit-impaired	(1,860)	1,860	–
Write-offs	–	(1,790)	(1,790)
At December 31, 2021	2,014	6,619	8,633

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 of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings and ensures compliance with loan covenants, if any.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year and on demand RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2021						
Trade and other payables	-	28,796	-	-	28,796	28,796
Bank borrowings	4.00%	82,413	-	-	82,413	79,498
Lease liabilities	6.12%	12,944	8,481	32,364	53,789	43,439
		<u>124,153</u>	<u>8,481</u>	<u>32,364</u>	<u>164,998</u>	<u>151,733</u>
	Weighted average effective interest rate %	Within 1 year and on demand RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
At December 31, 2020						
Trade and other payables	-	14,173	-	-	14,173	14,173
Bank borrowings	6.50%	75,252	47,728	-	122,980	116,234
Preferred Shares	13%	-	-	2,073,831	2,073,831	1,680,356
Lease liabilities	6.09%	9,616	5,884	25,251	40,751	33,320
		<u>99,041</u>	<u>53,612</u>	<u>2,099,082</u>	<u>2,251,735</u>	<u>1,844,083</u>

(c) Fair value measurements of financial instruments

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The Chief Financial Officer of the Company determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Chief Financial Officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports any findings to the directors of the Company regularly to explain the cause of fluctuations in the fair value.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Fair value as at December 31,		Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2021 RMB'000	2020 RMB'000				
Structured deposit	10,000	–	Level 2	Discounted cash flow method – the key inputs are forward exchange rates of EUR/USD	N/A	N/A
Preferred Shares	–	1,680,356	Level 3	Discounted cash flow method and OPM – the key inputs are time to liquidity, risk-free interest rate, volatility and dividend yield	Time to liquidity 2020: 3.54 years	The longer the time to liquidity, the lower the fair value
Early exercise promissory notes receivables	38,828	44,415	Level 3	Discounted cash flow – the key inputs are time to repayment and discount rate	Time to repay: Based on the vesting term of the options of each Early Exercise Participants	The longer the time to repay, the lower the fair value
Investment in a convertible loan	20,933	–	Level 2	Recent transaction price	N/A	N/A
Investment in a private equity fund	34,535	–	Level 2	Recent transaction price	N/A	N/A
Investments in associates measured at FVTPL	9,351	–	Level 2	Recent transaction price	N/A	N/A

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurements

The reconciliation of Level 3 measurements of Preferred Shares is set out as follows:

	Preferred Shares RMB'000
At January 1, 2020	750,367
Issuance of Series D Preferred Shares	141,658
Issuance of Series E Preferred Shares	209,545
Change in fair value	578,786
At December 31, 2020	1,680,356
Change in fair value	2,757,028
Automatic conversion of Preferred Shares upon the Listing (note 28)	(4,437,384)
Unvested as at December 31, 2021	-

The reconciliation of Level 3 measurements of early exercise promissory notes receivables is set out as follows:

	Other receivables RMB'000	Amounts due from related parties RMB'000	Total RMB'000
At the date of issuance	8,926	40,195	49,121
Initial fair value charge to profit or loss (included in staff cost)	(537)	(2,702)	(3,239)
	8,389	37,493	45,882
Fair value loss on early exercise promissory notes (included in other gains and losses)	(270)	(1,197)	(1,467)
At December 31, 2020	8,119	36,296	44,415
Fair value loss on early exercise promissory notes (included in other gains and losses)	(1,102)	(4,485)	(5,587)
At December 31, 2021	7,017	31,811	38,828

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group's financial assets and financial liabilities recorded at amortised cost in these consolidated financial statements approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

35. RETIREMENT BENEFIT PLANS

The total amount provided by the Group to the schemes and charged to profit or loss are RMB11,432,000 (2020: RMB2,362,000) for the year ended December 31, 2021.

The employees of the Group's subsidiaries and consolidated affiliated entities in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. Subsidiaries and consolidated affiliated entities are required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions.

36. PARTICULARS OF SUBSIDIARIES/CONSOLIDATED AFFILIATED ENTITIES

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in laboratory testing of medical diagnostics technology for cancer screening business, Hangzhou Nuohui entered into various contractual arrangements with Beijing Xincheng (the "**Contractual Arrangement**") which held equity interest in Beijing Nuoan Medical Examination Lab Co., Ltd. ("**Beijing Nuoan Lab**"), Hangzhou Nuokang Medical Examination Lab Co., Ltd ("**Hangzhou Nuokang Lab**") and Guangzhou Nuohui Medical Examination Lab Co., Ltd ("**Guangzhou Nuohui Lab**") (collectively referred to as "**Consolidated Affiliated Entities**") and Mr. Zhu and his sister, collectively being the registered shareholders of Beijing Xincheng, through which Hangzhou Nuohui is entitled to all economic benefits generated by the business operated by Beijing Xincheng.

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

36. PARTICULARS OF SUBSIDIARIES/CONSOLIDATED AFFILIATED ENTITIES (Continued)

Hangzhou Nuohui does not have any equity interest in these Consolidated Affiliated Entities. However, the directors of the Company considered that the Contractual Arrangements enable Hangzhou Nuohui to have the power over these Consolidated Affiliated Entities, rights to variable returns from its involvement with these Consolidated Affiliated Entities and the ability to affect those returns through its power over these Consolidated Affiliated Entities and is therefore considered to have control over these Consolidated Affiliated Entities. Consequently, these Consolidated Affiliated Entities are regarded as indirect subsidiaries of the Company.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The directors of the Company, based on the advice of the legal counsel, consider that the Contractual Arrangements among the Consolidated Affiliated Entities and their legal equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

As at December 31, 2021, the Consolidated Affiliated Entities attributed approximate to 2.8% (2020: 4.1%) and 7.9% (2020: 0.2%) of total assets and total liabilities, respectively. In addition, according to the Contractual Arrangement, Hangzhou Nuohui further agreed that, when it deems necessary, it could at its sole discretion provide financial assistance to Beijing Xincheng or assist Beijing Xincheng to obtain financial assistance. During the year ended December 31, 2021, Hangzhou Nuohui provides financial assistance to Consolidated Affiliated Entities (including but not limited to purchase of services and cash advances) amounting to RMB33,107,000 (2020: RMB9,041,000) and as at December 31, 2021, the balance due from the Consolidated Affiliated Entities to Hangzhou Nuohui is RMB39,886,000 (2020: RMB15,593,000).

As at December 31, 2020 and 2021, the Group's subsidiaries/consolidated affiliated entities are as follows:

Name of subsidiary/Consolidated Affiliated Entities	Place and date of establishment/incorporation and place of operations	Issued and fully paid share/registered capital	Equity interest attributable to the Group		Principal activities
			as at December 31,		
			2021 %	2020 %	
NHJK Holding	Hong Kong May 29, 2015	1 issued share and paid-in capital of HK\$1; 59,283,357 issued shares and paid-in capital of US\$59,283,357	100	100	Investment holding company
NH Health USA Inc.	USA June 26, 2019	3,000,000 issued shares and paid-in capital of US\$3,250,001	100	100	Research & Development

Notes to Consolidated Financial Statements

For the year ended December 31, 2021

36. PARTICULARS OF SUBSIDIARIES/CONSOLIDATED AFFILIATED ENTITIES (Continued)

Name of subsidiary/Consolidated Affiliated Entities	Place and date of establishment/incorporation and place of operations	Issued and fully paid share/registered capital	Equity interest attributable to the Group		Principal activities
			as at December 31,		
			2021 %	2020 %	
Hangzhou Nuohui	The PRC November 19, 2015 (note)	Registered capital of RMB44,222,000 and paid-up capital of RMB44,222,000	100	100	Research and development of medical diagnostic technology, technical service, technical transfer, technical consultation, manufacturing and sales of medical and laboratory equipment, technological import and export
Beijing Xincheng	The PRC February 29, 2016 (note)	Registered capital of RMB12,000,000 and paid-up capital of RMB12,000,000	100	100	Investment holding company
Beijing Nuohan Lab	The PRC March 9, 2016 (note)	Registered capital of RMB6,000,000 and paid-up capital of RMB6,000,000	100	100	Development of medical diagnostics technology, technical service, technical consultation, medical services
Hangzhou Nuokang Lab	The PRC June 3, 2016 (note)	Registered capital of RMB10,000,000 and paid-up capital of RMB10,000,000	100	100	Development of medical diagnostics technology, technical service, technical consultation, manufacturing of fecal occult blood test kit
Guangzhou Nuohui Lab	The PRC May 28, 2019 (note)	Registered capital of RMB5,000,000 and paid-up capital of RMB5,000,000	100	100	Laboratory medical research and development
Shanghai Linnuo Biotechnology Limited	The PRC December 11, 2020 (note)	Registered capital of RMB5,000,000 and paid-up capital of Nil	100	100	Financing company
NHH Ventures Holding Limited	Cayman Islands August 3, 2021	8,000,000 issued shares and paid-in capital of US\$8,000	100	–	Investment company

None of the subsidiaries and consolidated affiliated entities has issued any debt securities as at December 31, 2020 and 2021.

Note: Hangzhou Nuohui, Beijing Xincheng, Beijing Nuohan Lab, Hangzhou Nuokang Lab, Guangzhou Nuohui Lab and Shanghai Linnuo Biotechnology Limited are domestic limited liability companies incorporated in PRC.

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For the year ended December 31, 2021

37. 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.

	Bank Borrowings <i>RMB'000</i>	Accrued interest expense <i>RMB'000</i>	Preferred Shares <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Amounts due to related parties <i>RMB'000</i>	Accruals for issue costs <i>RMB'000</i>	Amounts due from related parties - Mr. Zhu (non-trade) <i>RMB'000</i>	Subscription receivables from other preferred shares and ordinary shareholders <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2020	50,500	98	750,367	32,438	11	(28)	(22,738)	(14,222)	796,426
Financing cash flows	65,734	(6,865)	351,203	(9,796)	(11)	(2,771)	22,080	14,041	433,615
Interest expenses	-	7,735	-	-	-	-	-	-	7,735
New leases entered	-	-	-	10,678	-	-	-	-	10,678
Fair value changes	-	-	578,786	-	-	-	-	-	578,786
Accrued issue costs	-	-	-	-	-	5,620	-	-	5,620
Foreign exchange loss	-	-	-	-	-	-	658	181	839
At December 31, 2020	116,234	968	1,680,356	33,320	-	2,821	-	-	1,833,699
Financing cash flows	(36,736)	(8,195)	-	(14,808)	-	(112,672)	-	-	(172,411)
Interest expenses	-	7,759	-	-	-	-	-	-	7,759
New leases entered	-	-	-	24,927	-	-	-	-	24,927
Converted into ordinary shares	-	-	(1,680,356)	-	-	-	-	-	(1,680,356)
Accrued issue costs	-	-	-	-	-	109,851	-	-	109,851
At December 31, 2021	79,498	532	-	43,439	-	-	-	-	123,469

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38. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	Note	At December 31	
		2021 RMB'000	2020 RMB'000
Non-current assets			
Investments in subsidiaries		806,940	718,564
Financial assets at fair value through profit or loss		20,933	–
Other receivables		7,017	3,742
Amounts due from related parties		49,437	19,328
		884,327	741,634
Current assets			
Inventories research and development related		43,511	–
Other receivables		518	10,535
Amounts due from related parties		510	35,685
Amount due from subsidiaries		510,000	–
Time deposits over three months		1,035,235	130,498
Bank balances		545,587	297,125
		2,135,361	473,843
Current liabilities			
Other payables		100	16,210
Amount due to a subsidiary		5,050	3,485
		5,150	19,695
Net current assets		2,130,211	454,148
Total assets less current liabilities		3,014,538	1,195,782
Non-current liability			
Preferred Shares		–	1,680,356
Net assets (liabilities)		3,014,538	(484,574)
Capital and reserves			
Share capital	29	141	48
Treasury shares		(1)	(1)
Share premium		6,412,484	118,865
Reserves		(3,398,086)	(603,486)
Total equity (deficit)		3,014,538	(484,574)

Notes to Consolidated Financial Statements

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38. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY (Continued)

	Share premium RMB'000	Treasury shares RMB'000	Share-based payments reserve RMB'000	Retained earnings/ accumulated losses RMB'000	Total RMB'000
At January 1, 2020	48,227	–	12,093	32,658	92,978
Loss and total comprehensive expenses for the year	–	–	–	(641,978)	(641,978)
Recognition of equity-settled share-based payments (note 30)	–	–	14,725	–	14,725
Exercise of share options (note 30a)	67,231	–	(17,577)	–	49,654
Vesting of restricted shares	3,407	–	(3,407)	–	–
Issuance of shares held on trust (note 29v)	–	(1)	–	–	(1)
At December 31, 2020	118,865	(1)	5,834	(609,320)	(484,622)
Loss and total comprehensive expenses for the year	–	–	–	(2,803,392)	(2,803,392)
Recognition of equity-settled share-based payments (note 30)	–	–	23,849	–	23,849
Automatic conversion of Preferred Shares upon the Listing	4,437,319	–	–	–	4,437,319
Exercise of share options (note 30a)	1,044	–	(534)	–	510
Vesting of restricted shares	14,523	–	(14,523)	–	–
Issue of new shares of the Company	1,956,204	–	–	–	1,956,204
Cost of issue new shares	(115,471)	–	–	–	(115,471)
At December 31, 2021	6,412,484	(1)	14,626	(3,412,712)	3,014,397

39. SUBSEQUENT EVENTS

Except as disclosed elsewhere of the consolidated financial statements, the Group has the following subsequent events entered into subsequent to December 31, 2021:

- (a) On February 28, 2022, Ms. Leung Nisa Bernice Wing-Yu resigned as a non-executive director and a member of the audit committee of the Board (“Audit Committee”). On the same date, Mr. Yao, a non-executive director, was appointed as a member of the Audit Committee.
- (b) On March 18, 2022, the Board conditionally approved the adoption of the 2022 restricted share unit scheme (“2022 RSU Scheme”) and 2022 share option scheme (“2022 Share Option Scheme”) subject to the approval of the shareholders of the Company in the annual general meeting of the Company. Further details are set out in the Company’s announcement on the same date.