

昭衍

JOINN

北京昭衍新藥研究中心股份有限公司
JOINN LABORATORIES (CHINA) CO., LTD.

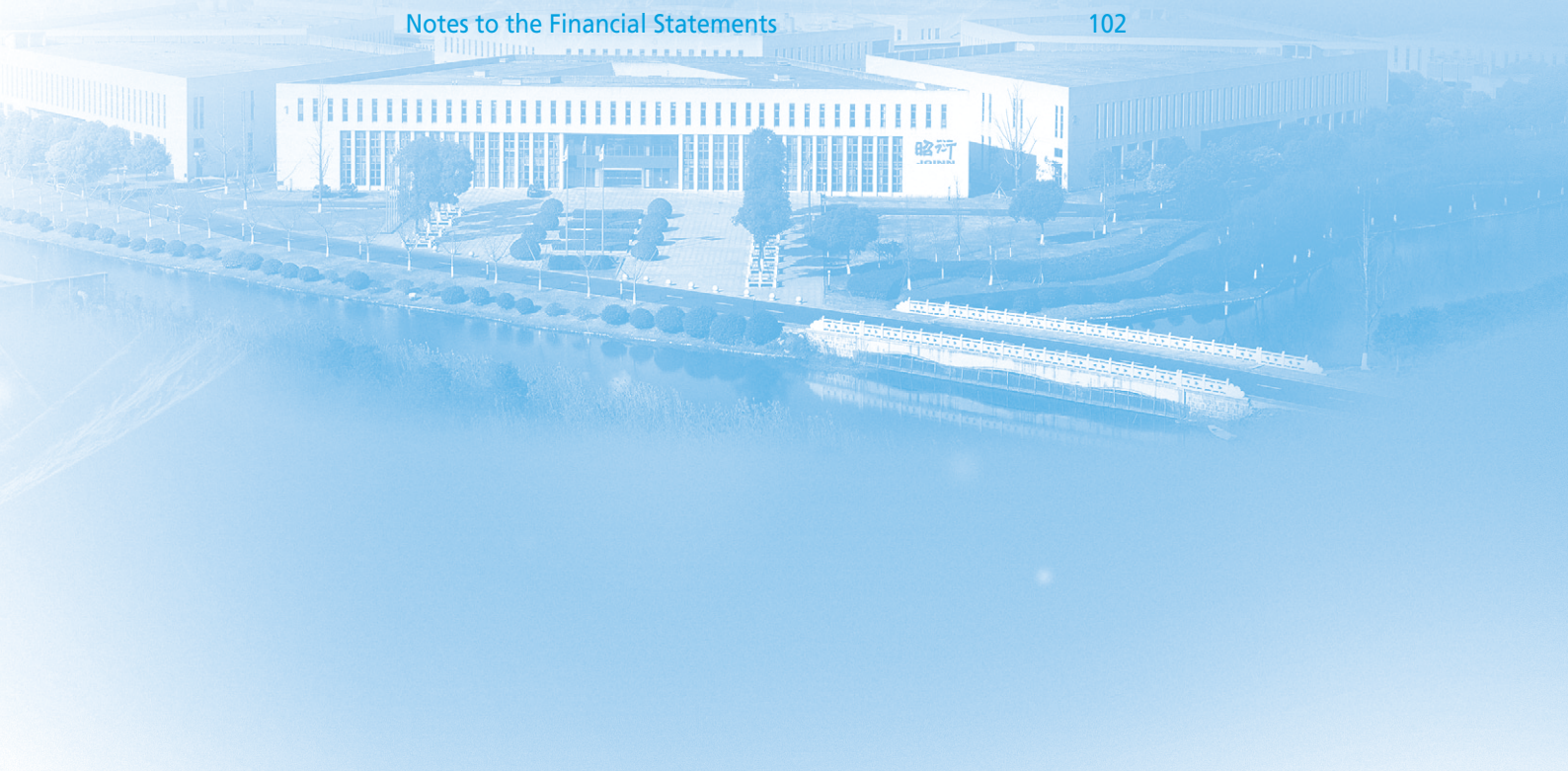
(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 6127

2021
ANNUAL
REPORT

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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.

“2018 Share Option and Restricted Share Award Scheme”	a share option and restricted share award scheme adopted and approved by the Company on February 27, 2018, the principal terms of which are set out in the Prospectus
“2019 Share Option and Restricted Share Award Scheme”	a share option and restricted share award scheme adopted and approved by the Company on August 15, 2019, the principal terms of which are set out in the Prospectus
“2020 Share Option Scheme”	a share option scheme adopted and approved by the Company on July 15, 2020, the principal terms of which are set out in the Prospectus
“A Shareholders”	holders of the A Shares
“A Shares”	ordinary shares issued by our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi and are listed for trading on the Shanghai Stock Exchange
“AGM”	annual general meeting of the Company to be held on June 24, 2022
“Articles of Association” or “Articles”	articles of association of our Company adopted on June 18, 2021, as amended from time to time
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Biomere”	Biomedical Research Models, Inc., a limited liability company incorporated in Massachusetts, the United States, on December 11, 1996 and acquired by our Company on December 10, 2019 to become a wholly-owned subsidiary of Joynn Laboratories (Delaware) Corporation, which is in turn wholly-owned by our Company
“Board”	the board of Directors of our Company
“CG Code” or “Corporate Governance Code”	the Corporate Governance Code as contained in Appendix 14 of the Listing Rules
“Chief Executive Officer”	chief executive officer of our Company

Definitions

“Chief Financial Officer”	chief financial officer of our Company
“China” or “PRC”	the 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
“Company”, “Our Company” or “JOINN”	JOINN Laboratories (China) Co., Ltd. (北京昭衍新藥研究中心股份有限公司) which was incorporated in the PRC on February 14, 2008 and converted into a joint-stock company on December 26, 2012, the A Shares of which are listed on the Shanghai Stock Exchange (Stock Code: 603127) and the H Shares of which are listed on the Hong Kong Stock Exchange (Stock Code: 6127)
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Ms. Feng and Mr. Zhou
“CSDC”	China Securities Depository and Clearing Company Limited
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the directors of the Company
“Global Offering”	the Hong Kong public offering and the international offering of the Shares
“Group”, “our Group”, “our”, “we” or “us”	the company and its subsidiaries 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, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“H Shareholders”	holders of the H Shares
“H Shares”	overseas listed foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HK\$”, “HKD” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong

Definitions

“JOINN Laboratories (CA)”	JOINN Laboratories, CA Inc., a company incorporated in California, United States on June 21, 2013, and a wholly-owned subsidiary of our Company
“JOINN Laboratories (Suzhou)”	JOINN Laboratories (Suzhou) Co., Ltd. (昭衍(蘇州)新藥研究中心有限公司), which was incorporated in the PRC on December 11, 2008 with limited liability, and a wholly-owned subsidiary of our Company
“Listing”	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	February 26, 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
“Mr. Zhou”	Mr. Zhou Zhiwen (周志文), a Controlling Shareholder and the spouse of Ms. Feng
“Ms. Feng”	Ms. Feng Yuxia (馮宇霞), a Controlling Shareholder, the chairperson of the Board and an executive Director of our Company, and the spouse of Mr. Zhou
“PMDA”	Pharmaceutical and Medical Device Act of Japan
“Post-IPO Restricted Award Scheme and ESOP”	2021 Restricted A Share Incentive Scheme and 2021 A Share Employee Stock Ownership Plan
“PPP”	Paycheck Protection Program
“Pre-IPO Share Option and Restricted Share Award Schemes”	the 2018 Share Option and Restricted Share Award Scheme, the 2019 Share Option and Restricted Share Award Scheme and the 2020 Share Option Scheme
“Prospectus”	the prospectus of the Company dated February 16, 2021
“Relevant Period”	the period from the Listing Date to the date of this report
“Reporting Period”	the year ended December 31, 2021
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RSU(s)”	restricted share awards granted pursuant to the Pre-IPO Share Option and Restricted Share Award Schemes

Definitions

“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	shares (including the A Shares and the H Shares) in the share capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of our Share(s)
“Staidson”	Staidson (Beijing) Biopharmaceuticals Co., Ltd. (舒泰神(北京)生物製藥股份有限公司), a joint stock limited company incorporated under the laws of the PRC on August 16, 2002 and whose shares are listed on the Shenzhen Stock Exchange (stock code: 300204), which is held as to 40.29% in aggregate by Mr. Zhou and Ms. Feng, which includes 37.21% by Yizhao (Beijing) Medical Science & Technology Co., Ltd. (燿昭(北京)醫藥科技有限公司) (which is directly held as to 47.60% by Mr. Zhou and 37.40% by Ms. Feng, respectively), 1.97% by Mr. Zhou through Huatai Securities Asset Management – China Merchants Bank – Huatai – Juli Collective Asset Management Scheme No. 16 (華泰證券資管 – 招商銀行 – 華泰聚力16號集合資產管理計劃), and 1.11% by Mr. Zhou directly. Mr. Zhou is also the chairperson of the board of directors and legal representative of Staidson
“Staidson Group”	Staidson and its subsidiaries
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	member(s) of our supervisory committee
“Suzhou Qichen”	Qichen (Suzhou) Biological Science and Technology Co., Ltd., a subsidiary of the Company
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD”	United States dollar(s), the lawful currency of the United States

Glossary of Technical Terms

“ADC”	antibody drug conjugate
“antibody”	means a large, Y-shaped protein produced mainly by plasma cells that is used by the immune system to identify and neutralize pathogens such as bacteria and viruses
“assay”	means an investigative analytical process in medicine, pharmacology or biology that aims to identify either the qualitative or quantitative presence or function of the analytical target, which can be a drug or biochemical substance or a cell in an organism or organic sample
“CAR-T cell”	chimeric antigen receptor T cells, T cells that have been genetically engineered to produce an artificial T-cell receptor for use in immunotherapy
“CBA”	cell-based assay
“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
“DMPK”	means Drug Metabolism and Pharmacokinetics, studies designed to determine the absorption and distribution of an administered drug, the rate at which a drug takes effect, the duration a drug maintains its effects and what happens to the drug after being metabolized by the body
“drug discovery”	means the process through which potential new medicines are identified and may involve a wide range of scientific disciplines, including biology, chemistry and pharmacology
“GFA”	gross floor area
“GLP”	good laboratory practice
“in vitro”	means “in glass” in Latin, studies in vitro are conducted outside of a living organism in a laboratory environment using test tubes, petri dishes, etc. using components of an organism that have been isolated from their usual biological surroundings, such as microorganisms, cells or biological molecules

Glossary of Technical Terms

“metabolism”

means the chemical processes that occur within a living organism in order to maintain life, comprising catabolism (breakdown of large molecules into components) and anabolism (the synthesis of smaller molecules into larger ones with specific structures, characteristics and purposes)

“pharmacology”

means the branch of medicine concerned with the uses, effects, and modes of action of drugs

“R&D”

means research and development

“validation”

means a process that involves performing laboratory tests to verify that a particular instrument program, or measurement technique is working properly and is capable of being relied upon

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Feng Yuxia (*Chairperson of the Board*)
Mr. Zuo Conglin
Mr. Gao Dapeng
Ms. Sun Yunxia
Dr. Yao Dalin

Non-executive Director

Mr. Gu Xiaolei

Independent Non-executive Directors

Mr. Sun Mingcheng
Dr. Zhai Yonggong
Mr. Ou Xiaojie
Mr. Zhang Fan

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

A5 Rongjing East Street
Beijing Economic-Technological
Development Area
Beijing, 100176, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

A5 Rongjing East Street
Beijing Economic-Technological
Development Area
Beijing, 100176, China

H SHARE REGISTRAR

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

COMPLIANCE ADVISOR

Anglo Chinese Corporate Finance, Limited
40/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

JOINT COMPANY SECRETARIES

Mr. Gao Dapeng
Mr. Ng Cheuk Ming (*ACG, ACS*)

AUTHORIZED REPRESENTATIVES

Ms. Feng Yuxia
Mr. Ng Cheuk Ming

AUDIT COMMITTEE

Mr. Sun Mingcheng (*Chairperson*)
Dr. Zhai Yonggong
Mr. Zhang Fan

REMUNERATION AND EVALUATION COMMITTEE

Mr. Ou Xiaojie (*Chairperson*)
Mr. Sun Mingcheng
Mr. Zuo Conglin

NOMINATION COMMITTEE

Dr. Zhai Yonggong (*Chairperson*)
Mr. Ou Xiaojie
Ms. Feng Yuxia

Corporate Information

STRATEGIC DEVELOPMENT COMMITTEE

Ms. Feng Yuxia (*Chairperson*)
Mr. Zuo Conglin
Mr. Gu Xiaolei
Ms. Sun Yunxia
Mr. Ou Xiaojie

STOCK CODE

Hong Kong Stock Exchange
(H Shares): 6127
Shanghai Stock Exchange
(A Shares): 603127

AUDITOR

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

LEGAL ADVISOR TO OUR COMPANY

As to Hong Kong law
Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law
Llinks Law Office
4F, China Resources Building,
8 Jianguomenbei Avenue,
Beijing, PRC

COMPANY'S WEBSITE

www.joinn-lab.com

Financial Summary

	For the year ended December 31,				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Operating results					
Revenue	1,516,680	1,075,905	639,379	408,798	301,279
Gross profit	735,678	550,625	328,786	208,659	165,665
Profit for the year	556,417	311,564	187,677	105,320	79,917
Profit for the year attributable to equity shareholders of the Company	557,460	312,950	187,838	105,471	79,917
Profitability					
Gross profit margin	48.51%	51.18%	51.42%	51.04%	54.99%
Profit margin for the year	36.69%	28.96%	29.35%	25.76%	26.53%
Earnings per share					
Basic (RMB)	1.51	0.99	0.59	0.34	0.31
Diluted (RMB)	1.50	0.98	0.59	0.34	0.31
	At December 31,				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	8,537,077	2,172,902	1,570,141	1,176,976	974,126
Total liabilities	1,392,641	951,093	720,196	509,556	397,571
Net assets	7,144,436	1,221,809	849,945	667,420	576,555
Equity attributable to the equity shareholders of the Company	7,136,214	1,222,544	849,200	667,219	576,203

Chairperson's Statement

In 2021, the COVID-19 pandemic still continued such that the global economy faced huge shocks and tests. The biopharmaceutical industry also faced many difficulties such as the untimely supply of raw materials for production. In order to promote and accelerate the research and development of COVID-19 drugs, the Company has used all internal and external resources, and our technical employees worked overtime to race against time, fight against the pandemic and utilize every minute, demonstrating the social responsibility and undertaking of the leading enterprise in the industry.

In February 2021, JOINN successfully listed on the main board of the Stock Exchange and became a "A+H" CRO enterprise. By virtue of the funds raised from this listing, we intend to further expand the business production capacities of our subsidiaries in the PRC and the United States, extend clinical trials and related services, increase the potential subject acquisitions in the domestic and overseas, and lay a solid foundation for the Company's sustainable growth in the future. At the same time, the Company begun to distribute drugs in the CDMO and CRO service fields and operate the business of early screening of new drugs to broaden the service chain.

In 2021, all employees of JOINN firmly implemented the long-term development strategy and adhered to the customer service first. Under the regulatory support to early R&D and innovative enterprises and the clinical needs-oriented, we have provided planning consultation and technical support in the whole process of R&D, and used the comprehensive platform advantages of the Company to help R&D enterprises to complete the evaluation work in the shortest time, and to accelerate the promotion of products to the clinical. In the meanwhile, the Company implements firmly the development strategy of empowerment and innovation, closely tracks new technologies and new targets developed at home and abroad, and have constantly expanded the new fields and obtained new technologies, so that drugs evaluation technology of JOINN has always been at the forefront of the industry. In 2021, the Company served more than 750 customers throughout the year, including more than 230 customers newly signed contracts with us. During the Reporting Period, the Company's various business segments and operating results maintained rapid growth. In 2021, the revenue increased by about 41% year-on-year, and the profit for the year attributable to the equity shareholders increased by approximately 78% year-on-year. As of the end of the Reporting Period, the Company's overall orders on hand amounted to approximately RMB2.9 billion, increasing approximately 67% compared with the last year.

JOINN will continue to focus on safety assessment and monitoring of drug full-life cycle in the future, and concentrate on the non-clinical assessment business of drugs. At the same time, the Company continuously researches and develops new technologies, expands new service capabilities, and actively integrates industrial resources, develops and deploys new business capabilities and service models while the core business has the steady development; and the Company constantly enhances management and operation capabilities, releases our production capacity to the greatest extent, improves the comprehensive profitability, and ensures the stable operation and sustainable development of the Company in the future.

Ms. Feng Yuxia

Chairperson of the Board

Hong Kong, March 30, 2022

Management Discussion and Analysis

I. BUSINESS OVERVIEW

(I) Talent Development

With the intention of adapting to the continuous growth of business and orders of the Company, we keep expanding our work force. As of December 31, 2021, we have a professional service team of 2,100-plus people. The number and technical capabilities of the non-clinical research service team have been further improved, whilst our clinical trial service team has also been further enriched. Meanwhile, as our branches and subsidiaries grow up, we continue to optimize the organizational structure as well, refine the job responsibilities and streamline the management processes. With an ever-growing team of technicians, we have built a robust technical training system, which has improved the efficiency and effectiveness of training by combining online learning and theoretical tests with offline technical tests. As a result, the technicians have sharpened their skills quickly. Meanwhile, the Company has further optimized the compensation system and widened the coverage of equity incentives. Motivated by competitive packages, the staff shows a significantly heightened sense of ownership. The talent pipeline has remained stable and continued growing, driven by the Company's people-oriented philosophy, and higher initiative and solidarity among the staff.

(II) Production Capacity Expansion

The Company has in place a full-fledged capacity supporting facility expansion plan. As per the plan, JOINN Laboratories (Suzhou), Co., Ltd. ("JOINN Laboratories (Suzhou)") started fitting up an approximately 7,500-square-meter animal breeding facility in 2021, and the facility was completed and put into use by the end of the year. Meanwhile, a 1,800-square-meter laboratory (P2) was fit up and granted Biosafety Level 2 (BSL-2) laboratory certification. In addition, JOINN Laboratories (Suzhou) commenced the Phase II expansion project on the existing land, in order to support continued fast business growth and the ever-increasing demand for laboratory experiments of the Company in the future. The additional designed gross floor area is approximately 20,000 square meters, mainly intended for animal breeding facilities, plus auxiliary facilities including a new power center and IT machine room. The structure was completed by the end of 2021 and is expected to be available for use in the second half of 2022. The new facility is expected to further scale up the Company's business throughput and lay a solid foundation for business execution and growth in the future. The Company partnered with Jiangsu Sinotau Molecular Imaging Technology Co., Ltd. on jointly investing in and building a state-of-the-art radiopharmaceutical evaluation center in Wuxi, to meet the demand for radiopharmaceutical research and development in China. The structure of the main building was completed during the Reporting Period and interior decoration of the laboratory is in progress. Construction of JOINN's drug safety assessment center in Guangzhou commenced in October 2021 and is progressing well currently.

To further develop overseas business and ease the tension in the facilities of the overseas subsidiary Biomedical Research Models, Inc. ("Biomere"), Joinn Laboratories, CA Inc. (JOINN Laboratories (CA)) has newly fit up and put into use a laboratory facility of about 6,000 square meters in 2021.

(III) Business Capacity Development

1. *Drug Non-clinical Business:*

2021 marks the start of China's 14th Five-Year Plan ("14th FYP"). By capitalizing on the achievements in building major new drug creation platforms during the 13th FYP period, the Company has further extended the depth and in particular the breadth of innovative drug research and evaluation capabilities. In response to the requirements for new hot spots, new technologies, new targets and critical technologies coming with innovative drugs, the Company has carried out non-clinical evaluation of numerous original new drugs created in China, in a wide range of fields, including innovative cell therapy (including new targets, multi-target CAR-T), bispecific antibody and multi-target antibody, innovative antibody drug conjugate (ADC), gene therapy, nucleotide drugs, innovative technical route-based vaccines and innovative inhalational macromolecular drugs. Built on the existing integrated non-clinical evaluation platform, the Company has built up its capabilities and enhanced its technologies in varied technical fields, in support of innovative drug research and development. With respect to the capabilities of the pharmacology and pharmacodynamics platform, for example, more than 10 disease models have been created, tested and proven for the pharmacodynamic evaluation of a number of drugs of innovative targets and innovative mechanisms. In the area of ophthalmic drug evaluation, the ophthalmology team has been further beefed up, and practiced special administration routes of ophthalmic drugs and new ophthalmic disease models. In the area of inhalational drug evaluation, the Company's laboratory is furnished with inhalation exposure devices featuring the largest throughput in China and is the first in the country to perform the evaluation of innovative inhalational macromolecular drugs. Non-clinical evaluation of a variety of inhalants, including DPI, MDI and Nebulized, has been done. The assay of small nucleic acid-based drugs has been a technical challenge to the industry for many years. A general technical platform for in-vivo concentration assay of nucleotide drugs has been built to drive bioanalysis and bioassay of nucleic acid drugs. In addition, a professional team for pre-clinical evaluation of radiopharmaceuticals, made up of experts in molecular imaging, radiolabelling, experimental animals, pharmacology and toxicology, and assay and analysis, has been formed to meet the demand for non-clinical evaluation of radiopharmaceuticals in China.

The Company also attaches importance to information technology and automation capabilities. The Laboratory Information Management System (LIMS) has been upgraded with a new data acquisition module. At the same time, new document management and employee training systems have been implemented to realize online lifecycle management of quality documents, as well as efficient presentation of training programs and results. The said capabilities can serve to further improve service capabilities and better satisfy customer needs.

Both the Company and JOINN Laboratories (Suzhou), a subsidiary, passed a good laboratory practice (GLP) inspection by Japan's Pharmaceutical and Medical Device Act (PMDA) in December 2021. It marked the first ever GLP inspection of non-clinical Contract Research Organization (CRO) in China by Japan's PMDA. The inspectors from the PMDA concluded that both the laboratory systems and data quality of the Company are GLP-compliant. By passing the inspection, the Company is in a better position to tap into foreign customers.

Management Discussion and Analysis

2. *Drug Clinical Trial Services:*

In spite of the impact of sporadic COVID-19 outbreaks from time to time, the Company has seen its clinical CRO business growing and its customer base expanding. By providing registration and filing services and discussing clinical solutions, the Company has built up its business from nothing and earned the trust of more and more customers.

The clinical sample trial segment has undertaken and performed clinical sample trials of numerous innovative drugs, covering the analysis of clinical samples of drugs in gene and cell therapies, bispecific antibody drugs, monoclonal antibody (mAb) drugs for innovative targets, preventive biological products, and small molecule drugs for innovative targets, as well as the study of metabolism of small molecule drugs. Most of the aforesaid projects commenced clinical sample trials upon completion of non-clinical evaluation by the Company. The transfer of methodologies related to these activities is completed by the Company internally, resulting in a much shorter lead time required by methodology development and validation, as well as significant time and energy savings for customers on coordinating the transfer of methodologies among different laboratories. In 2021, JOINN's clinical trial laboratory passed dozens of quality system and comprehensive competency audits by both Chinese and foreign customers, and fully demonstrated the capabilities of its platform. The Company passed the COVID-19 nucleic acid testing capability certification organized by the National Institute of Metrology, China in June 2021; obtained Zhongguancun High-tech Enterprise qualification from the Zhongguancun Science and Technology Park Management Committee in November 2021; and passed 14 external quality assessment (EQA) items by Beijing Center for Clinical Laboratory at the end of 2021, covering internal secretion, special proteins, tumor markers, hepatitis markers, and nucleic acid testing (virological and non-virological).

3. *Cell-based Assay (CBA) Services:*

To meet the demand for cell strain and cell bank quality testing in macromolecule production in China, the Company recruited technical resources of expertise and formed a CBA team in 2021. Built on the existing platforms in Beijing and Taicang, the Company has put in place a full-fledged CBA laboratory system, encompassing a wide range of assays including cell identification, bacteria and fungi assay, mycoplasma assay, intracellular and extracellular virus assay (in vitro/in vivo methods), and cell tumorigenic experiments. Validation has been completed. CBA business is expected to become a new growth pole in the future.

4. *Research Model Study:*

In 2021, Qichen (Suzhou) Biological Science and Technology Co., Ltd. (“Suzhou Qichen”), a subsidiary of the Company, produced the first group of somatic cell cloned Bama pigs and mice via its mammal somatic-cell cloning technology platform. Meanwhile, seeing the deficiency of disease models suited to the research and development of those drugs for treating rare diseases and those involving cutting-edge technologies, Suzhou Qichen has successfully created gene-edited cell lines, gene-edited mouse models and gene-edited dog models, among a collection of models, targeting different diseases, with its gene editing platform. These models have been applied to non-clinical evaluation of drugs and provided strong support to the research and development of innovative drugs. JOINN has surmounted numerous technical challenges by fully integrating Suzhou Qichen’s capabilities in, for example, the molecular biology platform, the mammal gene editing platform and the cloning technology platform, and applying new technologies and approaches to the evaluation of innovative drugs. These efforts have not only advanced the Company’s innovation capability, but also sharpened the comprehensive capacity and core competitive strength of its non-clinical evaluation platform, and offered more powerful technical support to pharmaceuticals research and development in China and even the world.

The construction of the Wuzhou base is progressing in an orderly manner. Main works of several buildings for production use, including a breeding facility, an office building in the factory and a feed room, have been completed, while decorations of the rest facilities are being wrapped up.

(IV) **Implementation of Featured Experiments**

Implementation of evaluation in featured areas: In 2021, against the backdrop of a shortage of research models, the Company took the number of newly launched, completed and in-progress projects to the next level, thanks to continued efforts on resource allocation, proper planning and integrated management. As of the end of the Reporting Period, the Company had orders in hand worth about RMB2.9 billion in total, offering guarantee to future business performance.

(V) **Marketing**

The Company is unswervingly committed to technical innovation and is the first in the industry to build and standardize a technical platform for innovative drug evaluation. By constantly stepping up support to the research and development of innovative drugs and original innovations in new technical platforms, the Company is highly trusted by innovation-driven R&D organizations. Orders awarded to the Group were worth more than RMB2.8 billion in total in 2021. Of the total, the value of orders undertaken by China-based companies was more than RMB2.5 billion, continuing to present an impressive 65% year-on-year growth; orders undertaken by Biomere, an overseas subsidiary, amounted to about RMB280 million, representing a remarkable year-on-year jump by about 75%. Marketing actions high on the agenda aligned with the Company’s strategies in 2021 are detailed as follows:

1. Continue to maintain an unassailable lead in the core business line of non-clinical evaluation, broaden the customer base and pursue awareness of and trust in JOINN among all innovative pharmaceutical companies in China;

Management Discussion and Analysis

2. Have an insight into the latest developments in the research of the Company's core business lines, by keeping abreast with new technologies and new targets developed in China and elsewhere. In particular, legal aid and technical support throughout the R&D process should be provided, at the early stage, to original innovators in the fields of innovative cell therapy (including new targets, multi-target CAR-T), bispecific antibody and multi-target antibody, innovative ADC, cell therapy and gene therapy, nucleotide drugs, innovative technical route-based vaccines and innovative inhalational macromolecular drugs. In this way, the customers may have a full understanding of the legal and regulatory requirements for non-clinical drug evaluation. The Company can make use of the resources of its comprehensive platform to help R&D organizations complete evaluation in the shortest possible time and start clinical trials of their products;
3. Step up marketing and publicity efforts in the new business segments, including hospital bases, clinical trials, clinical assays and CBA, and achieve the awareness of JOINN's business lines among more target customers through more intensive online and offline promotions;
4. Strengthen synergy among the existing business lines. The sales force should be consolidated to make the most of the Company's market position in the non-clinical business sector and privileged access to project resources, grow and strengthen the upstream and downstream segments along the business chain, and offer high-quality one-stop services to the customers. These include JOINN's biomacromolecule Contract Development Manufacturing Organization (CDMO), non-clinical evaluation, CBA, clinical CRO, and clinical assay. This way can lead to time saving and efficiency improvement;
5. Continually increase international orders. The early detection business of Biomere and the non-clinical evaluation business of JOINN in China constitute the upstream and downstream of the drug evaluation chain. Thanks to the good reputation and credit standing of Biomere in the US, combined with JOINN's large-sized laboratory and quality system compliant with global standards, it is possible to achieve synergy and mutual growth of business in both China and the US, and bring in more orders to Biomere and JOINN in the international market. In 2021, Biomere continued to deliver strong performance and improving gross margin. It received orders to the total amount of about RMB280 million in the year, marking a 75% year-on-year jump; while JOINN's China-based members received international orders worth about RMB160 million, surging more than 100% year on year, and showing a sustained strong uptrend.

(VI) Initial Public Offering of H Shares, a Spur to Internationalization

In light of its internationalization strategy, the Company went public on the main board of The Stock Exchange of Hong Kong Limited on February 26, 2021. Following the listing of its H shares, the Company will be able to make the most of the Hong Kong capital market as a platform and avail itself of the support from foreign investors, to broaden its global footprint, enhance its global pharmaceuticals R&D service capabilities and prop up new drug R&D efforts of its customers around the globe.

Impact of the COVID-19 Pandemic

An outbreak of 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. The Chinese government has again implemented significant regional travel restrictions in response to the outbreak of the Delta variant since July 2021 and the Omicron variant since November 2021.

Management Discussion and Analysis

Despite the foregoing, our revenue for the year ended December 31, 2021, being approximately RMB1,516.7 million, increased by 41.0% as compared to approximately RMB1,075.9 million for the year ended December 31, 2020. The pandemic did not have a material adverse effect on the Group's business operations for 2021. As the future impact of COVID-19 remains uncertain, we expect our business operations will continue to be subject to potential impact of the COVID-19 pandemic.

As at the date of this report, there has not been any cancellation of any of our ongoing projects, material issues with collection of customer receivables, or material disputes with any customers as a result of the COVID-19 outbreak. We will continue to implement our remedial measures and may implement additional measures as necessary to ease the impact of the COVID-19 outbreak on our operations. However, we cannot guarantee you that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial position or prospects.

II. 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, revenue generated from our non-clinical studies services accounted for substantially all of our total revenue. The Group's revenue for the year ended December 31, 2021 was RMB1,516.7 million, representing an increase of 41.0% compared to RMB1,075.9 million for the year ended December 31, 2020. The increase was primarily attributable to the expansion of our business.

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

	For the year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Non-clinical studies services	1,482,615	97.8	1,052,760	97.8
Clinical trial and related services	30,514	2.0	20,976	2.0
Sales of research models	3,551	0.2	2,169	0.2
Total revenue	1,516,680	100.0	1,075,905	100.0

Management Discussion and Analysis

Cost of Services

Our cost of services primarily consists of direct labor costs, cost of supplies and overhead costs.

The Group's cost of services for the year ended December 31, 2021 was RMB781.0 million, representing an increase of 48.7% compared to RMB525.3 million for the year ended December 31, 2020, which was largely in line with our revenue growth and the increase of price of research models.

The table below sets forth a breakdown of our cost of services by service lines, in absolute amount and as percentage of our total cost of services for the periods indicated:

	For the year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Non-clinical studies services	759,037	97.2	512,454	97.6
Clinical trial and related services	20,051	2.6	11,275	2.1
Sales of research models	1,914	0.2	1,551	0.3
Total cost of services	781,002	100.0	525,280	100.0

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of services, and 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 was RMB735.7 million and 48.5%, respectively, as compared to RMB550.6 million and 51.2%, respectively, for the year ended December 31, 2020. The increase in gross profit was mainly driven by our increased gross profit of our non-clinical studies services, which accounted for substantially all of our total revenue during the Reporting Period. Our gross profit margin slightly decreased for the year ended December 31, 2021, primarily due to the increase of cost of services discussed above.

Other Gains and Losses, Net

For the year ended December 31, 2021, other gains and losses, net was RMB113.4 million, represent an increasing of 257.6% as compared to RMB31.7 million for the year ended December 31, 2020. The increase in other gains and losses, net was primarily due to reasons as follows:

- For the year ended December 31, 2021, the government grants was RMB41.4 million, representing an increase of 49.3% as compared to RMB27.7 million for the year ended December 31, 2020. The increase was primarily due to the exemption of Paycheck Protection Program (PPP) loan of the subsidiary.

Management Discussion and Analysis

- For the year ended December 31, 2021, the interest income was RMB83.7 million, representing an increase of 3,932.9% as compared to RMB2.1 million for the year ended December 31, 2020. The interest income was primarily due to the funds from the global offering of H shares of the Company and the continuous improvement of the ability of capital management.
- For the year ended December 31, 2021, the net foreign exchange loss was RMB60.3 million, representing a massive loss as compared to the foreign exchange loss of RMB3.4 million for the year ended December 31, 2020. The net foreign exchange loss was primarily due to the foreign exchange settlement of funds from the global offering of H Shares of the Company.
- For the year ended December 31, 2021, the change in fair value of financial assets at FVTPL was RMB49.9 million, representing an increase of 769.4% as compared to RMB5.7 million for the year ended December 31, 2020. The increase was primarily due to the fair value appreciation of the equity investment in Changchun BCHT Biotechnology Co..

Gains arising from changes in fair value of biological assets

For research models that remained as our biological assets at the end of the Reporting Period, we recognized gain of RMB125.3 million arising from changes in fair value of biological assets for the year ended December 31, 2021, representing an increase of 129.0% compared to RMB54.7 million for the year ended December 31, 2020. The increase of gains arising from changes in fair value of biological assets was mainly due to the increase in unit fair value of biological assets in line with the increasing market price of research models.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of staff costs relating to our marketing and business development personnel, office expenses, and others such as marketing and promotion fees, travel, conference and event expenses, incurred by our own sales and marketing personnel in connection with our business development activities.

The Group's selling and marketing expenses for the year ended December 31, 2021 was RMB16.0 million, representing an increase of 23.8% compared to RMB12.9 million for the year ended December 31, 2020. Our selling and marketing expenses remained relatively stable for the year ended December 31, 2021.

General and Administrative Expenses

Our general and administrative expenses primarily consist of staff costs relating to our administrative and management personnel, office expenses, depreciation and amortization expenses, expenses for research models, equity-settled share-based payment expenses, and others. The Group's general and administrative expenses for the year ended December 31, 2021 was RMB264.3 million, representing an increase of 25.0% compared to RMB211.5 million for the year ended December 31, 2020. Our general and administrative expenses remained relatively stable for the year ended December 31, 2021.

Management Discussion and Analysis

Research and Development Expenses

The research and development expenses for our Group primarily consist of staff costs relating to our R&D personnel and cost of raw materials used for R&D.

The Group's research and development expenses for the year ended December 31, 2021 was RMB47.8 million, representing a decrease of 5.7% compared to RMB50.7 million for the year ended December 31, 2020. Our research and development expenses remained relatively stable for the year ended December 31, 2021.

Finance Costs

The Group's finance costs for the year ended December 31, 2021 was RMB4.0 million, representing an increase of 12.5% compared to RMB3.5 million for the year ended December 31, 2020. Our finance costs remained relatively stable for the year ended December 31, 2021.

Income Tax Expense

The Group's income tax expense for the year ended December 31, 2021 was RMB85.6 million, representing an increase of 82.3% compared to RMB46.9 million for the year ended December 31, 2020. The increase was primarily due to the increased profit generated by the growth of our business.

The Group's effective tax rate for the year ended December 31, 2021 was 13.3% and remained relatively stable compared with 13.1% for the year ended December 31, 2020.

Profit for the Year

As a result of the foregoing reasons, our profit for the year increased by 78.6% from RMB311.6 million for the year ended December 31, 2020 to RMB556.4 million for the year ended December 31, 2021. Our net profit margin increased from 29.0% for the year ended December 31, 2020 to 36.7% for the year ended December 31, 2021, primarily due to the continuous improvement in our operating efficiency and increased other gains and losses, net and gains arising from changes in fair value of biological assets discussed above.

BIOLOGICAL ASSETS

Information about the Independent Appraiser of Our Biological Assets

For the year ended December 31, 2021, our biological assets mainly consist of non-human primate research models hosted at our Nanning facilities primarily for scientific research and breeding purposes. Our biological assets are used for our non-clinical studies services, which are classified as current assets, and for purposes of breeding, which are classified as non-current assets.

Our biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"), which is an independent professional appraiser not connected with us and has extensive experience in valuation of biological assets. The key appraiser of the JLL team is Mr. Simon M.K. Chan. Based on market reputation, track record in biological asset valuation and relevant background research, our Directors are satisfied that JLL is independent from us and is competent in conducting a valuation on our biological assets.

Valuation Methodology

In arriving at the assessed value, two generally accepted approaches have been considered, namely, the market approach and depreciated replacement cost approach.

A market approach is adopted to value non-human primate research models at the age of 5 or lower, which is usually used for experiment. This approach was adopted because recent market prices for this age group of non-human primate research models exist near the valuation dates. The fair values of non-human primate research models at the age of 5 or lower were developed through the application of market approach with reasonable adjustments to reflect age differences.

A depreciated replacement cost approach is adopted to value non-human primate research models at the age above 5 for males and females respectively, which can be used for both breeding and experiment while predominantly are used for breeding according to the market practice, since there are no active market for these age group. The valuation of this age group was arrived based on the market prices of non-human primate research models at the age of 5 with adjustment for the reduction or consumption of breeding useful lives of the non-human primate research models, as well as reasonable adjustment to reflect gender differences.

Key Assumptions and Inputs

The key input and assumption made for valuing our biological assets include the following:

- classification of our Company's biological assets according to their age and gender;
- quantity of each category of our biological assets at each valuation date;
- unit market price of key valuation input at each valuation date;
- cost for raising the non-human primate research models;
- residual breeding useful lives of non-human primate research models, which its fertility will be greatly reduced normally at the age of 15; and
- there are no hidden or unexpected conditions associated with our business that might adversely affect the reported values.

The following factors form an integral part of the bases of JLL's opinion:

- assumptions on the market and the asset that are considered to be fair and reasonable;
- consideration and analysis on the micro and macro economy affecting our biological assets;
- analysis on tactical planning, management standard and synergy of the biological assets;
- analytical review of the biological assets; and
- assessment of the liquidity of the biological assets.

Management Discussion and Analysis

Sensitivity Analysis

The following table indicates the instantaneous change in the value of our biological assets that would arise if the key inputs for valuation as of December 31, 2021 had changed at that date, assuming all other risk variables remained constant:

% change in unit market price of Male non-human primate research model at age of 3-5	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(40,431)	(26,954)	(13,477)	13,477	26,954	40,431
% change in unit market price of Female non-human primate research model at age of 3-5	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(29,997)	(19,998)	(9,999)	9,999	19,998	29,997
% change in costs for raising cynomolgus monkeys to the age of 3	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	8,438	5,610	2,798	(2,782)	(5,550)	(8,302)
% change in end of the breeding useful lives	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(23,590)	(16,317)	(7,874)	5,719	9,968	13,236

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. To maintain or realign our capital structure, the Group may raise capital by way of bank loans or issuance of equity or convertible bonds.

Liquidity and Financial Resources

The Group's cash and cash equivalent as at December 31, 2021 were RMB4,154.1 million, representing an increase of 1,245.7% compared to RMB308.7 million for the year ended December 31, 2020. The increase was primarily attributable to the funds from the global offering of H shares of the Company.

The Group's liquidity remains strong. During the Reporting Period, the Group's primary source of funds was from its ordinary course of business, including payments received from our customers for our services in non-clinical studies and the global offering of H shares of the Company.

Management Discussion and Analysis

Gearing ratio

The gearing ratio (calculated by interest-bearing bank borrowings divided by total equity) of the Group as at December 31, 2021 was 0.1%, representing a decrease of 1.9% compared to 2.0% for the year ended December 31, 2020.

Significant Investments, Material Acquisition and Disposals

There were no significant investments, material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended December 31, 2021.

Charge on Assets

As at December 31, 2021, there was no material charge on assets of the Group.

Contingent Liabilities

As of December 31, 2021, we did not have any material contingent liabilities.

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, preferred shares and gross obligation from share purchase option written 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.

Share Pledge

During the Reporting Period, there is no pledge by our Controlling Shareholders of their interests in the Shares to secure the Company's debts or to secure guarantees or other support of its obligation.

Subsequent Events After the Reporting Period

Grant of Restricted A Shares under the 2021 Restricted A Share Incentive Scheme

On January 28, 2022, an aggregate of 675,400 restricted A shares were entitled to 505 participants who have fulfilled the grant conditions stipulated under the 2021 Restricted A Share Incentive Scheme and none of them is a Director, chief executive or substantial shareholder of the Company or an associate of any of them with the grant price of RMB83.97 per A Share. For details, please refer to the announcement made by the Company on January 28, 2022.

Management Discussion and Analysis

Convening of the First Extraordinary General Meeting of 2022, the First A Share Class Meeting for 2022 and the First H Share Class Meeting for 2022

The first extraordinary general meeting of 2022, the first A Share class meeting for 2022 and the first H Share class meeting for 2022 was held on January 19, 2022 and all the proposed resolutions are approved in the respective meetings.

In the first extraordinary general meeting of 2022, the ordinary resolutions including (1) the adoption of the 2021 A Share Employee Stock Ownership Plan; (2) the proposed adoption of the Administrative Measures on the 2021 A Share Employee Stock Ownership Plan; (3) the proposed authorization to the Board to deal with matters in relation to the 2021 A Share Employee Stock Ownership Plan; (4) the connected transaction in relation to purchase of Series B+ Preferred Shares in JOINN Biologics Inc.; (5) the proposed capital increase in relevant wholly-owned domestic subsidiaries by the Company; (6) the proposed capital increase in the wholly-owned subsidiary, JOINN Laboratories, CA Inc., by the Company; (7) the proposed establishment of a wholly-owned subsidiary, Biomere-Joinn (CA), Inc., by the Company; (8) the proposed investment in Jiangsu Sinotau Molecular Imaging Technology Co., Ltd. by the Company; and (9) the proposed establishment of a subsidiary, Wuxi JOINN Molecular Imaging Technology Co., Ltd., by the Company, and the special resolutions including (1) the adoption of the 2021 Restricted A Share Incentive Scheme including the issuance of Restricted A Shares under specific mandate; (2) the adoption of the Assessment Administrative Measures on the Implementation of the 2021 Restricted A Share Incentive Scheme; (3) to authorize the Board to deal with matters in relation to the 2021 Restricted A Share Incentive Scheme; and (4) to authorize the Board to repurchase A Shares and H Shares of the Company have been approved.

As to the content of the resolutions mentioned above, please refer to the circular of the Company dated December 30, 2021. As to the poll results, please refer to the announcement made by the Company on January 19, 2022.

Save as disclosed above, the Company is not aware of any material subsequent events from December 31, 2021 to the date of this report.

III. OUTLOOK AND PROSPECTS

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

Strengthen non-clinical service offerings and expanding facilities

We will continue to solidify our market leadership in the drug safety assessment market by upgrading our technical capabilities to satisfy the increasing demand for drug safety assessment and other non-clinical services for innovative drugs. Specifically, we plan to focus on bolstering our competitive edge in areas of the greatest industry needs, such as large molecule bioanalysis as well as cellular and gene therapies. We plan to execute such strategies through hiring qualified scientific and research professionals with extensive experience in the relevant fields and developing and acquiring advanced equipment and technologies to upgrade our laboratories.

We will also expand our service capacity by building new facilities and expanding, renovation and upgrading our existing facilities in view of rising customer demands. Specifically, we plan to build a drug safety assessment center for innovative drugs and a central laboratory with associated platforms for bioanalytical services in Guangzhou, as well as laboratories for GLP-compliant non-clinical studies, breeding facilities for research models and central laboratories for clinical studies in Chongqing. We expect the Phase I of both facilities to commence operation in 2023. We have also expanded the capacity of our Suzhou facilities by commence constructing an additional approximately 20,000 sq.m. of laboratories for our non-clinical studies and research model facilities in 2021.

Management Discussion and Analysis

Expand global footprint and enhance global service capabilities

We aim to build JOINN Labs as a premier global CRO brand by further expanding our global footprint and service capabilities. With the strategic acquisition of Biomere in 2019, we will leverage its well-established industry reputation and extensive managerial experience, comprehensive global qualifications, and high-quality customer base to upgrade our facilities, enhance our service capability and expand our presence in the United States and North America pharmaceutical markets. Future non-clinical projects acquired by Biomere will also benefit from our future northern California facilities. Additionally, we expect to serve more leading Chinese pharmaceutical and biotechnology companies in support of their overseas drug applications and expansion around the world.

Importantly, we will also further increase our investment in business development to promote our brand and develop our global customer base and attract more overseas customers to access the growing market in China as we continue to satisfy our global customers' early R&D needs and develop stable and long-term relationships with them. Furthermore, to better address the rising demand of U.S. customers, we plan to upgrade and customize our future California facilities to support our non-clinical studies, as well as host and breed research models.

Broaden service offerings with a focus on clinical trial services

Leveraging our strengths in non-clinical studies especially in safety assessment and large customer base, we have expanded and will continue to diversify and develop our clinical trial and related services through organic growth and cooperation with other clinical trial participants. We will continue to actively engage in effective business development efforts to attract more potential customers with attractive drug candidates at clinical stages, with a particular focus on early-stage clinical trials. At the same time, we will focus on recruiting talents experienced in clinical trial management and execution to support and improve our clinical trial and related services. We will continue to expand and enhance our scientific and regulatory teams in clinical trials. Furthermore, we will further invest in expanding our network of clinical sites and hospital partners across China to rapidly scale our clinical CRO offerings, and enhance strategic collaborations with our overseas partners in clinical CRO business.

In addition to our focus on expanding our clinical trial services, we will also continue to expand our services in drug discovery and screening services through hiring skilled talent with the relevant scientific expertise and extensive project experience. Through these efforts, we strive to enhance our value propositions as an integrated CRO service platform to our customers with fully integrated service capabilities covering the entire drug R&D cycle.

Attract, train and retain talents to support rapid growth in China and the United States

To maintain our market leadership and implement our growth strategies, we will continue to attract talented professionals, especially those with extensive international experience and scientific expertise to support our global expansion. In particular, we plan to attract and recruit talents with first-hand, on-the-ground project management experience and technical expertise in clinical trials and research models. To support our global expansion, we will also increase our recruitment efforts overseas to support the rapid growth of our existing operations in the United States primarily through our subsidiary Biomere and our future operations in northern California of the United States.

In addition, we will motivate our high-quality employees by offering them opportunities to work on industry-defining and innovative projects, and by offering them competitive compensation, benefits and compelling career development opportunities. We will also leverage our share incentive plans to retain and motivate our talented employees.

Management Discussion and Analysis

Expand research model facilities to support our non-clinical studies

We will continue to invest in building our research model production centers and laboratories in Wuzhou to develop, breed and produce high-quality research models. High-quality non-human primate research models and non-clinical research facilities are in high demand globally and will continue to attract global customers and researchers to China, promoting partnerships and collaborations in a broad array of research areas. We expect to commence operations of our new research model facilities and laboratories located in Wuzhou in 2022. At the same time, we will develop a proprietary research model production system to further enhance our production capacity and efficiency and the quality of our research models. We expect the new facilities under construction in Wuzhou to provide us with a solid foundation to further expand our scientific expertise in research models, with an ultimate goal of producing a stable and adequate supply of research models in the long term to support the growing demand for our non-clinical studies with improved cost efficiency.

Pursue acquisition and strategic opportunities

We intend to selectively pursue acquisitions of businesses and assets that are complementary to our growth strategies, particularly those that can help us enrich our services offerings at a global scale. For example, we will seek to evaluate acquisition and other strategic opportunities with (i) CROs focused on non-clinical studies to strengthen our existing leadership, as well as (ii) clinical CROs, research model facilities, and drug discovery service providers with a view to further expanding our service offerings along the pharmaceutical R&D value chain. We believe our extensive industry experience and presence in both China and the United States will enable us to identify suitable targets and effectively evaluate and execute potential opportunities.

IV. RISK MANAGEMENT

Principal risks and uncertainties facing the Company

1. Risk of adherence and compliance of regulations

Since the Company provide pharmaceutical research and development services to various countries and nations, the commencement of our projects is subject to and must comply with various applicable legal and regulatory requirements. If the Company fails to comply with current laws, regulations, industry standards or its future changes, the reputation, business, financial condition, operating results and prospects of the Company may be negatively affected.

2. Risk of talent recruitment

Along with the expansion of business scale and expansion of business scopes of the Company, the Company has a greater need to talents with expertise in management, technology and marketing. The smooth implementation of the Company's development plans depends significantly on the nurturing and introducing talents necessary for the current business and future business development of the Company. Along with the globalization of market competitions and increasing labor costs, acquisition of required talents may become a difficult problem of the Company. At the same time, after recruiting relevant talents, the Company is also required to establish ideal career promotion paths for employees to avoid further loss of talents.

3. Risk of market competition

Along with the continuous development of pre-clinical CRO industry, the market competitions in the industry are increasingly intense. Other competitors in the industry have been expanding their productivities and increasing their experimental facilities. If the Company cannot maintain our own core competitive edges and complete the construction of investment projects as soon as possible, we will be subject to serious challenges from other competitors in the industry and the profitability of the Company will be affected.

4. Risk of raw materials supply

The Company mainly procures laboratory animals for non-clinical studies from third parties. If the supplier cannot guarantee stable supply or increase the sale price of laboratory animals, the smooth progress of projects will be affected or the project costs of the Company will be increased, which ultimately brings negative impacts to the operating results of the Company.

5. Risk of failure to keep up with the times and not emphasizing technological innovation

Increasing number of pharmaceutical research and development institutions are being tilted to innovative drugs and new drug targets have been emerging, which requires the Company to follow the development trend to explore new technologies and assessment methodologies, so as to maintain our leading position. If we fail to develop or adapt to new technologies and methodologies in a timely manner, the demands of customers to our services may decrease, thereby harming our business and prospects.

6. Risk of new business development

The new subsidiaries of the Company have tapped into the new sectors of clinical CRO and pharmacovigilance. Since there are already a number of well-established and competitive companies in the market, the operating results of the Company may not up to expectations due to the unfavorable factors like insufficient market expansion capabilities and insufficient business capabilities. Since the Company has only been established for a relatively short period, we may be subject to a certain extent of business risks due to insufficient management experience of projects and lack of technical personnel.

7. COVID-19 pandemic and other force majeure risks

The COVID-19 pandemic occurred in late 2019 has caused significant impacts to China and various industries and has spread around the world, which has caused challenges to the daily operations to the Company. Currently, the pandemic in China is basically under control. If the pandemic cannot be well under control in the future, the Company's business may be affected by the national pandemic prevention policies. Although the impact of such pandemic to the general production operation of the Company is not significant, however, it is impossible to forecast and assess the subsequent development of the pandemic and the subsequent relevant national policies accurately. Therefore, such force majeure factor requires comprehensive analysis and evaluation.

Biographies of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Ms. Feng Yuxia (馮宇霞), aged 57, is the chairperson of the Board, an executive Director and the founder of our Company. Ms. Feng joined our Group in August 1995 and was appointed as the chairperson of the Board and a Director of our Company in June 2007, and was re-designated as an executive Director in August 2020. Ms. Feng is primarily responsible for the overall strategic planning of our Group and presiding over the Board affairs.

Prior to her appointment as the chairperson of the Board and a Director of our Company, Ms. Feng served as the general manager of our Company from August 1995 to June 2007.

Ms. Feng possesses extensive experience in the biopharmaceutical and healthcare industries. She practiced as a doctor at the 252nd Hospital of the Chinese People's Liberation Army (中國人民解放軍第252醫院) from August 1986 to August 1989. She successively served as an intern researcher and an assistant researcher at the Institute of Toxicology and Drugs of Chinese Academy of Military Medical Sciences (中國人民解放軍軍事醫學科學院毒物藥物研究所) from 1992 to 1994. She has served as the chairperson of the board of JOINN (Beijing) Biotechnology Ltd. (北京昭衍生物技術有限公司) since February 2019.

Ms. Feng received her bachelor's degree in medicine from the Third Military Medical University (第三軍醫大學) in China in July 1986 and obtained her master of medicine degree in pharmacology from Academy of Military Medical Sciences (中國人民解放軍軍事醫學科學院) in China in August 1992.

Mr. Zuo Conglin (左從林), aged 57, is the vice chairperson of the Board and an executive Director of our Company. Mr. Zuo joined our Group in December 1996 and was appointed as a Director in December 2012 (re-designated as an executive Director in August 2020) and the vice chairperson of the Board in January 2019. Mr. Zuo is primarily responsible for overseeing the operations and management of our Group.

Mr. Zuo served as the general manager of our Company from March 2008 to January 2019, before which he successively served as a practice leader of our Company from December 1996 to January 2001 and a facility manager of drug safety evaluation center of our Company from February 2001 to February 2008.

Mr. Zuo possesses extensive experience in the biopharmaceutical and healthcare industries. Prior to joining our Group, he successively served as an intern researcher and an assistant researcher at Air Force Aviation Medical Research Institute (空軍航空醫學研究所) in the PRC from August 1989 to November 1996. Mr. Zuo has been serving as a council member of Chinese Society of Toxicology (中國毒理學會) since January 2009, and he currently serves as a committee member of Professional Committee of Drug Toxicology of Chinese Pharmacological Society (中國藥理學會藥物毒理專業委員會) and a standing committee member of Professional Committee of Drug Toxicology and Safety Evaluation of Chinese Society of Toxicology (中國毒理學會藥物毒理與安全性評價專業委員會).

Mr. Zuo obtained his master's degree in medicine from Academy of Military Medical Sciences (中國人民解放軍軍事醫學科學院) in China in August 1989.

Biographies of Directors, Supervisors and Senior Management

Mr. Gao Dapeng (高大鵬), aged 39, is an executive Director, the general manager, the secretary to the Board and a joint company secretary of our Company. Mr. Gao joined our Group in November 2012 and was appointed as a Director in October 2013 and re-designated as an executive Director in August 2020. He has also served as the general manager of our Company since January 2019 and the secretary to the Board since March 2013. He was appointed as a joint company secretary of our Company in August 2020. Mr. Gao is primarily responsible for overseeing the operation, capital management and matters relating to information disclosure of our Group.

Mr. Gao previously served multiple other positions at our Company, including as a finance manager from November 2012 to January 2013, and the chief financial officer from January 2013 to March 2020. His tenure as the chief financial officer of our Company overlapped with that of Ms. Yu Aishui during the period of July 2019 to March 2020 to ensure a smooth handover of the relevant responsibilities from Mr. Gao to Ms. Yu.

Prior to joining our Group, Mr. Gao served as an assistant auditor at Beijing Zhongshui Xincheng Tax Firm (北京中稅信誠稅務師事務所) from August 2005 to July 2006, an assistant accountant and the finance manager successively at Staidson (a company listed on the Shenzhen Stock Exchange with stock code: 300204) from June 2007 to October 2012.

Mr. Gao received his bachelor's degree in management from Central University of Finance and Economics (中央財經大學) in China in July 2005.

Mr. Gao is the husband of the niece of Ms. Feng.

Ms. Sun Yunxia (孫雲霞), aged 53, is an executive director and a vice general manager of our Company. Ms. Sun joined our Group in October 1999 and was appointed as a Director in January 2019 and re-designated as an executive Director in August 2020. She was appointed as a vice general manager of our Company in December 2012. Ms. Sun is primarily responsible for overseeing the non-clinical operations of our Group.

Ms. Sun previously served multiple other positions at our Company, including as a senior study director from October 1999 to April 2005, the director of toxicology department from April 2005 to June 2008, the director of quality assurance department from July 2008 to December 2009, the testing facility deputy manager and manager of JOINN (Beijing) from January 2010 to March 2020.

Prior to joining our Group, Ms. Sun successively worked as a food hygiene supervisor at Siping City Epidemic Prevention Station of Jilin Province (吉林省四平市防疫站), and practiced as the chief physician at Peking University Shougang General Hospital (北京大學首鋼醫院). Ms. Sun has been serving as a committee member of Professional Committee of Drug Toxicology and Safety Evaluation of Chinese Society of Toxicology (中國毒理學會藥物毒理與安全性評價專業委員會) since October 2011, a council member of Chinese Society of Toxicology (中國毒理學會) since October 2018, and a standing committee member of Professional Committee of Chinese Medicine and Natural Medicine Toxicology of Chinese Society of Toxicology (中國毒理學會中藥與天然藥物毒理專業委員會) since November 2019.

Ms. Sun received her master's degree in medicine from Norman Bethune University of Medical Sciences (白求恩醫科大學), now known as Norman Bethune Health Science Center of Jilin University (吉林大學白求恩醫學部), in China in July 1995.

Biographies of Directors, Supervisors and Senior Management

Dr. Yao Dalin (姚大林), aged 73, is an executive Director, a senior vice general manager and the Chief Scientific Officer of our Company. Dr. Yao joined our Group in February 2012 and was appointed as a Director of the Board in January 2019 and re-designated as an executive Director in August 2020. He was appointed as a senior vice general manager in February 2012. Dr. Yao is primarily responsible for strategic planning on scientific innovations and technology advancement as well as improving the regulatory compliance of our Group.

Prior to joining our Company in February 2012, Dr. Yao served as an assistant professor at Norman Bethune University of Medical Sciences (白求恩醫科大學), now known as Norman Bethune Health Science Center of Jilin University (吉林大學白求恩醫學部) from 1989 to 1990, a Visiting Scientist in the Laboratory of Experimental Neuropathology, The National Institute of Neurological Disorders and Stroke, NIH, the United States, from October 1990 to December 1995. From December 1999 to December 2011, Dr. Yao worked in the Center for Drug Evaluation and Research, U.S. Food and Drug Administration, including serving as a senior reviewer at the Division of Metabolic and Endocrine Drug Products.

Dr. Yao received his doctoral degree in medicine from Norman Bethune University of Medical Sciences (白求恩醫科大學) in China in November 1990.

NON-EXECUTIVE DIRECTOR

Mr. Gu Xiaolei (顧曉磊), aged 34, is a non-executive Director of our Company. Mr. Gu joined our Group in December 2012 and was appointed as a Director in December 2012 and re-designated as a non-executive Director in August 2020. Mr. Gu is primarily responsible for giving strategic advice on the operations of our Group and participating in the decision-making of the Board.

Mr. Gu served as a director and the vice general manager of Xiangtang Group Co., Ltd. (香塘集團有限公司) from July 2009 to April 2016. Mr. Gu has served as the vice chairperson of such company since April 2016.

Mr. Gu received his bachelor of science degree in applied business management from Imperial College London, the United Kingdom, in August 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sun Mingcheng (孫明成), aged 47, has served as an independent non-executive Director of our Company since January 2019. Mr. Sun is primarily responsible for providing independent opinion and judgment to the Board, thereby protecting the overall interest of our Group.

Mr. Sun served as a vice general manager and the secretary to the board at Matt Motor Service Co., Ltd. (麥特汽車服務股份有限公司) from 2013 to 2017. Mr. Sun has been serving as a general manager at Yangzhou Dongsheng Auto Parts Co., Ltd. (揚州東昇汽車零部件股份有限公司) since November 2017, and an independent director of Hengtong Logistics Co., Ltd. (恆通物流股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code: 603223) since May 2018.

Mr. Sun obtained his master's degree in engineering from Liaoning University of Engineering and Technology (遼寧工程技術大學) in China in April 2000. He subsequently received another master's degree in business management from Beijing University of Posts and Telecommunications (北京郵電大學) in China in July 2005. He has been a PhD student of accounting in the Research Institute for Fiscal Sciences of Ministry of Finance (財政部財政科學研究所), now known as Chinese Academy of Fiscal Sciences (中國財政科學研究院), since 2013. Mr. Sun has been a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) as a non-practicing certified public accountant since April 2011.

Biographies of Directors, Supervisors and Senior Management

Dr. Zhai Yonggong (翟永功), aged 60, has served as an independent non-executive Director of our Company since January 2019. Dr. Zhai is primarily responsible for providing independent opinion and judgment to the Board, thereby protecting the overall interest of our Group.

Dr. Zhai served a visiting scholar at the University of Pittsburgh in the United States from January 2005 to January 2007. Dr. Zhai served as a professor at Beijing Normal University in China from September 2009 to August 2019.

Dr. Zhai received his bachelor of agriculture degree in animal husbandry from Northwest Agricultural College (西北農學院), now known as Northwest Agriculture and Forestry University (西北農林科技大學), in China in July 1984. He obtained his master of agriculture degree in animal genetics and breeding from the same school in June 1992. He subsequently received his doctoral degree of engineering in biomedical engineering from Xi'an Jiaotong University (西安交通大學) in China in December 1999.

Mr. Ou Xiaojie (歐小傑), aged 48, has served as an independent non-executive Director of our Company since January 2019. Mr. Ou is primarily responsible for providing independent opinion and judgment to the Board, thereby protecting the overall interest of our Group.

Mr. Ou served as a managing director at Beijing Dongfang Junhe Management Consulting Co., Ltd. (北京東方君和管理顧問有限公司) from January 2009 to May 2012. He served as a department general manager at Beijing Chinasoft International Information Technology Co., Ltd. (北京中軟國際信息技術有限公司) from August 2012 to May 2014. He successively served as a director and strategic counsel at Beijing Didaofengwu Technology Co., Ltd. (北京地道風物科技有限公司) from May 2015 to September 2017.

Mr. Ou received his bachelor of engineering degree in industrial automation from Guangdong University of Technology (廣東工業大學) in China in 1999.

Mr. Zhang Fan (張帆), aged 42, has served as an independent non-executive Director of our Company since February 2021. Mr. Zhang has been primarily responsible for providing independent opinion and judgment to the Board, thereby protecting the overall interest of our Group.

Mr. Zhang worked at the head office of China Construction Bank (中國建設銀行) from 2001 to 2006, serving at the audit department, the restructuring office and the board of director office respectively. From 2010 to 2018, Mr. Zhang worked at CCB International Capital Limited (建銀國際金融有限公司), serving at the investment banking department as a managing director and the head of financial institution business. From 2018 to 2019, Mr. Zhang worked at WeShare Investment Holding Limited (新分享投資控股有限公司) as the chief strategy officer. Since 2019, Mr. Zhang has been working at China Everbright Limited (中國光大控股有限公司) as a managing director of corporate client services department. Mr. Zhang is a Certified Public Accountant in the U.S..

Mr. Zhang received his bachelor of management degree in accounting from Sun Yat-sen University (中山大學) in China in June 2001. He obtained his master of business administration degree from Carnegie Mellon University in the U.S. in May 2010.

Biographies of Directors, Supervisors and Senior Management

SUPERVISORS

Ms. Li Ye (李葉), aged 39, is the chairperson of our Supervisory Committee. Ms. Li was appointed as a Supervisor in December 2012. She is primarily responsible for supervising the finances, the directors and senior management of our Group.

Ms. Li successively served as an assistant to the chairperson of the Board of our Company, the director of the department of administration, and the manager of the human resources department of our Company since she joined our Company in April 2007. She has served as the managing director of the human resources department of our Company since January 2019.

Ms. Li received her bachelor of arts degree in English language from Northwest Normal University (西北師範大學) in China in June 2006.

Ms. Yin Lili (尹麗莉), aged 41, is a Supervisor of our Company. Ms. Yin was appointed as a Supervisor in December 2012. She is primarily responsible for supervising the finances, the directors and senior management of our Group.

Ms. Yin successively served as a practice leader of the department of drug efficacy and the department of toxicology, the director of the second department of toxicology and the director of the quality assurance department since she joined our Company in July 2006. She has served as the head of the quality assurance department of our Company since March 2020.

Ms. Yin received her master of medicine degree in pathology and pathophysiology from The Academy of Military Medical Sciences of the People's Liberation Army (中國人民解放軍軍事醫學科學院) in China in July 2006.

Mr. Sun Huiye (孫輝業), aged 53, is an employee Supervisor. Mr. Sun was appointed as a Supervisor in December 2012. He is primarily responsible for supervising the finances, the directors and senior management of our Group.

Mr. Sun successively served as a practice leader, head of the toxicology department and director of toxicology of our Company from July 2006 to June 2014, and he served as the testing facility manager of JOINN Laboratories (Suzhou) from June 2014 to July 2020. Mr. Sun has been serving as deputy general manager of JOINN Laboratories (Suzhou) and the chief veterinary officer of our Company since July 2020.

Mr. Sun received his bachelor of agriculture degree in veterinary from Chinese People's Liberation Army Veterinary University (中國人民解放軍獸醫大學) in July 1992.

SENIOR MANAGEMENT

Mr. Gao Dapeng (高大鵬), aged 39, is an executive Director, the general manager, the secretary to the Board and a joint company secretary of our Company. For the biography of Mr. Gao, please refer to “– Directors – Executive Directors” of this section.

Ms. Sun Yunxia (孫雲霞), aged 53, is an executive Director and a vice general manager of our Company. For the biography of Ms. Sun, please refer to “– Directors – Executive Directors” of this section.

Biographies of Directors, Supervisors and Senior Management

Dr. Yao Dalin (姚大林), aged 73, is an executive Director and a vice general manager of our Company. For the biography of Dr. Yao, please refer to “– Directors – Executive Directors” of this section.

Mr. Gu Jingliang (顧靜良), aged 41, is a vice general manager and the head of sales department of our Company. Mr. Gu is primarily responsible for overseeing the sales and marketing management of our Group.

Prior to his appointment as a vice general manager in January 2019 and the head of sales department in 2011, Mr. Gu successively served as a practice leader for drug efficacy, a practice leader for toxicology and the vice director and director of drug metabolism laboratory at our Company since he joined our Company in April 2006. He has also served as the general manager of JOINN Clinical (Suzhou) Co., Ltd. (蘇州昭衍醫藥科技有限公司), our wholly-owned subsidiary, since July 2018.

Mr. Gu has served as a director at Wan Yinuo (Suzhou) Biotechnology Co., Ltd. (萬醫諾(蘇州)生物科技股份有限公司) since January 2017. He has also served as a director at Suzhou Guangao Pharmaceutical Development Co., Ltd. (蘇州廣奧醫藥開發有限公司) since January 2017.

Mr. Gu obtained his master of medicine degree in pharmacology from Jilin University in June 2006.

Mr. Gu is the husband of the granddaughter of Ms. Feng’s aunt.

Ms. Yu Aishui (于愛水), aged 45, is the chief financial officer of our Company. Ms. Yu was appointed as the chief financial officer in July 2019. Her tenure as the chief financial officer of our Company overlapped with that of Mr. Gao Dapeng during the period of July 2019 to March 2020 to ensure a smooth handover of the relevant responsibilities from Mr. Gao to Ms. Yu. Ms. Yu has become the sole chief financial officer of our Company since April 2020. Ms. Yu is primarily responsible for overseeing the overall financial management of our Group.

Prior to joining our Company, Ms. Yu served as the accountant-in-charge at Cargill Fertilizer (Yantai) Co., Ltd. (嘉吉化肥(煙台)有限公司), now known as Mosaic Fertilizers (Yantai) Co., Ltd. (美盛化肥(煙台)有限公司), from February 2000 to March 2002, an investment manager at CITIC Information Technology Investment Co., Ltd. (中信資訊科技投資有限公司) from July 2005 to December 2008, a seconded financial director at Beijing Huaxin New Media Technology Co., Ltd. (北京華信新媒技術有限公司) from June 2008 to January 2012, and the chief financial officer at Crown Bioscience Inc. (Beijing) Co., Ltd. (中美冠科生物技術(北京)有限公司) from February 2012 to April 2019.

Ms. Yu obtained a master’s degree in business administration from Renmin University of China (中國人民大學) in July 2005. Ms. Yu has been a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) as a non-practicing certified public accountant since September 2010. Membership of the Institute of Chartered Accountants in England and Wales (ICAEW).

Report of Directors

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

PRINCIPAL ACTIVITIES

The Company is a leading non-clinical CRO focused on drug safety assessment. It is also in the process of expanding its offerings to an integrated range of services covering discovery, pre-clinical and clinical trial stages in the drug R&D service chain. Founded in 1995, the Company set out as a CRO specialized and excelling in pharmacology and toxicology assessment for innovative drugs in China. Building upon its core competency in drug safety assessment, the Company has been expanding its service offerings with a view to becoming an integrated pharmaceutical R&D service platform capable of providing a comprehensive portfolio of CRO services including nonclinical studies, clinical trial and related services, and research model business. With its project experience and scientific expertise, the Company aims to help its customers reduce R&D costs and risks and improve the overall productivity and efficiency of their global pharmaceutical R&D projects.

There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2021. 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 report and note 4 to the financial statements.

BUSINESS REVIEW

A review of the Group's business during the year ended December 31, 2021, which includes 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, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairperson's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this report in accordance with Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). 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 pages 94 to 95 of this report.

The Board proposed the profit distribution plan for the year ended December 31, 2021 ("2021 Profit Distribution Plan") as follows: (1) a dividend of RMB0.36 (2020: RMB0.35) per Share to Shareholders on the record date for determining the Shareholders' entitlement to the 2021 Profit Distribution Plan. Based on the total issued 381,246,492 Shares of the Company as at March 30, 2022, the proposed final dividend in an aggregate amount was approximately RMB137,248,000 (2020: RMB94,850,000); and (2) 4 new Shares for every 10 existing Shares (2020: 4 new Shares for every 10 existing Shares) of the Company to be issued out of reserve to all Shareholders of the Company on the record date for determining the shareholders' entitlement to the 2021 Profit Distribution Plan. The 2021 Profit Distribution Plan is subject to, amongst others, approval by Shareholders at the forthcoming AGM and application to be made to and approved by the Stock Exchange for the listing of and permission to deal in the new H Shares (in respect of the capitalization issue). For details, please refer to the circular published by the Company on March 30, 2022.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the five financial years is set out on page 10 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements in this report.

COMPLIANCE WITH LAWS AND REGULATIONS

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Reporting Period and up to the date of this report, the Group had complied with the laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Hong Kong Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period and up to the date of the report, none of the Group and the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from entering the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial organs or held criminally responsible, and none were involved in any other litigation, arbitration or administrative proceedings which would have a material adverse impact on our business, financial condition or results of operations.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the Reporting Period of the Company are set out in "Management Discussion and Analysis – II. Financial Review – Subsequent Events After the Reporting Period" in this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment 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 will be disclosed in the environmental, social and governance report of the Company for the Reporting Period to be published in due course.

Report of Directors

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 36(d) to the financial statements in this report.

RESERVES

Details of the movement in the reserves of the Company during the Reporting Period is set out in note 36(a) to the financial statements on pages 168 to 169 of this report.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's distributable reserves, calculated in accordance with PRC rules and regulation, were RMB570.2 million.

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

On March 29, 2021, the Company convened the 26th meeting of the third session of the Board, the Board resolved and approved of the proposed partial repurchase and cancellation of the 2018 restricted A Shares, pursuant to which, the Company was approved to repurchase and cancel a total of 25,518 restricted shares with a repurchase price of RMB9.81 per share and the total consideration for the buy back amounted to RMB250,300 by way of private arrangement. As of the end of 2021, the Company had not completed the repurchase and cancellation of some restricted shares.

On August 30, 2021, the Company convened the 28th meeting of the third session of the Board, the Board resolved and approved of the proposed partial repurchase and cancellation of the 2018 restricted A shares and the 2019 restricted A shares, pursuant to which, the Company was approved to (i) repurchase and cancel a total of 25,214 restricted shares with a repurchase price of RMB11.85 per share and the total consideration for the buy back amounted to RMB298,786 by way of private arrangement; and (ii) cancel a total of 74,676 share options. As of the end of 2021, the Company had not completed the repurchase and cancellation of some restricted shares.

Please refer to the announcements of the Company dated March 29, 2021 and August 30, 2021 for further details in relation to the aforementioned repurchase of restricted A shares, including the reasons therefor.

Save as disclosed above, 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 the laws of the PRC, 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 H shares of the Company were listed on the Stock Exchange on February 26, 2021 (the "Listing Date") and the over-allotment option described in the prospectus was partially exercised on March 19, 2021 in respect of an aggregate of 40,800 H Shares, issued and allotted by the Company at HK\$151.00 per H Share on March 24, 2021. The Company obtained proceeds in connection with the exercise of the global offering and the exercise of the over-allotment option amounted to approximately HK\$6,373.6 million (equivalent to approximately RMB5,285.2 million) (after deducting the underwriting commissions and other estimated expenses in connection with the exercise of the global offering and the over-allotment option) (the "Net Proceeds").

As disclosed in the Prospectus, the Net Proceeds would be applied to (i) expand the capacity of the Group's Suzhou facilities; (ii) strengthen the Group's U.S. operations to cater to the rising customer demand for services provided by Biomere; (iii) further expand the Group's facility network and service capabilities in China; (iv) broaden and deepen the Group's integrated CRO service offerings with a particular focus on further expanding the Group's clinical trial and related services; (v) fund potential acquisitions; and (vi) working capital and general corporate purposes. As at 31 December, 2021, the Group had used approximately RMB307.0 million, representing approximately 5.8% of the Net Proceeds, and the remaining balance of the Net Proceeds was approximately RMB4,978.2 million.

Report of Directors

From the Listing Date to December 31, 2021, the Company has utilized the net proceeds raised from the global offering for the following purposes. The Company intends to use the net proceeds in the same matter and proportion as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Use of Proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus) (RMB million)	Amount of net proceeds utilized as at December 31, 2021 (RMB million)	Amount not yet utilized as at December 31, 2021 (RMB million)	Expected timeframe for utilizing the remaining unutilized net proceeds
(A) Expand the capacity of our Suzhou facilities for non-clinical Studies	16.0	845.6	29.1	816.5	
(i) renovating our existing laboratory and research model facilities in Suzhou	7.9	417.5	12.6	404.9	by the end of 2022
(ii) constructing the infrastructure of our new facilities in Suzhou	1.7	89.8	13.9	75.9	by the end of 2022
(iii) procurement of cutting-edge equipment and laboratory technologies and investment in the research and development of novel, customized research models	5.5	290.7	2.6	288.1	1 to 3 years from Listing
(iv) upgrading our technical and scientific research capabilities with international background at our Suzhou facilities	0.9	47.6	–	47.6	3 to 5 years from Listing
(B) Strengthen our U.S. operations to cater to the rising customer demand for services provided by Biomere	10.0	528.5	–	528.5	
(i) upgrading our existing facilities and service team in northern California	7.6	401.7	–	401.7	1 to 2 years from Listing
(ii) investing in business development efforts, expanding service teams and upgrading laboratory equipment for Biomere	2.4	126.8	–	126.8	1 to 2 years from Listing
(C) Further expand our facility network and service capabilities in China	39.0	2,061.3	19.7	2,041.6	
(i) building the Phase I of our new Guangzhou facilities with a focus on non-GLP and GLP-compliant non-clinical studies in Guangzhou	17.0	898.5	10.1	888.4	by the end of 2023
(ii) building the Phase I of our new laboratories, research model breeding facilities and clinical operations in Chongqing	17.0	898.5	7.7	890.8	by the end of 2023
(iii) enhancing our technical and scientific research capabilities at our Guangzhou and Chongqing facilities	2.6	137.4	1.9	135.5	3 to 5 years from Listing
(iv) developing cutting-edge laboratory and research model technologies	2.4	126.9	–	126.9	3 to 5 years from Listing

Report of Directors

Use of Proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus) (RMB million)	Amount of net proceeds utilized as at December 31, 2021 (RMB million)	Amount not yet utilized as at December 31, 2021 (RMB million)	Expected timeframe for utilizing the remaining unutilized net proceeds
(D) Broaden and deepen our integrated CRO service offerings with a particular focus on further expanding our clinical trial and related services	5.0	264.3	7.3	257.0	
(i) hiring approximately 220 experienced clinical trial operation professionals who hold at least a bachelor's degree and who have at least two years of work experience in clinical operations, medicine, quality control, statistical analysis and analysis of clinical samples, with a focus on early-stage clinical trial projects	0.6	31.7	1.0	30.7	1 to 3 years from Listing
(ii) investing in business development efforts for our growing clinical trial business	0.4	21.2	–	21.2	1 to 3 years from Listing
(iii) procuring new equipment, technologies, systems, databases and infrastructure for use in clinical trials, as well as in the related services such as bioanalytical services, to strengthen our service quality and customer experience	4.0	211.4	6.3	205.1	1 to 3 years from Listing
(E) Fund potential acquisitions of suitable (i) CROs focused on non-clinical studies, (ii) CROs focused on clinical trials, and/or (iii) research model production facilities in both China and overseas	20.0	1,057.0	76.7	980.3	1 to 3 years from Listing
(F) Working capital and general corporate purposes	10.0	528.5	174.2	354.3	

Note: (A) (i) The renovation work was completed on schedule as provided in the Prospectus in 2021, but the final payment of the project is expected to be settled in 2022. The Company expects that the utilization of IPO net proceeds for this purpose was less than expected. The Company is considering the reallocation of the amount of unutilized proceeds for this purpose to other purposes, and will make announcement on any change in use of proceeds and the corresponding timeline of such use as appropriate in due course.

A) (ii) The main construction was completed but due to slight delays arising from the pandemic, it was not completed on schedule in 2021 as provided in the Prospectus. The closeout of the project is expected to be completed in 2022. The Company expects that the utilization of IPO net proceeds for this purpose was less than expected. The Company is considering the reallocation of the amount of unutilized proceeds for this purpose to other purposes, and will make announcement on any change in use of proceeds and the corresponding timeline of such use as appropriate in due course.

DIRECTORS

The Board currently consists of the following 10 Directors:

Executive Directors

Ms. Feng Yuxia (馮宇霞) (*Chairperson of the Board*)

Mr. Zuo Conglin (左從林) (*Vice Chairperson of the Board*)

Mr. Gao Dapeng (高大鵬)

(*General Manager, Secretary to the Board,*

Joint Company Secretary)

Ms. Sun Yunxia (孫雲霞) (*Vice General Manager*)

Dr. Yao Dalin (姚大林)

(*Senior Vice General Manager, Chief Scientific Officer*)

Non-Executive Director

Mr. Gu Xiaolei (顧曉磊)

Independent Non-Executive Directors

Mr. Sun Mingcheng (孫明成)

Dr. Zhai Yonggong (翟永功)

Mr. Ou Xiaojie (歐小傑)

Mr. Zhang Fan (張帆)

Supervisors

Ms. Li Ye (李葉)

(*Chairperson of the Supervisory Committee*)

Ms. Yin Lili (尹麗莉)

Mr. Sun Huiye (孫輝業)

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and the senior management of the Group as at the date of this report are set out on pages 28 to 33 in the section headed "Biographies of Directors, Supervisors and Senior Management" of this report.

CHANGE OF INFORMATION OF DIRECTORS

Saved as disclosed in this report, there are no other changes to the Directors', Supervisors' 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 has entered into a service contract with the Company in February 2021, pursuant to which each of them has agreed to act as an executive Director for an initial term of three years, subject to re-election as and when required under the Articles of Association, until it is terminated in accordance with the terms and conditions of the service contract.

Each of the non-executive Director and independent non-executive Directors has signed a letter of appointment with the Company in February 2021, pursuant to which each of them has agreed to act as a non-executive Director or an independent non-executive Director (as the case may be) for an initial term of three years, subject to re-election as and when required under the Articles of Association, until it is terminated in accordance with the terms and conditions of the service contract.

Each of our Supervisors has signed a letter of appointment with the Company in February 2021. Each letter of appointment contains provisions relating to compliance with relevant laws and regulations, observation of our Articles of Association and resolution of disputes by means of arbitration.

Save as disclosed above, none of the Directors or Supervisors 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).

Report of Directors

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' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

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/Supervisor or any entity connected with such a Director/Supervisor had a material interest, whether directly or indirectly, subsisted at December 31, 2021 or at any time during the Reporting Period.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In compliance with Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies.

The Directors, Supervisors and senior management 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, Supervisors and senior management is determined based on their responsibilities, qualification, position and seniority. Details of the Directors' and Supervisors' emoluments and emoluments of the five highest paid individuals in the Group are set out in note 9 and note 10 to the financial statements on pages 137 to 138 of this report.

For the Reporting Period, no emoluments were paid by the Group to any Director, Supervisor 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 or Supervisors 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 and Supervisors.

Report of Directors

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

Band of remuneration	Number of senior management for the year ended December 31, 2021
Nil to HK\$1,000,000	–
HK\$1,000,001 to HK\$1,500,000	1
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	–
	2

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors, Supervisors and Controlling Shareholders 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.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

Report of Directors

NON-COMPETITION UNDERTAKING

For the purpose of the listing of our A shares on the Shanghai Stock Exchange in 2017 and in order to avoid any potential competition between Ms. Feng and Mr. Zhou on the one hand and our Company on the other hand, Ms. Feng and Mr. Zhou had provided a non-competition undertaking in favor of our Company on August 25, 2017 (the “Non-competition Undertaking”). Each of Ms. Feng and Mr. Zhou has undertaken pursuant to the Non-competition Undertaking that:

- (i) neither herself/himself nor any of his/her directly or indirectly controlled companies or entities will engage in any business or operation in competition with the business of our Group;
- (ii) in the event that herself/himself or any of their directly or indirectly controlled companies or entities encounter business opportunity that will create direct or indirect competition between their directly or indirectly controlled companies or entities and our Group, they will refer the business opportunity to our Group; and
- (iii) if the above non-competition undertaking is proven to be untrue or if Ms. Feng or Mr. Zhou fails to comply with the above non-competition undertaking, she/he agrees to indemnify our Company for all the direct and indirect losses our Company may suffer as a result of such breach.

As at the date of this report, Ms. Feng and Mr. Zhou confirmed that they have complied and will comply with the Non-competition Undertaking, pursuant to which Ms. Feng and Mr. Zhou have agreed not to compete with the business our Group.

Save as disclosed, no other non-competition agreements or arrangement has been provided by the Controlling Shareholders as at December 31, 2021 or at any time during the Reporting Period.

MANAGEMENT CONTRACTS

Other than the Directors’ and Supervisors’ 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.

CONVERTIBLE BONDS

During the Reporting Period, the Group has not issued any convertible bonds.

EQUITY-LINKED AGREEMENTS

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

MATERIAL LEGAL PROCEEDINGS

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

LOAN AND GUARANTEE

During the Reporting Period, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, Supervisors and senior management of the Company, the Controlling Shareholders of the Company (if any) or their respective connected persons.

PRE-IPO SHARE OPTION AND RESTRICTED AWARD SCHEMES

The Company adopted the pre-IPO share option and restricted share award schemes ("Pre-IPO Share Option and Restricted Award Schemes") on February 27, 2018, August 15, 2019 and July 15, 2020 respectively. The terms of the Pre-IPO Share Option and Restricted Share Award Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as they do not involve the grant of options by the Company to subscribe for new Shares upon the Listing.

Summary of Terms

The following is a summary of the principal terms of each of the Pre-IPO Share Option and Restricted Share Award Schemes:

(a) Purpose

The purpose of the Pre-IPO Share Option and Restricted Share Award Schemes is to establish the long-term incentive mechanism of the Company, attract and retain talents, mobilize the enthusiasm of the directors, senior management and key technical employees of the Company, foster shared interests among the shareholders, the Company and operators, thereby promoting sustained, long-term and healthy growth of the Company.

(b) Type of Awards

The Pre-IPO Share Option and Restricted Share Award Schemes provides for awards of options and RSUs ("Awards"), except the 2020 Share Incentive Scheme does not provide awards of RSUs.

(c) Administration

The Shareholders' meeting is the highest authority of the Pre-IPO Share Option and Restricted Share Award Schemes. The Board is the managing authority of the Pre-IPO Share Option and Restricted Share Award Schemes. The board of Supervisors and independent non-executive Directors are the supervising authorities of the Pre-IPO Share Option and Restricted Share Award Schemes.

(d) Scope of Participants

The Directors, senior management and key technical employees of the Company (excluding independent non-executive Directors, Supervisors, shareholders that hold more than 5% of the Company's shares and the controlling shareholder and their spouses, parents, and children).

(e) Source of Shares

The Shares underlying the Pre-IPO Share Option and Restricted Share Award Schemes shall be A Shares privately issued by the Company.

(f) Maximum Number of Shares

The maximum number of shares involved with the Awards to be granted to an eligible employee under all effective Pre-IPO Share Option and Restricted Share Award Schemes shall not exceed 1% of the total outstanding share capital of the Company. The total number of shares involved with all effective Pre-IPO Share Option and Restricted Share Award Schemes shall not exceed 10% of the total outstanding share capital of the Company.

Report of Directors

(g) Term of the Pre-IPO Share Option and Restricted Share Award Schemes

Subject to the termination provisions under the Pre-IPO Share Option and Restricted Share Award Schemes, the Pre-IPO Share Option and Restricted Share Award Schemes shall be valid and effective commencing on the date that the Awards are granted to when such Awards are no long under any lock-ups, fully exercised or cancelled. The term of validity shall not exceed 48 months.

(h) Date of Grant

The date on which the Awards are granted shall be determined by the Board, subject to approval of the Pre-IPO Share Option and Restricted Share Award Schemes by the shareholders' meeting, which shall be a trading day. The Awards shall be granted, registered and announced within 60 days after the approval of the Pre-IPO Share Option and Restricted Share Award Schemes by the shareholders' meeting. Otherwise, the Pre-IPO Share Option and Restricted Share Award Schemes shall be terminated, and the Awards thereunder that have not been granted shall become invalid.

(i) Lock-up Period

The lock-up periods for the Awards underlying the Pre-IPO Share Option and Restricted Share Award Schemes are 12 months, 24 months and 36 months, respectively, commencing from the date the Awards were registered. During the lock-up period, the Awards shall not be transferred, used as guarantee or repayment of debt.

(j) Grant and Exercise of Awards

On and subject to certain terms of the Pre-IPO Share Option and Restricted Share Award Schemes, Awards can be granted to or exercised by any eligible employee, i.e., linking the grant and exercise of the Awards to the attainment or performance of milestones by the Company and the grantee. If the performance of the Company, the relevant grantee and other conditions are not fulfilled in the stipulated period, the Awards shall be repurchased or cancelled by the Company.

(k) Rights and Obligations of the Company

- (1) The Company has the right to interpret and implement the Pre-IPO Share Option and Restricted Share Award Schemes, and evaluate the performance of the grantee in accordance with the provisions of the Pre-IPO Share Option and Restricted Share Award Schemes. If the performance of the grantee does not fulfill the conditions under the Pre-IPO Share Option and Restricted Share Award Schemes, the Company will repurchase or cancel the Awards as stipulated by the Pre-IPO Share Option and Restricted Share Award Schemes.
- (2) The Company shall not to provide loans or financial assistance in any other forms to the grantee.
- (3) The Company shall promptly perform the obligations of declaration and information disclosure of the Pre-IPO Share Option and Restricted Share Award Schemes in accordance with relevant regulations.

- (4) The Company shall actively assist the grantee on exercising the Awards in accordance with the relevant provisions under the Pre-IPO Share Option and Restricted Share Award Schemes and relevant regulates of the CSRC, the Shanghai Stock Exchange and China Securities Depository and Clearing Company Limited (中國證券登記結算有限責任公司) (“CSDC”). However, if the grantee fails to exercise its Awards for the reasons that are attributable to the Shanghai Stock Exchange or CSDC, the Company shall not be liable for the losses causes to such grantee.
- (5) The determination of the grantee under the Pre-IPO Share Option and Restricted Share Award Schemes by the Company does not mean the grantee is entitled to serve the Company, nor does it constitute any commitment to the employment period of the grantee. The employment relationship between the Company and the grantee remains subject to the employment contract signed by the Company and the grantee.
- (3) The source of funds of the grantee shall be self-raised funds.
- (4) When the Company distributes dividends, the grantee of options and RSUs shall receive dividends in proportion to the underlying A Shares of the options and RSUs respectively.
- (5) The grantee of RSUs shall be entitled to voting rights in respect of the underlying A Shares of the RSUs. The grantee of options shall only be entitled to voting rights in respect of the underlying A Shares of the options upon the exercise of such options and grant of the corresponding A Shares to the grantee.
- (6) The Awards granted under the Pre-IPO Share Option and Restricted Share Award Schemes shall not be transferred, used as guarantee or repayment of debt.
- (7) The grantee shall pay personal income tax and other taxes in accordance with relevant laws and regulations with regard to the income obtained from the Pre-IPO Share Option and Restricted Share Award Schemes.

(I) Rights and Obligations of the Grantee

- (1) The grantee shall work diligently abide by professional ethics, making contributions to the development of the Company.
- (2) The grantee shall lock up its granted Awards in accordance with the provisions of the Pre-IPO Share Option and Restricted Share Award Schemes.
- (8) In the event that the grantee ceases to be an eligible grantee before the granted Awards are fully exercised, the unvested Awards shall be repurchased or cancelled by the Company.

Report of Directors

- (9) In the event that the grantee ceases to be an eligible grantee due to the false records, misleading statements or material omissions in the disclosed documents by the Company, the grantee shall return all the benefits obtained from the Pre-IPO Share Option and Restricted Share Award Schemes to the Company.
- (10) Upon the approval of the Pre-IPO Share Option and Restricted Share Award Schemes by the shareholders' meeting, a written agreement shall be signed by and between the Company and each of the grantee, stipulating respective rights and obligations and other related matters under such Pre-IPO Share Option and Restricted Share Award Schemes.
- (11) Other rights and obligations stipulated by relevant laws, regulations and the Pre-IPO Share Option and Restricted Share Award Schemes.

List of Grantees Under the Pre-IPO Share Option and Restricted Share Award Schemes

As at the date of this report, the maximum number of options and RSUs approved to be granted under the Pre-IPO Share Option and Restricted Share Award Schemes, namely, the 2018 Share Option and Restricted Share Award Scheme, the 2019 Share Option and Restricted Share Award Scheme and the 2020 Share Option Scheme, have been fully granted to the eligible grantees.

As at the date of this report, the Company had granted options under the Pre-IPO Share Option and Restricted Share Award Schemes to 360 grantees, including four Directors and one senior management member of the Company who have been granted options to subscribe for 429,100 A Shares after the exercise, representing approximately 0.11% of the Company's issued share capital as at the date of this report. Assuming all the said 3,202,829 outstanding share options were exercised as at December 31, 2021, the total number of Shares as at December 31, 2021 would be 384,449,321, and the aggregate shareholding percentage in the Company of Ms. Feng Yuxia and Mr. Zhou Zhiwen would drop from 36.22% to 35.92%. No option under the Pre-IPO Share Option and Restricted Share Award Schemes has been granted to other connected person of the Company.

As at the date of this report, the Company had granted restricted shares under the Pre-IPO Share Option and Restricted Share Award Schemes to 88 grantees, including four Directors and two senior management member of the Company who have been granted restricted shares of 72,100 A Shares, representing approximately 0.02% of the Company's issued share capital as at the date of this report. Assuming all the said 266,417 outstanding restricted shares became awarded shares as at December 31, 2021, the total number of Shares as at December 31, 2021 would be 381,246,492, and the aggregate shareholding percentage in the Company of Ms. Feng Yuxia and Mr. Zhou Zhiwen would drop from 43.37% to 36.22%. No restricted shares under the Pre-IPO Share Option and Restricted Share Award Schemes has been granted to other connected person of the Company.

Report of Directors

The following table summarizes the number of underlying A Shares of the outstanding options under the Pre-IPO Share Option and Restricted Share Award Schemes as at the date of this report. For details of fair value and exercise price of outstanding options, please refer to note 33(a)(iii) to the financial statements of this report.

Name of Grantee	Position	Exercise Price (RMB/Share)	Date of Grant	Outstanding	Granted during the year	Exercised during the year	Vesting Period	Canceled during the year	Lapsed during the year	Outstanding
				as at January 1, 2021						as at December 31, 2021
Directors										
Zuo Conglin	Vice Chairperson of the Board, Executive Director	67.44	July 17, 2020	96,000	0	0	(Note 4)	0	0	134,400
Gao Dapeng	Executive Director, General Manager, Secretary to the Board, Joint Company Secretary	67.44	July 17, 2020	30,000	0	0	(Note 4)	0	0	42,000
Sun Yunxia	Executive Director, Vice General Manager	67.44	June 24, 2020	108,000	0	0	(Note 3)	0	0	151,200
		67.44	July 17, 2020	30,000	0	0	(Note 4)	0	0	42,000
Yao Dalin	Executive Director, Senior Vice General Manager, Chief Scientific Officer	67.44	July 17, 2020	30,000	0	0	(Note 4)	0	0	42,000
Subtotal				294,000	0	0		0	0	411,600
Senior Management										
Yu Aishui	Chief Financial Officer	67.44	June 24, 2020	10,000	0	7,000	(Note 3)	0	0	7,000
		67.44	July 17, 2020	15,000	0	10,500	(Note 4)	0	0	10,500
Subtotal				25,000	0	17,500		0	0	17,500
Other employees		20.13	March 9, 2018	2,883,829	0	2,009,190	(Note 1)	0	221,676	1,735,153
		24.12	September 9, 2019		0		(Note 2)	0		
		67.44	June 24, 2020		0		(Note 2)	0		
		67.44	July 17, 2020		0		(Note 3)	0		
Total				3,202,829	0	2,026,690		0	221,676	2,164,253

Report of Directors

Notes:

- (1) This batch of outstanding options under the 2018 Share Option and Restricted Share Award Scheme shall be vested in accordance with the vesting periods as follows: (i) as to 50% of the aggregate number of options between April 19, 2019 and April 18, 2020; (ii) as to 30% of the aggregate number of options between April 19, 2020 and April 18, 2021; and (iii) as to 20% of the aggregate number of options between April 19, 2021 and April 18, 2022.
- (2) This batch of outstanding options under the 2019 Share Option and Restricted Share Award Scheme shall be vested in accordance with the vesting periods as follows: (i) as to 50% of the aggregate number of options between October 14, 2020 and October 13, 2021; (ii) as to 30% of the aggregate number of options between October 14, 2021 and October 13, 2022; and (iii) as to 20% of the aggregate number of options between October 14, 2022 and October 13, 2023.
- (3) This batch of outstanding options under the 2019 Share Option and Restricted Share Award Scheme shall be vested in accordance with the vesting periods as follows: (i) as to 50% of the aggregate number of options between August 11, 2021 and August 10, 2022; and (ii) as to 50% of the aggregate number of options between August 11, 2022 and August 10, 2023.
- (4) This batch of outstanding options under the 2020 Share Option Scheme shall be vested in accordance with the vesting periods as follows: (i) as to 50% of the aggregate number of options on between August 31, 2021 and August 30, 2022; (ii) as to 30% of the aggregate number of options between August 31, 2022 and August 30, 2023; and (iii) as to 20% of the aggregate number of options between August 31, 2023 and August 30, 2024.
- (5) The term of validity of outstanding options shall not exceed 48 months. And the exercise period of outstanding options shall commence from the date on which such options are no longer under any lock-up, to shall not exceed the validity period.
- (6) Exercise prices of the outstanding options will be adjusted according to the resolution in respect of the Company's dividend distribution and transfer from share premium in capital reserve to share capital.

Report of Directors

The following table summarizes the number of underlying A Shares of the outstanding RSUs under the Pre-IPO Share Option and Restricted Share Award Schemes as at the date of this report. For details of fair value and exercise price of outstanding restricted shares, please refer to note 33 to the financial statements of this report.

Name of Grantee	Position	Exercise Price (RMB/Share)	Date of Grant	Outstanding as at January 1, 2021	Granted during the year	Exercised during the year	Vesting Period	Canceled during the year	Lapsed during the year	Outstanding as at December 31, 2021
Directors										
Zuo Conglin	Vice Chairperson of the Board, Executive Director	9.81 16.94	March 9, 2018 September 9, 2019	10,976 21,000	0 0	10,976 17,640	(Note 1) (Note 2)	0 0	0 0	0 11,760
Gao Dapeng	Executive Director, General Manager, Secretary to the Board, Joint Company Secretary	9.81 16.94	March 9, 2018 September 9, 2019	10,976 21,000	0 0	10,976 17,640	(Note 1) (Note 2)	0 0	0 0	0 11,760
Sun Yunxia	Executive Director, Vice General Manager	9.81 16.94	March 9, 2018 September 9, 2019	10,976 21,000	0 0	10,976 17,640	(Note 1) (Note 2)	0 0	0 0	0 11,760
Yao Dalin	Executive Director, Senior Vice General Manager, Chief Scientific Officer	9.81 16.94	March 9, 2018 September 9, 2019	10,976 21,000	0 0	10,976 17,640	(Note 1) (Note 2)	0 0	0 0	0 11,760
Subtotal				127,904	0	114,464		0	0	47,040
Senior Management										
Gu Jingliang		9.81 16.94	March 9, 2018 September 9, 2019	4,390 21,000	0 0	4,390 17,640	(Note 1) (Note 2)	0 0	0 0	0 11,760
Yu Aishui	Chief Financial Officer	47.39 47.39	June 24, 2020 June 24, 2020	15,000 4,000	0 0	10,500 2,800	(Note 3) (Note 3)	0 0	0 0	10,500 2,800
Subtotal				44,390	0	35,330		0	0	25,060
Other employees										
		9.81 16.94 47.39	March 9, 2018 September 9, 2019 June 24, 2020	147,902 190,400 44,000	0 0 0	112,177 138,768 30,800	(Note 1) (Note 2) (Note 3)	0 0 0	35,725 41,160 0	0 86,632 30,800
Total				554,596	0	431,539	0		76,885	189,532

Report of Directors

Notes:

- (1) This batch of outstanding RSUs under the 2018 Share Option and Restricted Share Award Scheme shall be unlocked in accordance with the unlocking periods as follows: (i) as to 50% of the aggregate number of RSUs between April 19, 2019 and April 18, 2020; (ii) as to 30% of the aggregate number of RSUs between April 19, 2020 and April 18, 2021; and (iii) as to 20% of the aggregate number of RSUs between April 19, 2021 and April 18, 2022.
- (2) This batch of outstanding RSUs under the 2019 Share Option and Restricted Share Award Scheme shall be unlocked in accordance with the unlocking periods as follows: (i) as to 50% of the aggregate number of RSUs between October 14, 2020 and October 13, 2021; (ii) as to 30% of the aggregate number of RSUs between October 14, 2021 and October 13, 2022; and (iii) as to 20% of the aggregate number of RSUs between October 14, 2022 and October 13, 2023.
- (3) This batch of outstanding RSUs under the 2019 Share Option and Restricted Share Award Scheme shall be unlocked in accordance with the unlocking periods as follows: (i) as to 50% of the aggregate number of RSUs between August 11, 2021 and August 10, 2022; and (ii) as to 50% of the aggregate number of RSUs between August 11, 2022 and August 10, 2023.
- (4) The term of validity of outstanding RSUs shall not exceed 48 months. And the exercise period of outstanding RSUs shall commence from the date on which such restricted shares are no longer under any lock-up, to shall not exceed the validity period.
- (5) Exercise prices of the outstanding RSUs will be adjusted according to the resolution in respect of the Company's dividend distribution and transfer from share premium in capital reserve to share capital.

POST-IPO RESTRICTED SHARE INCENTIVE SCHEME AND THE STOCK OWNERSHIP PLAN

The Company adopted the 2021 Restricted A Share Incentive Scheme and 2021 A Share Employee Stock Ownership Plan ("Post-IPO Restricted Award Scheme and ESOP") on January 19, 2022. The terms of the Post-IPO Restricted Award Scheme and ESOP are not subject to the provisions of Chapter 17 of the Listing Rules as they are discretionary schemes of the Company and do not involve the grant of options over new Shares or any other new securities issued by the Company (or any of its subsidiaries), and do not constitute a share option scheme.

SUMMARY OF TERMS

(a) Purpose

The purpose of the 2021 Restricted A Share Incentive Scheme is to further establish and improve the Company's long-term incentive mechanism, attract and retain outstanding talents, fully mobilize the enthusiasm of the Company's employees, ensure the realization of the Company's development strategy and business objectives, and promote the long-term development of the Company.

The purpose of the 2021 A Share Employee Stock Ownership Plan is to establish and improve the benefit sharing mechanism for employees and shareholders, improve the corporate governance level, enhance the cohesion of employees and the competitiveness of the Company, mobilize the enthusiasm and creativity of employees, and promote the long-term, sustainable and healthy development of the Company.

(b) Types of Awards

The 2021 Restricted A Share Incentive Scheme provides for awards of Restricted Shares and the 2021 A Share Employee Stock Ownership Plan provides the participants with the subscription of Shares.

(c) Administration

Given that the Restricted Shares are to be held by the grantees directly, upon the Restricted Shares being unlocked, the grantees could make their own decision in respect of their respective unlocked Restricted Shares under the 2021 Restricted A Share Incentive Scheme.

As to the 2021 A Share Employee Stock Ownership Plan, the holder's meeting shall be the highest internal management authority of the the 2021 A Share Employee Stock Ownership Plan, and the management committee shall be established as the management body supervising the daily management of the 2021 A Share Employee Stock Ownership Plan, and exercise the shareholders' rights attached to the underlying Shares.

(d) Scope of Participants

There are 505 Participants under the 2021 Restricted A Share Incentive Scheme, all of them are key technical (business) personnel. The participants under the 2021 Restricted A Share Incentive Scheme do not include the independent directors, supervisors of the Company, shareholders individually or in aggregate holding 5% or more of the Shares of the Company or the de facto controllers and their spouses, parents or children.

As to the 2021 A Share Employee Stock Ownership Plan, participants shall be supervisors, senior management or key technical (business) personnel of the Company. The total number of participants shall not exceed 11, including 4 Supervisors and senior management personnel.

(e) Source

The Restricted Shares under the 2021 Restricted A Share Incentive Scheme are new Shares to be issued and allotted by the Company. The underlying Shares for the 2021 A Share Employee Stock Ownership Plan are existing Shares repurchased by the Company and held by the Company through its special securities account for share repurchase, which are to be transferred by the Company to the 2021 A Share Employee Stock Ownership Plan at the transfer price.

(f) Maximum Number of Shares

675,400 Restricted Shares under the 2021 Restricted A Share Incentive Scheme was granted to the Participants, the underlying shares of which are RMB ordinary A Shares, representing approximately 0.18% of the total issued share capital of the Company as at the date of this report.

The total number of underlying shares involved in all the share incentive schemes of the Company within the validity period does not exceed 10% of the total share capital of the Company as at the date of this report. The number of Restricted Shares to be granted to any particular participant under the 2021 Restricted A Share Incentive Scheme does not exceed 1% of the total share capital of the Company as at the date of this report.

The number of Shares to be subscribed for under the 2021 A Share Employee Stock Ownership Plan shall not exceed 32,600 Shares, representing approximately 0.009% of the current total share capital of the Company. The stake of each holder in the 2021 A Share Employee Stock Ownership Plan shall be determined according to the actual payment made by the employees.

(g) Term of the Post-IPO Restricted Award Scheme and ESOP

Subject to the termination provisions under the Post-IPO Restricted Award Scheme and ESOP, the term of the 2021 Restricted A Share Incentive Scheme shall commence from the completion date of registration of the grant of the Restricted Shares and end on the date on which all the Restricted Shares granted to the participants are unlocked or repurchased and cancelled, and shall not exceed 48 months.

The term of the 2021 A Share Employee Stock Ownership Plan shall be 48 months, commencing from the date on which the Company announces the last transfer of the underlying shares to the 2021 A Share Employee Stock Ownership Plan.

Report of Directors

(h) *Date of Grant*

The 2021 Restricted A Share Incentive Scheme was approved at the first Extraordinary General Meeting of 2022, the first A Share Class Meeting for 2022 and the first H Share Class Meeting for 2022. The date of grant was January 28, 2022. For the grant details, please refer to the Company's announcement on January 28, 2022.

(i) *Lock-up Period*

The lock-up period of the Restricted Shares granted under the 2021 Restricted A Share Incentive Scheme shall be 12 months, 24 months and 36 months from the completion date of registration of the grant of the Restricted Shares to the participants, respectively. The Restricted Shares granted to the participants under the 2021 Restricted A Share Incentive Scheme shall not be transferred, pledged or used for repayment of debts before the unlocking of which.

(j) *Grant and Exercise of Awards*

On and subject to certain terms of the 2021 Restricted A Share Incentive Scheme, Awards can be granted to by any eligible employee, i.e., linking the grant of the Awards to the attainment or performance of milestones by the Company and the grantee. If the performance of the Company, the relevant grantee and other conditions are not fulfilled in the stipulated period, the Awards shall be repurchased or cancelled by the Company.

LIST OF GRANTEES UNDER THE POST-IPO SHARE OPTION AND RESTRICTED SHARE AWARD SCHEMES

As of the date of this report, the maximum number of Restricted Shares approved to be granted under the 2021 Restricted A Share Incentive Scheme has been fully granted to the eligible grantees. On March 31, 2022, the grant registration procedure was completed. For details of completion of grant registration under the 2021 Restricted A Share Incentive Scheme, please refer to the announcement made by the Company on March 31, 2022. The allocation of the Restricted Shares granted under the 2021 Restricted A Share Incentive Scheme among the participants is set out as below:

Name of Grantee	Price Position (RMB/Share)	Number of Restricted Shares granted	Percentage to current total share capital
Key technical (business) personnel (297 persons)	83.97	366,300	0.1%

As of the date of this report, the maximum number of Restricted Shares approved to be subscribed by the participants under 2021 A Share Employee Stock Ownership Plan has not been subscribed by the eligible participants, representing approximately 0.09% of the Company's issued share capital as of the date of this report.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS 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, Supervisors 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 SFO; or which shall be separately notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), are as follows:

Interests in the Shares of the Company

Name of Director	Title	Nature of Interest	Class of Shares	Number of Underlying Shares held	Approximate percentage in the relevant class of Shares ⁽³⁾	Approximate percentage in total Shares ⁽³⁾
Ms. Feng ⁽¹⁾	Chairperson of the Board,	Beneficial Owner	A Shares	89,702,855(L) ⁽²⁾	27.99%	23.53%
	Executive Director	Interest of Spouse	A Shares	48,396,580(L) ⁽²⁾	15.10%	12.69%
Mr. Gu Xiaolei	Non-executive Director	Beneficial Owner	A Shares	18,472,397(L) ⁽²⁾	5.76%	4.85%
Mr. Zuo Conglin ⁽⁴⁾	Executive Director	Beneficial Owner	A Shares	13,342,845(L) ⁽²⁾	4.16%	3.50%
Ms. Sun Yunxia ⁽⁵⁾	Executive Director	Beneficial Owner	A Shares	2,645,642(L) ⁽²⁾	0.83%	0.64%
Mr. Gao Dapeng ⁽⁶⁾	Executive Director, Secretary to the Board, Joint Company Secretary	Beneficial Owner	A Shares	274,646(L) ⁽²⁾	0.09%	0.07%
Dr. Yao Dalin ⁽⁷⁾	Executive Director	Beneficial Owner	A Shares	110,864(L) ⁽²⁾	0.03%	0.03%

Report of Directors

Notes:

- (1) Mr. Zhou is the spouse of Ms. Feng. Under the SFO, each of Ms. Feng and Mr. Zhou is deemed to be interested in the A Shares that the other person is interested in. Ms. Feng held 89,702,855 of our A Shares, representing 23.53% of our total issued share capital as at the date of this report (without taking into account any A Shares to be issued upon exercise of the share options granted under the Share Option and Restricted Share Award Schemes). Mr. Zhou held 48,396,580 of our A Shares, representing 12.69% of our total issued share capital as at the date of this report (without taking into account any A Shares to be issued upon exercise of the share options granted under the Share Option and Restricted Share Award Schemes). Therefore, Ms. Feng and Mr. Zhou are each deemed to be interested in a total of 138,099,435 of Shares, representing 36.22% of our total issued share capital as at the date of this report (without taking into account any A Shares to be issued upon exercise of the share options granted under the Share Option and Restricted Share Award Schemes).
- (2) The letter “L” denotes the person’s long position in the Shares.
- (3) As at December 31, 2021, the Company had 381,246,492 issued shares in total, comprising 320,534,652 A Shares and 60,711,840 H Shares (without taking into account any A Shares to be issued upon exercise of the share options granted under the Share Option and Restricted Share Award Schemes).
- (4) Among the interests of Mr. Zuo Conglin, 163,800 of which are underlying Shares of options granted to Mr. Zuo Conglin.
- (5) Among the interests of Ms. Sun Yunxia, 222,600 of which are underlying Shares of options granted to Ms. Sun Yunxia.
- (6) Among the interests of Mr. Gao Dapeng, 71,400 of which are underlying Shares of options granted to Mr. Gao Dapeng.
- (7) Among the interests of Dr. Yao Dalin, 71,400 of which are underlying Shares of options granted to Dr. Yao Dalin.

Save as disclosed above and in the section headed “Pre-IPO Share Option and Restricted Award Schemes”, so far as the Directors are aware, as at the date of this report, none of our Directors, Supervisors 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 the December 31, 2021, the following persons (other than the Directors, Supervisors 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:

Name of substantial shareholder	Nature of Interest	Class of Shares	Number of Shares interested	Approximate percentage in the relevant class of Shares ⁽²⁾	Approximate percentage in total Shares ⁽²⁾
Mr. Zhou	Beneficial Owner	A Shares	48,396,580(L) ⁽³⁾	15.10%	12.69%
			89,702,855(L) ⁽³⁾	27.99%	23.53%
JPMorgan Chase & Co.	Interests of controlled corporation; Investment manager; Person having a security interest in shares and Approved lending agent	H Shares	4,775,544(L)	7.87%	1.25%
			1,459,480(S)	2.40%	0.38%
			73,848(P)	0.12%	0.02%
Aggregate of abrdn plc affiliated investment management entities	Interests of controlled corporation	H Shares	3,083,200(L)	5.08%	0.81%
UBS Group AG	Interests of controlled corporation	H Shares	5,700,374(L)	9.39%	1.50%

Notes:

- (1) (L) – Long Position, (S) – Short Position, (P) – Lending Pool.
- (2) As at the date of this report, the Company had 381,246,492 issued shares in total, comprised of 320,534,652 A Shares and 60,711,840 H Shares (without taking into account any A Shares to be issued upon exercise of the share options granted under the Share Option and Restricted Share Award Schemes).
- (3) Please refer to note (1) in the sub-section above.

Report of Directors

Interests of Substantial Shareholders in Members of the Group (Excluding the Company)

Name of Subsidiaries	Authorized share capital/ Registered capital	Parties with 10% or more equity interest	Approximate percentage of shareholding (%)
Beijing Shikang Qianyan Technology Co., Ltd. (北京視康前沿技術有限公司)	RMB1,000,000	Yao Nin (姚寧)	35
Qichen (Suzhou) Biological Science and Technology Co., Ltd. (蘇州啟辰生物科技股份有限公司)	RMB10,000,000	Huang Wenjuan (黃雯娟)	45
JOINN Laboratories (Wuxi) Co., Ltd. (昭衍(無錫)新藥研究中心有限公司)	RMB50,000,000	Jiangsu Sinotau Molecular Imaging Science & Technology Co., LTD. (江蘇先通分子影像科技 有限公司)	20

Except as disclosed in this section, to the best knowledge of the Company, 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.

ARRANGEMENTS FOR PURCHASE OF SHARES OR DEBENTURES

Save as disclosed in the annual report, none of the Company, its holding company or any of its subsidiaries has entered into any arrangement during the Reporting Period and up to the date of this report, so that the Directors would benefit from the purchase of Shares or debt securities (including debentures) of the Company or any other body corporate.

KEY RELATIONSHIP WITH STAKEHOLDERS

Relationship With Our Customers

Our primary customers consist of pharmaceutical and biotechnology companies, including Chinese and global blue-chip pharmaceutical companies and small-to-medium-sized biotechnology companies. For the year ended December 31, 2021, we served approximately 750 customers. We have also provided services to a growing number of innovative biotechnology companies.

- ***Key Contractual Terms of Customer Services Agreements for Non-Clinical Studies***

We generally enter into service agreements with our customers for our non-clinical studies. Our service agreements typically have a term of two years and set forth rights and obligations of the parties, the scope of services, with detailed terms and provisions governing the reporting and transferring of relevant data and project results, intellectual property rights, pricing and payment terms. Such project-based service agreements set forth project requirements, the project management regime, the project schedule, development steps, pricing and payment terms, intellectual property rights and termination rights, and are legally binding. Our customers typically retain ownership of all intellectual property they provide to us.

We typically bill our customers based on the payment schedule specified and the nature of the services provided in our service contracts and work orders.

We actively monitor the progress of each project and regularly communicate with our customers to mitigate risks of contractual disputes. Specifically, in case of a material cost overrun, we usually engage in good faith negotiations with our customers to increase our fees. During the Reporting Period, there were no material breaches of our service agreements, project-based service contracts or work orders either on our part or the part of our customers, and there was no termination of any material contract. During the Reporting Period, none of our service agreements with our customers was loss-making.

- ***Key Contractual Terms of Research Model Sales Contracts***

We had entered into research model sales contracts with our customers, including third-party academic and research institutions, for sales of our research models.

During the Reporting Period, there were no material breaches in our research model sales contracts either on our part or the part of our customers.

- ***Customer Support***

To facilitate project management and customer communication, we have designated a specific project manager to be in charge of the execution of each project. The project managers are responsible for internal coordination of the different departments involved on each project. They also interact with our customers on a regular basis to handle their inquiries and complaints. During the Reporting Period, we had not experienced any material customer complaints regarding our services or products.

Relationship with Our Suppliers

Our major suppliers are primarily located in China. We have established stable relationships with many of our key suppliers. In light of our comprehensive services offerings, we procure a wide variety of supplies such as general experimental consumables, equipment and research models, primarily rodents and non-human primates, mainly for our laboratories. The general experimental consumables, such as reagents, and equipment are available from various suppliers in quantities adequate to meet our needs. During the Reporting Period, we had not experienced any material difficulty in procuring a sufficient supply of general experimental consumables or equipment.

Report of Directors

We procured the majority of our non-human primate research models from quality third-party suppliers during the Reporting Period. As we enter into long-term purchase contracts with some of our suppliers of non-human primate research models, coupled with our bargaining power arising from our large volume of purchase and our long-term relationships with such suppliers, we had been able to obtain a sufficient supply of non-human primate research models at reasonable prices and had not experienced any major shortages that materially and adversely affected our operations during the Reporting Period.

Substantially all of our other research models, primarily consisted of rodent research models, used in our non-clinical studies were purchased from third-party suppliers as required by some of our customers to meet their specifications, as well as to ensure the consistent quality and stable supply of a large amount of research models required for our non-clinical studies in a cost-effective manner. Those research models are generally readily available from various suppliers in China in varieties and quantities adequate to meet our needs for our non-clinical studies.

None of our Directors, their respective associates, or Shareholders who own 5% or more of our issued share capital had any interest in any of our five largest suppliers during the Reporting Period. During the Reporting Period, none of our major suppliers was also our customer.

We select our suppliers based on a variety of factors, including their qualification, reputation, pricing, and overall services. We perform thorough due diligence on our suppliers, regularly monitor and review their performance and conduct on-site inspections.

As at the date of this report, we did not have any material disputes with our suppliers or experience any material breach of our supply agreements. We had not experienced any material shortages of our supplies during the Reporting Period. To the best of our knowledge, as at the date of this report, there was no information or arrangement that would lead to termination of our relationships with any of our major suppliers.

Relationship with Our Employees

As at December 31, 2021, we had a total of 2,140 employees most of whom are based in our facilities in China. Our U.S. employees were primarily employed by Biomere which we acquired in late 2019.

In compliance with applicable labor laws, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. These employment contracts typically have terms of three years. We also make contributions to social insurance funds for our Chinese employees in the PRC, including basic pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance funds, and housing provident fund.

We recruit, train and retain talented employees through our talent program which is designed to motivate highly qualified employees to build their own career within our company. We are committed to continuously enhancing our team's technical expertise, continuing education, project management capabilities and service quality with a comprehensive training system. We believe our dedicated and experienced management team and their industry networks along with a deep talent pool provide us with invaluable assets to our long-term success.

In support of our growth, we regularly review our capabilities and adjust our workforce to ensure we have the right mix of expertise to meet the demand for our services. We believe that our reputation, work environment, training system, remuneration package and employee share scheme help us attract qualified candidates. We have established a labor union that represents employees with respect to the promulgation of bylaws and internal protocols in China.

We require all of our employees to abide by our anti-bribery and anti-corruption compliance requirements and applicable laws and regulations to eliminate bribery and corruption risks.

As at the date of this report, we did not experience any strikes, labor disputes or industrial action which had a material effect on our business, and we consider our relationships with our employees to be good.

Relationship with Our Shareholders

The Company recognizes the importance of protecting the interests of the Shareholders and of having effective communication with them. The Company believes communication with the Shareholders is a two-way process and have thrived to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the Shareholders and listen carefully to the views and feedback from the Shareholders. This has been done through general meetings, corporate communications, interim and annual reports and results announcements.

MAJOR SUPPLIERS AND CUSTOMERS

In the Reporting Period, the Group's largest customer accounted for 3.50% of the Group's total revenue. The Group's five largest customers accounted for 12.05% of the Group's total revenue.

In the Reporting Period, the Group's largest supplier accounted for 28.55% of the Group's total purchase. The Group's five largest suppliers accounted for 55.66% of the Group's total purchase.

None of the Directors, their respective close associates, or any shareholder of the Company who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any material interest in any of the Group's five largest suppliers.

During the Reporting Period, the Group did not experience any significant disputes with its customers or suppliers.

INFORMATION ON TAX REDUCTION AND EXEMPTION FOR HOLDERS OF H SHARES

Individual Investors

According to the Notice on the Management of Personal Income Tax Imposed after the Abolition of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividends and bonuses received by foreign resident individual shareholders from the issuance of shares in Hong Kong by domestic non-foreign invested enterprises is subject to the payment of individual income tax according to the items of "interests, dividend and bonus income", which shall be withheld and paid on behalf of the shareholders by the withholding and payment agents. The foreign resident individual shareholders who hold the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China and the tax arrangements between mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration management, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends and bonuses, generally withhold and pay individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries which have entered into tax agreements stipulating a tax rate of lower than 10%, the withholding and payment agents will file applications on their behalf to seek entitlement of the relevant agreed preferential treatments, and upon review and approval by the tax authorities, the excess tax amounts withheld and paid will be refunded; (2) for citizens from countries which have entered into tax agreements stipulating a tax rate of higher than 10% but lower than 20%, the withholding and payment agents will withhold and pay the individual income tax at the agreed-upon effective tax rate when distributing dividends, and are not obligated to file an application; (3) for citizens from countries without tax agreements or are under other situations, the withholding and payment agents will withhold and pay the individual income tax at a tax rate of 20% when distributing dividends and bonuses.

Report of Directors

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (Guo Shui Han [2006] No. 884) (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(國稅函[2006]884號)) signed on 21 August 2006, the Chinese government may impose tax on dividends payable by the Chinese companies to Hong Kong residents, but the tax should not exceed 10% of the total dividend payable, if Hong Kong residents hold at least 25% equity interest in the Chinese company, the relevant tax shall not exceed 5% of the total dividend payable by the Chinese company.

Enterprises

According to the Enterprise Income Tax law of the People's Republic of China (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) effective on 1 January 2008, if non-resident enterprises establish no organizations and sites within the territory of China, or though they have established certain organizations and sites but the dividends and bonuses received have actually not correlated to the organizations and sites established, such enterprises shall pay the enterprise income tax at the rate of 10% of its income from the Chinese territory. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

According to the Notice on the Withholding and Payment of Enterprise Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H Share non-resident enterprise shareholders, they shall withhold and pay on behalf of the shareholders the enterprise income tax at the unified rate of 10%. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

Pursuant to the provisions in the Notice on Tax Policies Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends and bonuses obtained by mainland individual investors from investing in H Shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall withhold individual income tax at the tax rate of 20%. For the dividends and bonuses obtained by mainland securities investment funds from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, the individual income tax will be levied pursuant to the provisions mentioned above. For the dividends and bonuses obtained by mainland enterprise investors from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall not withhold any income taxes on the dividends and bonuses, as the income taxes shall be reported and paid by the investing enterprises on their own. Meanwhile, for the dividends and bonuses obtained by mainland resident enterprises from holding relevant H Shares for consecutive 12 months, the corporate income taxes shall be exempted according to laws.

Pursuant to the current practices of Inland Revenue Department of Hong Kong, no taxes shall be paid for the dividends distributed by the Company.

The shareholders of the Company shall pay the relevant taxes and/or be entitled to tax reduction and exemption pursuant to the above provisions.

EMPLOYEES

The Group had 2,140 employees as at December 31, 2021. Among the 2,140 employees, 1,962 employees are stationed in China and 178 employees are stationed overseas primarily in the U.S. The Group enters into employment contracts with its employees to cover matters such as wages, benefits, and grounds for termination. Please refer to No. 7(b) to the financial statements for details.

Remuneration of the Group's employees includes, 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 Option and Restricted Share Award Schemes".

RETIREMENT CONTRIBUTION SCHEME

The pension schemes in China and the U.S. are defined contribution schemes.

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

The Group's contributions to the central pension scheme vested fully and immediately with the employees. Accordingly, (i) for the year ended December 31, 2021, there was no forfeiture of contributions under the central pension scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the central pension scheme as at December 31, 2021. Please refer to note 7(b) to the financial statements.

For U.S. employees, Biomere ("Employer") is helping to make saving for retirement under our 401(k) Plan easier by offering an Employer safe harbor matching contribution. Employee's combined elective contributions and Roth 401(k) contributions are subject to a calendar year limit even though the Plan Year may not be the calendar year. Employer will be matching both employee's pre-tax and/or Roth elective contributions, dollar for dollar, up to 4% of employee's eligible pay. This contribution is called a safe harbor matching contribution. This contribution will be made on behalf of eligible employees. Employer may choose to revoke or suspend the safe harbor contribution during the year. If this occurs, employee will be given 30 days advance notice of the suspension and employee will be given an opportunity to change employee's elective contribution rate.

The Employer confirms that (i) for the year ended December 31, 2021, there was no forfeiture of contributions under the 401(k) plan; and (ii) there were no forfeited contributions available for the Employer to reduce its existing level of contributions to the plan as at December 31, 2021.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 39 to the consolidated financial statements contained herein.

We have entered into, and are expected to continue certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules. Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders' approval requirements as applicable in respect of those non-exempt continuing connected transactions which were entered into by the Group prior to the Listing, for the two years ending December 31, 2022.

Report of Directors

Save as disclosed below, none of these related party transactions as set out in note 39 to the financial statements constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

CONSIDERATION PROVIDED TO THIRD PARTIES FOR MAKING AVAILABLE DIRECTORS' SERVICES

During the years ended December 31, 2021 and 2020, the Group did not pay consideration to any third parties for making available directors' services.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

On December 10, 2021, as part of the Series B+ financing of JOINN Biologics Inc., the Company, among other parties, entered into the share purchase agreement with JOINN Biologics Inc., pursuant to which the Company has agreed to purchase, and JOINN Biologics Inc. has agreed to issue and sell, 44,116,176 Series B+ Preferred Shares, which represents approximately 4.76% of its issued share capital on a fully-diluted and as-converted basis at the total consideration of US\$50 million. Other parties to the share purchase agreement include JOINN Biologics Inc.'s subsidiaries, the principals (i.e. Ms. Feng, Mr. Zhou, Zhou Fengyi and Zhou Fengyuan), the holding companies (i.e. JOINN Biologics Holdco, Sologen Holdings Limited, Jousn Inc., LFY Inc., FY Zhou's Holdings Inc., Jousn Holdings LLC, Lao Feng Biotech Holdings LLC, Arc Cheetah Holdings LLC, Ice Leopard LLC) and the angel investor (A&C Brothers Holdings Limited). The above transaction constituted connected transaction as defined in Chapter 14A of the Listing Rules and was subject to the reporting and announcement requirements but was exempted from the circular and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules as one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Series B+ Preferred Share Purchase Agreement exceed 0.1% but are less than 5%.

Further details are set out in the Company's announcement dated December 10, 2021.

Continuing Connected Transactions

The following transactions constitute continuing connected transactions of the Company under Rule 14A.31 of the Listing Rules and are required to be disclosed in this report in accordance with Rule 14A.71 of the Listing Rules. The Company confirmed that it had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules, as below.

1. *Biorichland Lease Agreement*

On February 9, 2021, JOINN Laboratories (CA), our wholly owned subsidiary entered into a lease agreement (the "Biorichland Lease Agreement") with Biorichland LLC ("Biorichland"), a limited liability company incorporated under the laws of California, the United States, and wholly-owned by Mr. Zhou Fengyuan, the son of Ms. Feng and Mr. Zhou, our Controlling Shareholders. The Biorichland Lease Agreement commenced on the Listing Date and will end on December 31, 2022.

JOINN Laboratories (CA) agreed to lease from Biorichland certain premises located in 2600 Hilltop Drive, Richmond, CA, the United States, including research model facilities, laboratories and office (the "Leased Premises") with expected gross floor area (GFA) of up to 4,500 sq.m. and 6,000 sq.m. respectively for the two years ending December 31, 2022, together with all equipment to be used for research and development space (the "Leased Equipment", and together with the Leased Premises, the "Leased Property"), for our facilities in northern California.

JOINN Laboratories (CA) has been using the Leased Office at the same location as the Leased Property since January 1, 2017. Our Directors consider the Biorichland Lease Agreement to be consistent with the business and commercial objectives of our Company and believe that it will enable our Company to sustain stable research and development at the specific location of the Leased Property without incurring additional costs and expenses in identifying and renovating alternative premises, and ensure that there will be no disruption to the ongoing operations of our Company at the Leased Property.

The rental payable for the Leased Property under the Biorichland Lease Agreement shall be determined by both parties through arm's length negotiations with reference to (i) the area leased, corollary equipment, geographic location and profile of the area surrounding the Leased Property, and (ii) prevailing market rate in respect of the same or similar properties in the same area in which the Leased Property is located. The terms and conditions on which the Leased Property is to be provided by Biorichland should be in line with the prevailing market terms and no less favorable to us than those offered by independent third parties customers.

Actual transaction amount for the year ended December 31, 2021 of the continuing connected transactions was RMB7.9 million. The annual caps for the year ending December 31, 2021 is RMB9.6 million and for the year ending December 31, 2022 will amount to RMB11.6 million.

2. *Staidson Sales Framework Agreement*

On February 9, 2021, our Company entered into a sales framework agreement (the "Staidson Sales Framework Agreement") with Staidson, pursuant to which we agreed to sell research models to Staidson Group. Staidson is the parent company of the Staidson Group, a company held as to 40.29% in aggregate by Mr. Zhou and Ms. Feng, which includes 37.21% by Yizhao (Beijing) Medical Science & Technology Co., Ltd. (燭昭(北京)醫藥科技有限公司) (which is directly held as to 47.60% by Mr. Zhou and 37.40% by Ms. Feng, respectively), 1.97% by Mr. Zhou through Huatai Securities Asset Management – China Merchants Bank – Huatai – Juli Collective Asset Management Scheme No. 16 (華泰證券資管－招商銀行－華泰聚力16號集合資產管理計劃), and 1.11% by Mr. Zhou directly. The Staidson Sales Framework Agreement commenced on the Listing Date and will end on December 31, 2022.

Sales of the Research Models under the Staidson Sales Framework Agreement will be made pursuant to an individual sales agreement for each actual order specifying the types, purchase quantity, purchase price, delivery date and other details of the Research Models. Payments made by Staidson Group shall be subject to the individual service agreements entered into between the parties for each actual order, on the basis of the terms and conditions of the Staidson Sales Framework Agreement.

Report of Directors

The sales prices of the Research Models shall be determined by the parties after arm's length negotiations with reference to (i) the costs incurred by our Group in connection with the Research Models to be provided, and (ii) the type, quality and specification of the Research Models to be provided. We will only enter into an individual sales agreement with Staidson Group when the sales prices are in line with the prevailing market price and not less favorable to us than what we can receive from other independent third party customers.

Actual transaction amount for the year ended December 31, 2021 of the continuing connected transactions was RMB0.8 million (only Sales of Research Models inclusive). The annual caps for the year ending December 31, 2021 is RMB1.5 million and for the year ending December 31, 2022 will amount to RMB1.5 million.

3. Heyu Research and Development Service Framework Agreement

On February 9, 2021, our Company entered into a research and development service framework agreement (the "Heyu Research and Development Service Framework Agreement") with Beijing Heyu Pharmaceutical Technology Co., Ltd. ("Heyu"), pursuant to which we agreed to provide a comprehensive range of pharmaceutical R&D services covering pre-clinical and clinical trial stages, as well as pharmacovigilance services, to Heyu and its subsidiaries ("Heyu Group"). Heyu is a company held as to 55.00% by Mr. Zuo Wenjie, the son of Mr. Zuo Conglin, an executive Director of our Company. The Heyu Research and Development Service Framework Agreement commenced on the Listing Date and will end on December 31, 2022.

Service fees to be charged for the Heyu Services will be subject to the individual service agreements entered into by the parties for each actual transaction, on the basis of the terms and conditions of the Heyu Research and Development Service Framework Agreement.

Actual transaction amount for the year ended December 31, 2021 of the continuing connected transactions was RMB0.1 million. The annual caps for the year ending December 31, 2021 is RMB5.0 million and for the year ending December 31, 2022 will amount to RMB10.0 million.

4. Shengtong Pathology Service Framework Agreement

On February 9, 2021, our Company entered into a pathology service framework agreement (the "Shengtong Pathology Service Framework Agreement") with Shengtong Technology (Beijing) Co., Ltd. ("Shengtong"), pursuant to which we agreed to provide a comprehensive range of pathology services covering section making, section scanning and related training, etc. to Shengtong and its subsidiaries ("Shengtong Group"). Shengtong is a company held as to 90% by Mr. Zhou Fengyuan, the son of Ms. Feng and Mr. Zhou, our Controlling Shareholders. The Shengtong Pathology Service Framework Agreement commenced on the Listing Date and will end on December 31, 2022.

Service fees to be charged will be subject to the individual service agreements entered into by the parties for each actual transaction, on the basis of the terms and conditions of the Shengtong Pathology Service Framework Agreement.

Our Group did not provide any pathology services to Shengtong Group for the year ended December 31, 2021. Shengtong Group was established in November 2018 and its project teams and project pipelines was completed in 2021, and is in the experimental exploration process.

The annual caps for the year ending December 31, 2021 is RMB8.0 million and for the year ending December 31, 2022 will amount to RMB10.0 million.

5. ***Staidson Research and Development Service Framework Agreement***

On February 9, 2021, our Company entered into a research and development service framework agreement (the “Staidson Research and Development Service Framework Agreement”) with Staidson, pursuant to which our Company agreed to provide a comprehensive range of pharmaceutical R&D services covering pre-clinical and clinical trial stages, as well as pharmacovigilance services, to Staidson Group. The Staidson Research and Development Service Framework Agreement commenced on the Listing Date and will end on December 31, 2022.

Service fees to be charged will be subject to the individual service agreements entered into by the parties for each actual transactions, on the basis of the terms and conditions of the Staidson Research and Development Service Framework Agreement.

Actual transaction amount for the year ended December 31, 2021 of the continuing connected transactions was RMB33.1 million. The annual caps for the year ending December 31, 2021 is RMB60.0 million and for the year ending December 31, 2022 will amount to RMB70.0 million.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set out above has followed the pricing policies of such continuing connected transactions.

Save for the information disclosed above, (i) during financial year 2021, the Group did not enter into any other transactions which constituted connected transactions or continuing connected transactions that were subject to reporting requirements under Chapter 14A of the Listing Rules; and (ii) no related party transactions as set out in “Notes to Financial Statements - 39. Material Related Party Transactions and Balances” of this report constitute connected transactions or continuing connected transactions required to be disclosed under the Listing Rules for the year ended December 31, 2021..

The independent non-Executive Directors have reviewed the above continuing connected transactions and confirmed that such transactions were:

- entered into in the ordinary and usual course of business of the Group;
- conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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. The auditor has issued their unmodified letter containing the auditor’s findings and conclusions in respect of the continuing connected transactions disclosed by the Group 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 of Hong Kong Limited.

Report of Directors

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 report, the Company has maintained the public float as required under the Listing Rules.

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 Corporate Governance Code in Appendix 14 to the Listing Rules (the "Corporate Governance 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 67 to 83 of this report.

DONATIONS

During the Reporting Period, the Company made donations of RMB1.2 million.

AUDITOR

The H Shares were listed on the Hong Kong Stock Exchange on February 26, 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 KPMG, certified public accountants, who are proposed for reappointment at the forthcoming AGM of 2021.

On behalf of the Board

Ms. Feng Yuxia

Chairperson of the Board

Hong Kong, March 30, 2022

The Board of the Company is pleased to present this corporate governance report in this report (the "Corporate Governance Report").

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 contained in Appendix 14 to the Listing Rules.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry by the Company, all Directors, Supervisors 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 Relevant Period. The Company continues and will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

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 or her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Corporate Governance Report

Board Composition

The Board comprised 10 Directors, consisting of 5 executive Directors, 1 non-executive Director and 4 independent non-executive Directors as follows:

Executive Directors

Ms. Feng Yuxia (馮宇霞) (*Chairperson of the Board*)

Mr. Zuo Conglin (左從林) (*Vice Chairperson of the Board*)

Mr. Gao Dapeng (高大鵬) (*General Manager, Secretary to the Board, Joint Company Secretary*)

Ms. Sun Yunxia (孫雲霞) (*Vice General Manager*)

Dr. Yao Dalin (姚大林) (*Senior Vice General Manager, Chief Scientific Officer*)

Non-executive Director

Mr. Gu Xiaolei (顧曉磊)

Independent Non-executive Directors

Mr. Sun Mingcheng (孫明成)

Dr. Zhai Yonggong (翟永功)

Mr. Ou Xiaojie (歐小傑)

Mr. Zhang Fan (張帆)

The biographical information of the Directors are set out in the section headed “Biographies of Directors, Supervisors and Senior Management” of this 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, Supervisors and Senior Management”, the Directors do not have financial, business, family or other material/relevant relationships with one another.

Chairperson and Chief Executive Officer

Code provision C.2.1 (i.e. former code provision A.2.1 prior to the amendment of CG Code which came into effect on January 1, 2022) stipulates that the roles of Chairperson and Chief Executive should be separate and should not be performed by the same individual.

The Chairperson of the Board is Ms. Feng Yuxia. The Company does not maintain the office of chief executive officer. Instead, the general manager, Mr. Gao Dapeng, is responsible for the day-to-day management of the Company. The division of responsibilities between the Chairperson of the Board and the general manager has been clearly established.

Independent Non-Executive Directors

Throughout the Relevant 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 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.

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 Board of Directors and the Management

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.

Corporate Governance Report

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.

The management of our Company is responsible for daily management, administration and operation of the Group. It oversees the production, operation and management of our Company, organising and implementing the resolutions of the Board and other duties specified in the Articles of Association. The Board shall discuss the authorization function and duty periodically. Management shall obtain approval from the Board before any significant transaction is entered into.

Directors' Responsibilities for Financial Reporting

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

The management has provided sufficient explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

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 on pages 85 to 90.

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. Accordingly, pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure 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.

Corporate Governance Report

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 Reporting Period. The Directors are required to provide the Company with details of CPD training undertaken by them from time to time. The training records are maintained by the Company Secretary:

Directors	Type of Training^{Note}
<i>Executive Directors</i>	
Ms. Feng Yuxia	A/B
Mr. Zuo Conglin	A/B
Mr. Gao Dapeng	A/B
Ms. Sun Yunxia	A/B
Dr. Yao Dalin	A/B
<i>Non-Executive Director</i>	
Mr. Gu Xiaolei	A/B
<i>Independent Non-Executive Directors</i>	
Mr. Sun Mingcheng	A/B
Dr. Zhai Yonggong	A/B
Mr. Ou Xiaojie	A/B
Mr. Zhang Fan	A/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

All Directors have confirmed that they have given sufficient time and attention to the affairs of the Group throughout their tenure during the year. In addition, Directors disclose to the Company in a timely manner their other commitments, such as directorships in other public companies and major appointments as well as update the Company on any subsequent changes.

Corporate Governance Report

Board Diversity Policy

The Board has adopted a board diversity policy (the “Board Diversity Policy”) in accordance with the CG Code, in order to enhance the effectiveness of the Board and to maintain high standard of corporate governance. The Board Diversity Policy sets out the criteria in selecting candidates to the Company’s Board, including but not limited to gender, age, cultural and educational background and professional experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Our Directors have a balanced mix of gender, knowledge and skills, including knowledge and experience in the areas of business management, medical clinical research, scientific research, financial management and accounting. They obtained degrees in various areas including medicine, pharmacology, engineering and business administration. The Board Diversity Policy is well implemented as evidenced by the fact that there are two female and eight male Directors with experience from different industries and sectors. The Directors are 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 Nomination Committee will review the nomination policy, as appropriate, and recommend revision to the Board for consideration and approval.

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

During the Relevant Period, there was no change in the composition of the Board. The Company has complied with the new requirement to have a diverse board.

BOARD COMMITTEES

The Board has established 4 committees, namely, the Audit Committee, the Remuneration and Evaluation Committee, the Nomination Committee and the Strategic Development 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 authority 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 Company has established the Audit Committee with written terms of reference in accordance with Rule 3.21 of the Listing Rules and the CG Code.

The Audit Committee consists of three independent non-executive Directors, namely Mr. Sun Mingcheng, Dr. Zhai Yonggong and Mr. Zhang Fan. Mr. Sun Mingcheng 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.

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

- supervising and evaluating the work of external auditors;
- guiding the internal audit work;
- reviewing and issuing opinions on the financial reports of the Company;
- evaluating the effectiveness of internal control;
- facilitating communications between the management, the internal audit department and relevant departments of the Company and external auditors; and
- other matters authorized by the Board of Directors and other matters prescribed in relevant laws and regulations.

The Audit Committee held 4 meetings to review, in respect of the year ended December 31, 2021, the quarterly, interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The attendance records of the Audit Committee are set out under “Attendance Record of Directors and Committee Members”.

Remuneration and Evaluation Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the CG Code.

The Remuneration and Evaluation Committee consists of one executive Director, namely Mr. Zuo Conglin, and two independent non-executive Directors, namely Mr. Sun Mingcheng and Mr. Ou Xiaojie. Mr. Ou Xiaojie is the chairperson of the Remuneration and Evaluation Committee.

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

Corporate Governance Report

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

- formulating remuneration plans or schemes based on the main scope, responsibilities and importance of the management positions of the Directors and senior management, and the remuneration levels of similar positions in other enterprises; the remuneration plans or schemes mainly include but not limited to performance evaluation criteria and procedures, the main evaluation system, and the principal plan and system regarding incentive and penalty;
- reviewing and approving the management's proposal on remuneration based on the corporate goals and objectives set by the Board;
- making recommendations to the Board on the overall performance evaluation and remuneration policy and structure of the Company's Directors and senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy;
- determining, with delegated responsibility of the Board, the remuneration packages of individual executive Directors and senior management or making recommendations to the Board for the remuneration package of individual executive Directors and senior management, including 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 the remuneration package, time commitment, scope of responsibility of similar companies and other employment terms of other positions within the Group;
- reviewing and approving the compensation payable 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, reasonable and not excessive;
- reviewing and approving compensation arrangements relating to the dismissal or removal of Directors for misconduct or the like, 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/her remuneration;
- reviewing the performance of duties by the Directors (non-independent directors) and senior management of the Company and conducting the annual performance evaluation on them;
- supervising the implementation of the Company's remuneration and evaluation system; and
- other matters as authorized by the Board.

The Remuneration and Evaluation Committee held 3 meetings to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters during the Reporting Period.

The attendance records of the Remuneration and Evaluation Committee are set out under “Attendance Records of Directors and Committee Members”.

Details of the remuneration of the Directors and Supervisors are set out in note 8 and note 9 in the Notes to the Financial Statements for the year ended December 31, 2021.

Details of the remuneration of the senior management of the Company (who are not the Directors and Supervisors) by band during the Reporting Period are set out in the Report of Directors on page 40.

Nomination Committee

The Nomination Committee consists of one executive Director, namely Ms. Feng Yuxia, and two independent non-executive Directors, namely Dr. Zhai Yonggong and Mr. Ou Xiaojie. Dr. Zhai Yonggong 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 skills, knowledge and experience) of the Board at least once a year and making recommendations to the Board on the size and composition of the Board based on the Company’s operating activities, asset size and equity structure; when considering the composition of the members of the Board, ensuring the balance between executive and non-executive Directors (including independent directors) and considering from multiple aspects of the diversity of the members of the Board, including but not limited to their gender, age, cultural and educational background and professional experience; and formulating and reviewing the Board diversity policy;
- studying the selection criteria and procedures for Directors and managers and making recommendations to the Board;
- extensively identifying candidates who are qualified to act as Directors and managers, and selecting and nominating relevant persons to act as Directors or offering advice to the Board;
- examining and making recommendations in relation to the candidates for the roles of Directors (including independent non-executive Directors) and managers;
- examining and making recommendations in relation to other senior management who shall be reported to the Board for appointment;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular, the chairman) and the general manager;
- evaluating the independence of the independent non-executive Directors; and
- other matters as authorized by the Board.

Corporate Governance Report

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.

The Nomination Committee held 1 meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy during the Reporting Period.

The attendance records of the Nomination Committee are set out under "Attendance Record of Directors and Committee Members".

Strategic Development Committee

The Strategic Development Committee consists of three executive Directors, namely Ms. Feng Yuxia, Mr. Zuo Congling and Ms. Sun Yunxia, one non-executive Director, namely Mr. Gu Xiaolei, and one independent non-executive Director, namely Mr. Ou Xiaojie. Ms Feng Yuxia is the chairperson of the Strategic Development Committee.

The terms of reference of the Strategic Development Committee are in compliance with the relevant laws and regulations of the PRC.

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

- researching and making recommendations on the long-term development strategic plans of the Company;
- researching and making recommendations on major investment and financing schemes which require the approval of the Board as stipulated in the Articles of Association or authorized at the general meeting;
- researching and making recommendations on major capital operations and asset operation projects which require the approval of the Board as stipulated in the Articles of Association or authorized at the general meeting;
- researching and making recommendations on other major issues affecting the development of the Company;
- checking the implementation of the above matters; and
- dealing with other matters authorized by the Board.

The Strategic Development Committee held 1 meeting to study and advise on the long-term strategy and major investments and financing plans of our Group during the Reporting Period.

The attendance records of the Strategic Development Committee are set out under "Attendance Record of Directors and Committee Members".

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 (i.e. former Code provision D.3.1 prior to the amendment of CG Code which came into effect on January 1, 2022) of the CG Code.

During the Relevant Period, the Board had reviewed 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 Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

Pursuant to code provision A.1.1 of the CG Code, Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. The Company had held seven Board meetings during the Reporting Period.

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

Name of Director	Attendance/Number of Meetings						
	Board	Audit Committee	Remuneration and Evaluation Committee	Nomination Committee	Strategic Development Committee	Annual General Meeting	Other General Meetings
Ms. Feng Yuxia	7/7	N/A	N/A	1/1	1/1	1/1	2/2
Mr. Zuo Conglin	7/7	N/A	3/3	N/A	1/1	1/1	2/2
Mr. Gao Dapeng	7/7	N/A	N/A	N/A	N/A	1/1	2/2
Ms. Sun Yunxia	7/7	N/A	N/A	N/A	1/1	1/1	2/2
Dr. Yao Dalin	7/7	N/A	N/A	N/A	N/A	1/1	2/2
Mr. Gu Xiaolei	7/7	N/A	N/A	N/A	1/1	1/1	2/2
Mr. Sun Mingcheng	7/7	4/4	3/3	N/A	N/A	1/1	2/2
Dr. Zhai Yonggong	7/7	4/4	N/A	1/1	N/A	1/1	2/2
Mr. Ou Xiaojie	7/7	N/A	3/3	1/1	1/1	1/1	2/2
Mr. Zhang Fan	5/5	4/4	N/A	N/A	N/A	1/1	2/2

Note: According to code provision C.5.1 (i.e. former Code provision A.1.1 prior to the amendment of CG Code which came into effect on January 1, 2022), board meetings should be held at least four times a year at approximately quarterly intervals with active participation, either in person or through electronic means of communication, of the majority of the Directors. Apart from regular Board meetings, the Chairman also held meetings with Independent Non-executive Directors without the presence of other Directors during the year pursuant to code provision C.2.7 (i.e. former Code provision A.2.7 prior to the amendment of CG Code which came into effect on January 1, 2022) of the CG Code.

Corporate Governance Report

Risk Management and Internal Controls

1. Risk Management

Details of the risk management of the Company are set out in “Management Discussion and Analysis – IV. Risk Management” of this report.

2. Establishment of the Internal Control System

The Board has established the internal control system, and monitored and reviewed on an annual basis in compliance with Paragraph D.2 (i.e. former Paragraph C.2 prior to the amendment of CG Code which came into effect on January 1, 2022). The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

3. Main Features of the Internal Control System and Process Used to Review the Effectiveness of the Internal Control System and Rectify Defects

Below is a summary of the internal control policies, measures and procedures our Company has implemented:

- Financial reporting risk management – the Company maintain a set of accounting policies in connection with its financial reporting risk management, such as financial reporting management policies, budget management policies, wealth management products investment policies, financial statements preparation policies and finance department and staff management policies. The Company has various procedures and IT systems to implement its accounting policies, and its finance department reviews its management accounts accordingly.
- Human resource risk management – the Company has set a number of standard operation procedures for human resource management in China and overseas, including the recruiting management policy, personnel records management policy, probation and employment policy, labor contract management policy, social insurance and housing provident fund management policy, training management policy, termination and resignation management policy, and attendance and vacation policy. These procedures aim to mitigate the Company’s risks in insufficient recruitment, staff attrition, non-compliance with labor regulations, employee information management and others.
- The Board has delegated the Audit Committee chaired by Mr. Sun Mingcheng, with the responsibility to oversee the risk management and internal control systems of the Company on an on-going basis and to review the effectiveness of the systems annually in compliance with Paragraph D.2 of the CG Code. The review covers all material controls, including financial, operational and compliance controls. The duties of the Audit Committee shall include: (i) to supervise and evaluate the work of external auditors; (ii) to guide the internal audit work; (iii) to review and issue opinions on the financial reports of the Company; (iv) to evaluate the effectiveness of internal control; (v) to facilitate communications between the management, the internal audit department and relevant departments of the Company and external auditors; and (vi) other matters authorized by the Board and other matters prescribed in relevant laws and regulations.
- Our Directors, who are responsible for monitoring the corporate governance of our Group, with assistance from our legal advisors, periodically reviews our compliance status with all relevant laws and regulations after the Listing.

- The Company has engaged an internal control consultant to issue a long form report in connection with the internal control over financial reporting of the Company and its major operating subsidiaries and to report factual findings on the Company's entity-level controls and internal controls of various processes, including control environment, risk assessment, control activities, information and communication, monitoring activities, sales and receivables management, purchases and payment management, inventory management, production management, R&D management, human resources and remuneration management, treasury management, fix assets and intangible asset management, reporting and disclosure, tax, insurance, contract management and information system management.
- The Company has engaged Anglo Chinese Corporate Finance, Limited as its compliance adviser to provide advice to its Directors and management team until the end of the first fiscal year after the Listing regarding matters relating to the Listing Rules. The Company's compliance adviser is expected to ensure the use of funding complies with the disclosure in the prospectus, as well as to provide support and advice regarding requirements of relevant regulatory authorities in a timely fashion.
- The Company will also consult its PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to increase compliance awareness and to keep it abreast of relevant regulatory developments.
- The Company has implemented a policy on the payment of social insurance and housing provident fund contribution for employees in compliance with relevant PRC laws and regulations.
- The Company has put a policy in place pursuant to which the Controlling Shareholders (i) shall support the Company's business and operations, and shall not compete with the Company in terms of business scope and nature, target customers and alternative products; (ii) shall support the Company's independent decision-making regarding its business and operations, internal management, outbound investment and external guarantees; and (iii) shall not take for themselves any business opportunity that could benefit the Company by leveraging their controlling position.
- Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Company's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements. During the Reporting Period, major works performed by the management in relation to risk management and internal control included the following:
 - each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Company's performance; assessing and evaluating the identified risks according their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;
 - the management, together with the controller's department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;

Corporate Governance Report

- the management periodically followed up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;
- the management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies; and
- the management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. were in place.

4. *Procedures and Internal Controls for Processing and Releasing Inside Information*

With approval from the Board and pursuant to the requirements of domestic and foreign laws and regulations, Listing Rules and Articles of Association as well as the practical conditions of our Company, our Company has formulated a policy on information disclosure management to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this system, our Company must, as soon as any inside information comes to its knowledge or a false market may be established, disclose the information to the public to the reasonable and practicable extent.

During the Reporting Period, our Company has truthfully, accurately, legally and timely disclosed information in strict compliance with the requirements of domestic and foreign laws and regulations, the Listing Rules, the Articles of Association and the policy on information disclosure management of our Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information fairly, timely and effectively.

5. *Appraisal of Internal Control*

The Board and the management of our Company are jointly responsible for the establishment, the effective implementation and improvement of a sound internal control system. The objectives of internal control of our Company are: guaranteeing the legality of operations of our Company and the execution of internal regulatory system, protecting against operational risk and moral risk, securing the safety and completeness of the assets of the clients and our Company, ensuring the reliability, completeness and timeliness of the business records, financial information and other information of our Company and improving the operational efficiency and effectiveness of our Company.

As internal control has inherent restrictions, we can only reasonably guarantee that the above objectives may be achieved. Furthermore, the effectiveness of internal control may also change according to our Company's internal and external environment and operating conditions. Our Company has set up an inspection and supervision mechanism through which our Company can take measures to rectify deficiencies in the internal control once identified.

During the Reporting Period, the Group was not aware of any material defect in internal control of the Group. The Board is of the view that the Group has established an effective internal control system, which achieves our objectives of internal control and is free of material defect and significant defect.

6. *Review of Risk Management and Internal Control System*

During the year ended 31 December 2021, the Board conducted a comprehensive review of the Group's risk management and internal control systems through the Audit Committee. The period covers the fiscal year 2021 and covers the main business of the Company. The Board considers that the Group has complied with the risk management and internal control provisions set out in the Corporate Governance Code and considers that the risk management and internal control system are effective and adequate.

Auditors' Remuneration

KPMG (畢馬威會計師事務所) and KPMG Huazhen LLP (畢馬威華振會計師事務所(特殊普通合夥)) were engaged as the international financial report and PRC financial report auditors of the Company respectively for the year ended December 31, 2021. The remuneration paid or payable to the Company's external auditors in respect of annual audit services and non-audit services for the year ended December 31, 2021 amounted to RMB2.4 million and RMB0.2 million respectively. Non-audit service provided by KPMG is related to the preparation of 2021 ESG report.

JOINT COMPANY SECRETARIES

Mr. Gao Dapeng, an executive Director, the general manager, the secretary to the Board and a joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board's policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Mr. Ng Cheuk Ming, a manager of Tricor Services Limited (a company secretarial service provider), as the other joint company secretary to assist Mr. Gao Dapeng to discharge his duties as company secretary of the Company. Mr. Jia Fengsong, the Securities Affairs Representative, has been designated as the primary contact person at the Company which would work and communicate with Mr. Ng Cheuk Ming on the Company's corporate governance and secretarial and administrative matters. As the joint company secretaries of the Company, Mr. Gao Dapeng and Mr. Ng Cheuk Ming have complied with the relevant professional training requirement under Rule 3.29 of the Listing Rule for the year ended December 31, 2021.

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.

Convening Shareholders' General Meetings

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

Pursuant to Article 72 of the Articles of Association, independent Directors have the right to propose to the Board to convene an extraordinary general meeting of Shareholders. Independent Directors shall obtain at least 1/2 of all independent Directors' consent when exercising the above-mentioned powers.

Corporate Governance Report

For independent Directors' proposal to convene an extraordinary general meeting, the Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, propose to agree or disagree to convene an extraordinary general meeting within 10 days after receiving the proposal in a written form.

If the Board agrees to convene an extraordinary general meeting, it shall issue a notice of convening the general meeting within 5 days after the resolution of the Board is made; if the Board does not agree, it shall explain the reasons and make an announcement.

Pursuant to Article 73 of the Articles of Association, the board of Supervisors has the right to propose in writing to the Board to convene an extraordinary general meeting of Shareholders. The Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, provide written feedback on whether or not it agrees to convene an extraordinary general meeting within 10 days after receiving the proposal.

If the Board agrees to convene an extraordinary general meeting of Shareholders, a notice of convening the general meeting of Shareholders shall be issued within 5 days after the resolution of the Board is made. Any changes to the original proposal in the notice shall be approved by the Board.

If the Board does not agree, or fails to provide feedback within 10 days after receiving the proposal, it is deemed that the Board cannot perform or fails to perform its duties of convening the general meeting of Shareholders, and the board of Supervisors may convene and preside over it by itself.

Pursuant to Article 74 of the Articles of Association, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting have the right to request in writing the Board to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting, in which they should also list the topic of the meeting. The Board shall, in accordance with the laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, provide written feedback on whether or not to agree to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting within 10 days after receiving the written request.

If the Board agrees to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting, it shall issue a notice of convening within 5 days after the resolution of the Board is made. Any changes to the original request in the notice shall obtain the approval of the relevant Shareholders.

If the Board does not agree, or fails to provide feedback within 10 days after receiving the request, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting shall have the right to propose to the board of Supervisors, in writing, to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting.

If the board of Supervisors agrees to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting, it shall issue a notice of convening within 5 days of receiving the request. Changes to the original proposal in the notice shall obtain the approval of the relevant Shareholders.

If the board of Supervisors fails to issue a notice of a general meeting of Shareholders or a class Shareholders meeting within the prescribed time limit, it shall be deemed that the board of Supervisors does not convene and preside over the general meeting of Shareholders or class Shareholders meeting, and Shareholders holding individually or collectively more than 10% of the Shares that have voting rights at the proposed meeting for more than 90 consecutive days can convene and preside over relevant general meetings by themselves.

Putting Forward Proposals at General Meetings

When the Company convenes a general meeting of shareholders, the Board, Supervisors and Shareholders who individually or collectively hold more than 3% of the Company's Shares have the right to make proposals to the Company.

Shareholders who individually or collectively hold more than 3% of the Company's Shares may submit an interim proposal 10 days before the general meeting of Shareholders to the convener in writing. The convener shall issue a supplementary notice of the general meeting of Shareholders within 2 days after receiving the proposal to announce the content of the temporary proposal. The content of the interim proposal should fall within the scope of the Shareholders' general meeting, and have clear topics and specific resolutions.

Except for the circumstances specified in the preceding paragraph, the convener may not modify the proposals listed in the notice of the Shareholders meeting or add new proposals after issuing the notice of the Shareholders meeting.

For proposals that are not listed in the notice of the general meeting of Shareholders or that do not meet the requirements of Article 78 of these Articles of Association, the general meeting of Shareholders shall not vote and make resolutions.

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: No.5 Rongjingdong St. Beijing Economic and Development Area Beijing China, 100176
(For the attention of the Board of Directors/Company Secretary)
Fax: 010-67869966-1077
Email: jjafengsong@joinn-lab.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.

Corporate Governance Report

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 www.joinn-lab.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

During the year under review, the Company has amended its Articles of Association. The amendments are in relation to the change of the registered capital of the Company. Details of the amendments are set out in the circular dated May 18, 2021 to the Shareholders.

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 (i.e. former Code provision E.1.5 prior to the amendment of CG Code which came into effect on January 1, 2022) 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.

As of the date of this report, there is no arrangement under which a Shareholder has waived or agreed to waive any dividend (including future dividends).



**Independent auditor's report to the shareholders of
JOINN Laboratories (China) Co., Ltd.**

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of JOINN Laboratories (China) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 188, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 Standard 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 Hong Kong Standards on Auditing ("HKASs") issued by the Hong Kong Institute of Certified Public Accounts (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition of non-clinical studies services

Please refer Note 4 to the consolidated financial statements and accounting policies in Note 2(w).

The key audit matter

The Group's revenue is mainly derived from the provision of non-clinical studies services.

The non-clinical studies service contracts entered by the Group may cover one or several experiment studies. The service contracts stipulated the scope of studies, the project schedule, pricing and closing report of the results of each study. The management of the Group evaluates whether each study is distinct performance obligation. Revenue is recognised upon the transfer of the control of service results to customers.

We identified recognition of revenue from non-clinical studies services as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue to meet targets or expectations.

How the matter was addressed in our audit

Our audit procedures in relation to revenue recognition for non-clinical studies services included the following:

- Understanding and evaluating the design, implementation and operation effectiveness of the Group's key internal controls over revenue recognition of non-clinical studies services;
- Inspecting contracts, on a sample basis, to understand the terms of contracts and assessing the Group's revenue recognition policies of non-clinical studies services, including the identification of performance obligations, with reference to prevailing accounting standards;
- Obtaining the publicly available business registration information of selected customers, if available, to understand background of these selected customers, and compare the shareholders, directors and supervisors of these selected customers to the list of related parties provided by the management to identify any undisclosed related party relationship;
- Comparing, on a sample basis, revenue from non-clinical studies services during the financial year, to service contracts, closing reports and/or other underlying documents to evaluate whether the selected revenue transactions have been recognised in accordance with the Group's accounting policies;

KEY AUDIT MATTERS (CONTINUED)

Revenue recognition of non-clinical studies services (continued)

Please refer Note 4 to the consolidated financial statements and accounting policies in Note 2(w).

The key audit matter

How the matter was addressed in our audit

Our audit procedures in relation to revenue recognition for non-clinical studies services included the following (continued):

- Assessing, on a sample basis, whether revenue transactions from non-clinical studies services recorded around the financial year end have been recognised in the appropriate period by inspecting non-clinical studies service contracts, closing reports and/or other relevant underlying documents;
- Obtaining confirmations of outstanding trade receivables at the end of the financial year from customers, on a sample basis; for unreturned confirmations, performing alternative procedures; and
- Inspecting underlying documentation for journal entries related to revenue which met specific risk-based criteria.

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Valuation of biological assets

Please refer to Note 18 to the consolidated financial statements and accounting policies in Note 2(i).

The key audit matter

The Group's biological assets mainly comprise non-human primate research models used for breeding and non-clinical studies. These biological assets are measured at fair value. The Group engaged an external valuer to assist in valuation of the biological assets.

The fair value measurement of the biological assets involves a significant degree of management judgements, including recent market prices, replacement cost of certain age groups and annual feeding cost.

We identified the valuation of biological assets as a key audit matter because the valuation involves significant judgement with uncertainty and is subject to potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of biological assets included the following:

- understanding and evaluating the design and implementation of the Group's key internal controls over the valuation of biological assets;
- evaluating the external valuers' competence and capabilities and considering their objectivity and independence;
- involving our internal valuation specialist to assess the appropriateness of the valuation methodologies with reference to the requirements of the accounting standards;
- assessing the reasonableness of key parameters or assumptions (including recent market prices, replacement cost of certain age groups and annual feeding cost) by comparing with market data and/or other supporting documents;
- observing, the physical count of the Group's biological assets and comparing the quantity of biological assets to that in the valuation calculation; and
- evaluating the disclosures in the consolidated financial statements in respect of the valuation of biological assets with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (CONTINUED)

Potential impairment of goodwill

Please refer to Note 15 to the consolidated financial statements and accounting policies in Note 2(m)(ii).

The Key audit matter

As at 31 December 2021, the carrying amount of goodwill amounted to RMB122,431,000, which arose from the acquisition of Biomedical Research Models, Inc. in 2019.

Management performs impairment assessment of the goodwill at the end of each financial year by comparing the carrying value of the cash-generating unit ("CGU") to which goodwill was allocated to the recoverable amount estimated based on discounted cash flow forecast to determine if any impairment loss should be recognised. The Group engaged an external valuer to assist in goodwill impairment assessment.

The preparation of discounted cash flow forecast for the purpose of assessing potential impairment of goodwill involves significant management estimation, in particular, the determination of revenue growth rate, gross profit margin and discount rate.

We identified the assessment of potential impairment of goodwill as a key audit matter because the goodwill impairment assessment is inherently subjective and requires significant judgement by management which could be subject to uncertainty and management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following:

- obtaining an understanding and evaluating the design and implementation of key internal controls over goodwill impairment assessment;
- assessing the management's identification of CGUs, the allocation of goodwill to each CGU and the methodology adopted by management in its goodwill impairment assessment with reference to the requirements of the prevailing accounting standards;
- evaluating the external valuers' competence and capabilities and considering their objectivity and independence;
- involving our internal valuation specialist to assess the reasonableness of the discount rate applied in the discounted future cash flow forecast;
- challenging management's key assumptions or parameters used in cash flow forecast including revenue growth rate in revenue, gross profit margin and discount rate, based on our understanding, knowledge and experience in the industry and with reference to the approved business plans of the Group;

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Potential impairment of goodwill (continued)

Please refer to Note 15 to the consolidated financial statements and accounting policies in Note 2(m)(ii). (Continued)

The Key audit matter

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following (continued):

- assessing the impact of changes in the key assumptions, including the discount rate and other key assumptions, on the conclusions reached in the impairment assessments and assessing whether there were any indicators of management bias;
- comparing the key estimations and assumptions used by the management for preparing discounted cash flow forecast in the previous year with the actual performance of the business in current year to evaluate whether there was any management bias; and
- evaluating the disclosures in the consolidated financial statements in respect of the goodwill impairment assessment with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yu Wai Sum.

KPMG

Certified Public Accountants

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

30 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021
(Expressed in Renminbi ("RMB"))

	Note	2021 RMB'000	2020 RMB'000
Revenue	4	1,516,680	1,075,905
Cost of services		(781,002)	(525,280)
Gross profit	4(b)	735,678	550,625
Other gains and losses, net	5	113,441	31,720
Gains arising from changes in fair value of biological assets	6	125,323	54,732
Selling and marketing expenses		(15,973)	(12,907)
General and administrative expenses		(264,321)	(211,482)
Research and development expenses		(47,756)	(50,659)
Profit from operations		646,392	362,029
Finance costs	7(a)	(3,962)	(3,521)
Share of losses of an associate		(426)	–
Profit before taxation	7	642,004	358,508
Income tax	8	(85,587)	(46,944)
Profit for the year		556,417	311,564
Other comprehensive income for the year (after tax)	11		
<i>Item that will not be reclassified to profit or loss:</i>			
– Equity investments at fair value through other comprehensive income ("FVOCI") – net movement in fair value reserve (non-recycling)		2,734	44,578
<i>Item that may be reclassified subsequently to profit or loss</i>			
– Exchange differences on translation of financial statements of foreign operations		(5,212)	(15,909)
		(2,478)	28,669
Total comprehensive income for the year		553,939	340,233

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021
(Expressed in Renminbi ("RMB"))

	Note	2021 RMB'000	2020 RMB'000
Profit for the year attributable to:			
Equity shareholders of the Company		557,460	312,950
Non-controlling interests		(1,043)	(1,386)
Profit for the year			
		556,417	311,564
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		554,982	341,619
Non-controlling interests		(1,043)	(1,386)
Total comprehensive income for the year			
		553,939	340,233
Earnings per share			
	12		
Basic (RMB)		1.51	0.99
Diluted (RMB)		1.50	0.98

The notes on pages 102 to 188 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property plant and equipment	13	814,728	645,871
Intangible assets	14	57,068	62,769
Interest in an associate	17	25,289	–
Goodwill	15	122,431	125,296
Biological assets	18	74,115	19,434
Financial assets at FVOCI	19	105,661	64,445
Certificates of deposits	20	1,405,323	–
Other non-current assets	21	74,124	37,139
Deferred tax assets	34(b)	43,854	35,261
		2,722,593	990,215
Current assets			
Inventories	22	106,293	91,011
Contract costs	23	433,794	247,742
Biological assets	18	160,499	67,462
Contract assets	24(a)	98,999	66,812
Trade and bills receivables	25	115,510	91,041
Prepayments and other receivables	26	64,312	71,026
Financial assets at fair value through profit or loss (“FVTPL”)	27	680,978	238,903
Cash at bank and on hand	28	4,154,099	308,690
		5,814,484	1,182,687
Current liabilities			
Interest-bearing borrowings	29	4,544	3,081
Trade payables	30	53,644	60,286
Contract liabilities	24(b)	972,213	583,537
Other payables	31	140,328	92,586
Lease liabilities	32	21,651	14,520
Income tax payable	34(a)	21,862	20,297
		1,214,242	774,307
Net current assets		4,600,242	408,380
Total assets less current liabilities		7,322,835	1,398,595

Consolidated Statement of Financial Position

At 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Interest-bearing borrowings	29	4,939	21,375
Lease liabilities	32	64,188	53,170
Deferred tax liabilities	34(b)	48,428	35,200
Deferred income	35	60,844	67,041
		178,399	176,786
NET ASSETS			
		7,144,436	1,221,809
CAPITAL AND RESERVES			
	36		
Share capital		381,246	227,455
Reserves		6,754,968	995,089
Total equity attributable to equity shareholders of the Company		7,136,214	1,222,544
Non-controlling interests		8,222	(735)
TOTAL EQUITY		7,144,436	1,221,809

Approved and authorised for issue by the board of directors on 30 March 2022.

Name: Feng Yuxia
Position: Chairperson

Name: Gao Dapeng
Position: Director

The notes on pages 102 to 188 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021
(Expressed in RMB)

		Attributable to equity shareholders of the Company									
		Share capital	Capital reserve	Share award reserve	Statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interests	Total Equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 36 (d))	(Note 36 (e)(i))	(Note 36 (e)(ii))	(Note 36 (e)(iii))	(Note 36 (e)(iv))	(Note 36 (e)(v))				
Balance at 1 January 2021		227,455	249,804	(9,916)	59,290	(15,357)	44,578	666,690	1,222,544	(735)	1,221,809
Changes in equity for 2021:											
	Profit for the year	-	-	-	-	-	-	557,460	557,460	(1,043)	556,417
	Other comprehensive income	-	-	-	-	(5,212)	2,734	-	(2,478)	-	(2,478)
Total comprehensive income		-	-	-	-	(5,212)	2,734	557,460	554,982	(1,043)	553,939
	Issue of shares under H share initial public offering	36(b) 43,365	5,241,855	-	-	-	-	-	5,285,220	-	5,285,220
	Issue of shares under bonus issue	36(d) 108,399	(108,399)	-	-	-	-	-	-	-	-
	Shares issued under share option scheme	2,027	100,820	-	-	-	-	-	102,847	-	102,847
	Unlock of restricted shares	33(b)(ii) -	-	5,847	-	-	-	-	5,847	-	5,847
	Recognition of share-based payments	33 -	23,513	-	-	-	-	-	23,513	-	23,513
	Recognition of tax effect related with share-based payments	34 -	35,977	-	-	-	-	-	35,977	-	35,977
	Appropriation to reserves	-	-	-	28,138	-	-	(28,138)	-	-	-
	Dividends declared and paid in respect of the previous year	36(c)(ii) -	-	134	-	-	-	(94,850)	(94,716)	-	(94,716)
	Capital contributions from a subsidiary's non-controlling shareholder	-	-	-	-	-	-	-	-	10,000	10,000
Balance at 31 December 2021		381,246	5,543,570	(3,935)	87,428	(20,569)	47,312	1,101,162	7,136,214	8,222	7,144,436

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021
(Expressed in RMB)

Attributable to equity shareholders of the Company											
		Share	Capital	Share	Statutory	Exchange	Fair value	Retained	Total	Non-	Total
	Note	capital	reserve	award	reserve	reserve	reserve	profits	RMB'000	controlling	Equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	interests	RMB'000
		(Note 36	(Note 36	(Note 36	(Note 36	(Note 36	(Note 36	(Note 36			
		(d)	(e)(i)	(e)(ii)	(e)(iii)	(e)(iv)	(e)(v)	(e)(v)			
Balance at 1 January 2020		161,717	233,133	(14,283)	35,206	552	-	432,875	849,200	745	849,945
Changes in equity for 2020:											
Profit for the year		-	-	-	-	-	-	312,950	312,950	(1,386)	311,564
Other comprehensive income		-	-	-	-	(15,909)	44,578	-	28,669	-	28,669
Total comprehensive income		-	-	-	-	(15,909)	44,578	312,950	341,619	(1,386)	340,233
Issue of shares under bonus issue	36(d)	64,766	(64,766)	-	-	-	-	-	-	-	-
Issue of restricted shares	33	63	2,923	(2,986)	-	-	-	-	-	-	-
Shares issued under share option scheme		909	28,978	-	-	-	-	-	29,887	-	29,887
Unlock of restricted shares	33(b)(ii)	-	-	7,168	-	-	-	-	7,168	-	7,168
Recognition of share-based payments	33	-	29,906	-	-	-	-	-	29,906	-	29,906
Recognition of tax effect related with share-based payments	34	-	19,536	-	-	-	-	-	19,536	-	19,536
Appropriation to reserves		-	-	-	24,084	-	-	(24,084)	-	-	-
Dividends declared and paid in respect of the previous year	36(c)(ii)	-	-	185	-	-	-	(55,051)	(54,866)	-	(54,866)
Acquisition of non-controlling interests		-	94	-	-	-	-	-	94	(94)	-
Balance at 31 December 2020		227,455	249,804	(9,916)	59,290	(15,357)	44,578	666,690	1,222,544	(735)	1,221,809

The notes on pages 102 to 188 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Profit before taxation		642,004	358,508
Adjustments for:			
Amortisation of intangible assets	7(c)	11,624	11,306
Depreciation of property, plant and equipment	7(c)	89,873	71,967
Finance costs	7(a)	3,962	3,521
Finance income		(28,469)	–
Change in fair value of financial assets at FVTPL	5	(49,880)	(5,737)
Share of losses of an associate		426	–
Net loss on disposal of property, plant and equipment	5	408	314
Gains arising from changes in fair value of biological assets	6	(125,323)	(54,732)
Equity-settled share-based payment expenses	33(c)	23,513	29,906
Net foreign exchange loss	5	60,326	3,377
Changes in working capital:			
Increase in inventories		(15,282)	(41,456)
Increase in contract costs		(186,053)	(99,305)
(Increase)/decrease in contract assets		(32,187)	2,833
Increase in biological assets		(24,075)	(1,225)
(Increase)/decrease in trade and bills receivables		(29,000)	6,347
Increase in prepayments and other receivables		(5,069)	(27,153)
(Decrease)/increase in trade payables		(6,642)	26,200
Increase in other payables		27,682	12,350
Increase in contract liabilities		388,676	188,746
Decrease in deferred income		(20,320)	(14,846)
Cash generated from operations		726,194	470,921
Tax paid	34(a)	(41,539)	(33,235)
Net cash generated from operating activities		684,655	437,686

Consolidated Cash Flow Statement

For the year ended 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Investing activities			
Payment for acquisition of RMB wealth management products		(1,137,883)	(444,000)
Payment for acquisition of equity investment in a listed company		(43,620)	–
Payment for acquisition of equity investment in an unlisted company		(38,000)	–
Payment for acquisition of certificates of deposits		(1,376,900)	–
Purchase of property, plant and equipment		(220,352)	(141,128)
Purchase of intangible assets		(16,892)	(7,850)
Payment for investment in an associate		(25,715)	–
Proceeds from disposal of RMB wealth management products		789,308	341,535
Proceeds from disposal of property, plant and equipment		247	186
Placement of restricted deposits		–	(3,646)
Government grant received related to assets		1,000	3,956
Net cash used in investing activities		(2,068,807)	(250,947)
Financing activities			
Proceeds from H share initial public offering	36(a)	5,318,710	–
Proceeds from shares issued under share option schemes	36(a)	102,847	29,887
Proceeds from issuance of restricted shares	28(b)	–	2,986
Proceeds from new interest-bearing borrowings	28(b)	–	35,622
Proceeds from a subsidiary's non-controlling shareholder for capital contribution		10,000	–
Repayment of interest-bearing borrowings	28(b)	(3,723)	(31,780)
Dividends paid	36(c)	(94,850)	(55,051)
Interest paid	28(b)	(421)	(762)
Capital element of lease rentals paid	28(b)	(21,446)	(12,953)
Interest element of lease rentals paid	28(b)	(963)	(304)
Payments for repurchase of restricted shares		(655)	–
Payments for issuance costs in relation to H share initial public offering		(19,097)	(17,775)
Net cash generated from/(used in) financing activities		5,290,402	(50,130)
Effect of foreign exchange rate changes on cash and cash equivalents		(60,898)	(8,523)
Net increase in cash and cash equivalents		3,845,352	128,086
Cash and cash equivalents at 1 January	28(a)	305,044	176,958
Cash and cash equivalents at 31 December	28(a)	4,150,396	305,044

The notes on pages 102 to 188 form part of these financial statements.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

JOINN Laboratories (China) Co., Ltd. (北京昭衍新藥研究中心股份有限公司, the “Company”) was incorporated in the People’s Republic of China (the “PRC”) as a joint stock limited liability company under the PRC laws. With the approval of the China Securities Regulatory Commission (CSRS), the Company completed its initial public offering of A shares and listed on the Shanghai Stock Exchange (stock code: 603127.SH) on 25 August 2017. The Company’s H shares were listed on the Main Board of The Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) (stock code: 6127. HK) on 26 February 2021.

The Company and its subsidiaries (together, the “Group”) are principally engaged in providing a comprehensive portfolio of contract research organisation (“CRO”) services including non-clinical studies services, clinical trial and related services and sales of research models.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries and the Group’s interest in an associate.

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

- biological assets (see Note 2(i));
- equity investment in an unlisted company (see Note 2(h));
- equity investment in a listed company (see Note 2(h)); and
- RMB wealth management products (see Note 2(h)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

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

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

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

(c) Changes in accounting policies

The Group has applied for the first time the following amendments to IFRSs issued by the IASB to the consolidated financial statements for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

(d) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see Note 2(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(m)(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Business combination (continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(e) Subsidiaries and non-controlling interests

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Subsidiaries and non-controlling interests (continued)

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

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

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

(f) Associates

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

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

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate, after applying the ECL model to such other long-term interests where applicable (see Note 2(m)(i)).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Associates (continued)

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

(g) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 37(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(w)(iii)).
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVTPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Biological assets

Biological assets of the Group mainly represent research models including non-human primates and rodents for breeding and non-clinical studies. Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs of disposal. Research models for breeding are classified as non-current assets and research models for non-clinical studies are classified as current assets.

The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising research models for non-clinical studies are capitalised until the research models begin to mate and transfer to the Group's research models for breeding. Such costs incurred for research models for breeding are charged to profit or loss during the reporting period.

Gains or losses arising from initial recognition of biological assets at fair value less costs of disposal and from a change in fair value less costs of disposal of biological assets are included in profit or loss in the year in which it arises.

(j) Property, plant and equipment

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

- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(l)).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property, plant and equipment (continued)

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

	Estimated useful lives
Plant and buildings	20–30 years
Machinery and equipment	5–10 years
Vehicles, furniture, and others	3–10 years
Leasehold improvement	Shorter of lease term or 3-10 years
Right-of-use assets	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(m)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The useful lives of intangible assets are determined based on factors such as the attrition rate, technological obsolescence, and expiry of related legal rights. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Patents and trademarks	10 years
Software	5-10 years
Non-competition agreement	Shorter of the unexpired term of agreement and useful life
Customer relationships	10 years

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (other than goodwill) (continued)

Customer relationship acquired in business combinations is recognised at fair value at the acquisition dates. The useful life of customer relationship reflects the Company's directors' view of the average economic life of the customer relationship and is assessed by reference to annual attrition rate. Amortisation is calculated using the straight-line method over expected life of 10 years.

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

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

As a lessee

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leased assets (continued)

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see Notes 2(h), 2(w)(iii) and 2(m)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and bills receivables, and other receivables);
- contract assets as defined in IFRS 15 (see Note 2(o)).

Other financial assets measured at fair value, including equity and debt securities measured at FVTPL, equity investments designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) *Credit losses from financial instruments and contract assets (continued)*

Measurement of ECLs

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

The expected cash shortfalls of fixed-rate financial assets, trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) *Credit losses from financial instruments and contract assets (continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

(i) *Credit losses from financial instruments and contract assets (continued)*

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(w)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

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

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

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill;
- other non-current assets; and
- investments in subsidiaries in the Company's statement of financial position.

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

– **Calculation of recoverable amount**

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

– **Recognition of impairment losses**

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Credit losses and impairment of assets (continued)

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

– Reversals of impairment losses

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

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

(n) Inventories and other contract costs

(i) Inventories

Inventories mainly represent raw materials and supplies to be consumed in the rendering of services.

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using specific identification or first-in, first-out formula. Net realisable value is the estimated contracted selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(ii) Other contract costs

Other contract costs are the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 2(n)(i)).

The Group takes advantage of practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining a contract as expense if the amortisation of the asset that the Group otherwise would have recognised is one year or less.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide services in the future; and are expected to be recovered.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Inventories and other contract costs (continued)

(ii) Other contract costs (continued)

Costs that relate directly to an existing contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the services to which the asset relates, less (ii) any costs that relate directly to providing those services that have not yet been recognised as expenses.

The accounting policy for revenue recognition is set out in Note 2(w).

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(m)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(p)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(p)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(w)(iii)).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(o)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost using the effective interest method and including an allowance for credit losses (see Note 2(m)(i)).

Insurance reimbursement is recognised and measured in accordance with Note 2(v)(i).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(m)(i).

(r) Trade and other payables

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

(s) Interest-bearing borrowings

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits

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

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

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

The fair value of the selected current employee services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the granted shares measured as of the grant date less the proceeds received from the employees, and recorded in capital reserve until each vesting date and record it under reserves attributable to equity shareholders of the Company. The proceeds received from the employees is firstly recorded as other payables.

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

(iii) *Termination benefits*

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Income tax (continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

(i) Provisions and contingent liabilities

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

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

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Provisions and contingent liabilities (continued)

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(w) Revenue and other income

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

Revenue is recognised at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

(i) Rendering of services

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

For certain revenue from clinical trial and related services, control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

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

Otherwise, revenue is recognised at a point in time when the Group transfers the control for services/deliverable units and has right to payment from the customers for the services performed upon finalisation, or upon the delivery and acceptance of the deliverable units.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Revenue and other income (continued)

(i) Rendering of services (continued)

For non-clinical studies service, contracts with customers may cover one or several experiment studies. The service contracts stipulated the scope of studies, the project schedule, pricing and closing report of the results of each study. The management of the Group evaluates whether each study is distinct performance obligation. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis. Revenue is recognised with the allocated amounts at a point in time upon satisfaction of the individual performance obligations.

(ii) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(m)(i)).

(iv) Government grants

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(y) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 15, 18, 33 and 37(e) contains information about the assumptions and their risk factors relating to goodwill impairment, fair value of biological assets, fair value of share options granted and restricted shares under share incentive scheme and fair value of financial instruments. Other key source of estimation uncertainty is as follows:

(a) Expected credit loss for trade receivables

The credit loss for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, set Note 37(a). Changes in these assumptions and estimated could materially affect the result of the assessment and it may be necessary to make additional loss allowance in future periods.

(b) Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in providing non-clinical drug safety assessment services to pharmaceutical and biotechnology companies. Further details regarding the Group's principal activities are disclosed in Note 4(b). Disaggregation of revenue from contracts with customers within the scope of IFRS 15 by major service lines is as follows:

	2021 RMB'000	2020 RMB'000
Rendering services:		
Non-clinical studies services	1,482,615	1,052,760
Clinical trial and related services	30,514	20,976
Sales of goods:		
Sales of research models	3,551	2,169
	1,516,680	1,075,905

No revenue amounting to 10% or more of the Group's total revenue was derived from sales to a single customer.

Details of concentration of credit risk from the Group's customers are set out in Note 37(a).

As at 31 December 2021, the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied was approximately RMB2,900 million (2020: RMB1,700 million). Management of the Group expects the majority of the transaction price allocated to the unsatisfied contracts as of the end of reporting period will be recognised within 3 years from the end of the reporting period.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- ***Non-clinical studies services***

The Group currently offers a comprehensive range of non-clinical studies services in the PRC and the United States of America (the "USA"), including (i) drug safety assessment, (ii) drug metabolism and pharmacokinetics ("DMPK") studies; and (iii) pharmacology and efficacy studies.

- ***Clinical trial and related services***

These services include (i) clinical CRO services, (ii) co-managed phase I clinical research units, and (iii) bioanalytical services.

- ***Sales of research models***

The Group engages in the design, production, breeding and sales of research models, currently including non-human primates and rodents.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

The Group's other operating income and expenses, such as other gains and losses, net and gains arising from changes in fair value of biological assets, and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.

	2021			Total RMB'000
	Non-clinical studies services RMB'000	Clinical trial and related services RMB'000	Sales of research models RMB'000	
Disaggregated by timing of revenue recognition				
Point in time	1,482,615	20,102	3,551	1,506,268
Over time	-	10,412	-	10,412
Revenue from external customer	1,482,615	30,514	3,551	1,516,680
Inter-segment revenue	1,446	-	89,537	90,983
Reportable segment revenue	1,484,061	30,514	93,088	1,607,663
Reportable segment gross profit	713,503	10,462	25,590	749,555

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

	2020			
	Non-clinical studies services RMB'000	Clinical trial and related services RMB'000	Sales of research models RMB'000	Total RMB'000
Disaggregated by timing of revenue recognition				
Point in time	1,052,760	1,835	2,169	1,056,764
Over time	–	19,141	–	19,141
Revenue from external customer				
Inter-segment revenue	1,052,760	20,976	2,169	1,075,905
	–	–	24,616	24,616
Reportable segment revenue				
	1,052,760	20,976	26,785	1,100,521
Reportable segment gross profit				
	539,137	9,702	10,469	559,308

(ii) Reconciliations of reportable segment gross profit

	2021 RMB'000	2020 RMB'000
Reportable segment gross profit	749,555	559,308
Elimination of inter-segment gross profit	(13,877)	(8,683)
Consolidated gross profit	735,678	550,625

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(iii) Geographic information

The following tables set out information about the geographical location of the Group's revenue from external customers. The geographical information about the revenue prepared by external customers' respective country/region of domicile is as follows:

	2021 RMB'000	2020 RMB'000
The PRC	1,263,509	853,220
The USA	243,291	215,486
Other countries/regions	9,880	7,199
	1,516,680	1,075,905

The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and biological assets, and the location of the operation to which they are allocated, in the case of intangible assets, goodwill and interests in an associate.

	2021 RMB'000	2020 RMB'000
The PRC	794,585	588,220
The USA	299,046	265,150
	1,093,631	853,370

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

5 OTHER GAINS AND LOSSES, NET

	2021 RMB'000	2020 RMB'000
Government grants	41,397	27,723
Interest income	83,724	2,076
Net foreign exchange loss	(60,326)	(3,377)
Net loss on disposal of property, plant and equipment	(408)	(314)
Change in fair value of RMB wealth management products (Note 37)	18,056	5,737
Change in fair value of equity investment in a listed company (Note 37)	31,824	–
Others	(826)	(125)
	113,441	31,720

6 GAINS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS

	2021 RMB'000	2020 RMB'000
Unrealised gains	86,950	42,006
Realised gains	38,373	12,726
	125,323	54,732

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2021 RMB'000	2020 RMB'000
Interest on interest-bearing borrowings	421	837
Interest on lease liabilities	3,541	2,684
	3,962	3,521

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs

	2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits	377,618	284,236
Contributions to defined contribution retirement scheme	26,707	15,920
Equity-settled share-based payment expenses (Note 33)	23,513	29,906
	427,838	330,062

The employees of the Company and the subsidiaries of the Group established in the PRC participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these companies are required to contribute to the scheme at certain rates of the employees' basic salaries. Employees of these companies are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the abovementioned retirement scheme at their normal retirement age. Contributions to the scheme vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items

	2021 RMB'000	2020 RMB'000
Amortisation of intangible assets	12,242	11,306
Depreciation charge		
– Owned property, plant and equipment	68,590	57,531
– Right-of-use assets	23,579	14,436
Recognition/(reversal) of expected credit loss	1,308	(2,730)
Auditors' remuneration	2,400	1,200

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2021 RMB'000	2020 RMB'000
Current tax		
Provision for the year (Note 34(a))	79,412	44,981
Deferred tax		
Origination and reversal of temporary differences (Note 34(b))	6,175	1,963
	85,587	46,944

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2021 RMB'000	2020 RMB'000
Profit before taxation	642,004	358,508
Tax calculated tax rate of 25% (Note (i))	160,501	89,627
Tax effect of		
– different tax rates of subsidiaries operating in other jurisdictions and tax concessions (Notes (ii) and (iii))	(82,223)	(37,297)
– additional deduction on research and development expenses (Note (iv))	(8,849)	(9,508)
– unused tax losses and temporary differences not recognised	14,485	2,592
– non-deductible expenses	1,673	1,530
	85,587	46,944

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

Notes:

- (i) The Company and the subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% during the years ended 31 December 2020 and 2021.
- (ii) The subsidiaries of the Group incorporated in the USA are subject to Federal Corporate Tax and State Income Tax. The federal corporate tax rate was 21% and the state income tax rate was a range from 8% to 8.87% during the years ended 31 December 2020 and 2021.

A subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime from the year of assessment 2019/20 onwards. The profits tax rate for the first Hong Kong Dollars ("HK\$") 2,000,000 of profits of corporations will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

- (iii) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria.

The Company and JOINN Laboratories (Suzhou) Co., Ltd. ("JOINN Suzhou", 昭衍(蘇州)新藥研究中心有限公司), a subsidiary of the Group, were qualified as a HNTE. Accordingly, the Company and JOINN Suzhou are entitled to the preferential tax rate of 15% for the years ended 31 December 2020 and 2021. The entitlement to the preferential tax rate expires in December 2022.

Pursuant to the announcement of the Continuing the Enterprise Income Tax policy of Western Development, Qianyan Biotech (Guangxi) Co., Ltd. ("Guangxi Qianyan", 廣西前沿生物技術有限公司) is taxed at a preferential rate of 15% from 1 January 2021 to 31 December 2030.

Pursuant to the article 27 of Law of the People's Republic of China on Enterprise Income Tax (No.63 Order of the President of the People's Republic of China), one of the subsidiaries of the Group, is entitled to 50% income tax exemptions on its non-human primates research models breeding business during the years ended 31 December 2020 and 2021.

Pursuant to the announcement related to the Implementation of Preferential Income Tax Policy to Support Small Low Profit Enterprises and Individual Industrial and Commercial Households, Beijing Shikang Qianyan Technology Co., Ltd. ("Shikang Qianyan", 北京視康前沿技術有限公司) is taxed at a preferential rate of 20% and are entitled to 87.5% income tax exemption on its taxable income not exceeding RMB1 million.

- (iv) According to the relevant tax rules in the PRC, qualified research and development expenses are allowed for additional tax deduction based on 75% of such expenses for the years ended 31 December 2020 and 2021.

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(Expressed in RMB unless otherwise indicated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' and Supervisors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (Note 33)	2021 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Ms. Feng Yuxia (<i>Chairperson</i>)	-	1,543	376	57	1,976	-	1,976
Mr. Zuo Conglin	-	640	378	53	1,071	979	2,050
Mr. Gao Dapeng	-	644	376	53	1,073	443	1,516
Ms. Sun Yunxia	-	639	378	53	1,070	1,280	2,350
Mr. Yao Dalin	-	1,014	144	-	1,158	443	1,601
Non-executive director							
Mr. Gu Xiaolei	-	-	-	-	-	-	-
Independent non-executive directors							
Mr. Sun Mingcheng	100	-	-	-	100	-	100
Mr. Zhai Yonggong	100	-	-	-	100	-	100
Mr. Ou Xiaojie	100	-	-	-	100	-	100
Mr. Zhang Fan (appointed on 21 February 2021)	100	-	-	-	100	-	100
Supervisors							
Ms. Li Ye	-	448	387	53	888	-	888
Ms. Yin Lili	-	446	368	53	867	-	867
Mr. Sun Huiye	-	421	382	7	810	-	810
	400	5,795	2,789	329	9,313	3,145	12,458

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	Directors' and Supervisors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-total	Share-based payments (Note 33)	2020 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Ms. Feng Yuxia (<i>Chairperson</i>)	-	1,640	170	-	1,810	-	1,810
Mr. Zuo Conglin	-	622	124	39	785	1,176	1,961
Mr. Gao Dapeng	-	573	110	39	722	844	1,566
Ms. Sun Yunxia	-	572	104	39	715	1,388	2,103
Mr. Yao Dalin	-	1,051	160	-	1,211	844	2,055
Non-executive director							
Mr. Gu Xiaolei	-	-	-	-	-	-	-
Independent non-executive directors							
Mr. Sun Mingcheng	81	-	-	-	81	-	81
Mr. Zhai Yonggong	81	-	-	-	81	-	81
Mr. Ou Xiaojie	81	-	-	-	81	-	81
Supervisors							
Ms. Li Ye	-	472	385	38	895	-	895
Ms. Yin Lili	-	489	385	39	913	-	913
Mr. Sun Huiye	-	514	439	5	958	-	958
	243	5,933	1,877	199	8,252	4,252	12,504

During the year ended 31 December 2021, no emoluments were paid by the Group to the directors, supervisors or any of the individuals with highest emoluments as disclosed in Note 10 as an inducement to join or upon joining the Group or as compensation for loss of office (2020: nil), and there was no arrangement under which a director waived or agreed to waived any emoluments (2020: nil).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 2 (2020: 2) are directors whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the 3 (2020: 3) individuals are as followings:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	12,575	7,285
Retirement scheme contributions	503	502
	13,078	7,787

The emoluments of the remaining 3 (2020: 3) individuals, respectively, who are amongst the five highest paid individuals of the Group are within the following bands:

	2021 Number of individuals	2020 Number of individuals
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\$4,000,001 to HK\$4,500,000	1	–
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$6,000,001 to HK\$6,500,000	1	–
	3	3

11 OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Equity investments at FVOCI – net movement in fair value reserve (non-recycling) (Note 37(e))	3,216	52,445
Tax effect (Note 34(b))	(482)	(7,867)
Net-of-tax amount	2,734	44,578
Exchange differences on translation of financial statements of foreign operations	(5,212)	(15,909)
Tax effect	–	–
Net-of-tax amount	(5,212)	(15,909)
	(2,478)	28,669

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB557,460,000 (2020: RMB312,950,000) and the weighted average number of ordinary shares calculated as below:

	2021	2020
Issued ordinary shares at 1 January	227,454,729	161,716,920
H share initial public offering in February 2021 (Note 36(b))	36,134,600	–
Issue of shares under bonus issue in 2020 (Note 36(d))	–	64,686,768
Issue of shares under bonus issue in 2021 (Note 36(d))	105,435,732	90,561,475
Effect of restricted shares (Note 33(b))	(571,957)	(1,153,963)
Effect of shares issued under share option schemes (Note 33(a))	306,573	310,041
Weighted average number of ordinary shares at 31 December	368,759,677	316,121,241

The weighted average number of ordinary shares shown above for the purposes of calculating basic earnings per share have been retrospectively adjusted to reflect the effect of issuance of shares under bonus issue (Note 36(d)).

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB557,460,000 (2020: RMB312,950,000), and the weighted average number of ordinary shares (diluted) calculated as below:

	2021	2020
Weighted average number of ordinary shares at 31 December	368,759,677	316,121,241
Effect of restricted shares outstanding (Note 33(b))	484,793	612,542
Effect of deemed issue of shares under share option schemes (Note 33(a))	2,159,887	1,009,846
Weighted average number of ordinary shares (diluted) at 31 December	371,404,357	317,743,629

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Right-of-use assets RMB'000	Machinery and equipment RMB'000	Vehicles, furniture, and others RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2020	323,401	117,200	258,005	22,622	19,852	35,307	776,387
Additions	60	43,255	72,041	3,866	909	27,888	148,019
Disposals	-	(1,173)	(3,492)	(770)	-	-	(5,435)
Transfer in/(out)	4,175	-	1,400	-	9,041	(14,616)	-
Exchange adjustments	-	(4,004)	(1,555)	(146)	(1,319)	54	(6,970)
At 31 December 2020	327,636	155,278	326,399	25,572	28,483	48,633	912,001
Additions	-	59,732	54,098	11,652	4,315	132,382	262,179
Disposals	-	-	(1,395)	(1,344)	-	-	(2,739)
Transfer in/(out)	43,413	-	992	-	9,177	(53,582)	-
Exchange adjustments	-	(1,969)	(709)	(126)	(609)	(72)	(3,485)
At 31 December 2021	371,049	213,041	379,385	35,754	41,366	127,361	1,167,956
Accumulated depreciation:							
At 1 January 2020	(58,745)	(12,558)	(114,006)	(12,924)	(1,834)	-	(200,067)
Charge for the year	(14,006)	(14,436)	(36,403)	(2,011)	(5,111)	-	(71,967)
Written back on disposals	-	1,173	3,057	717	-	-	4,947
Exchange adjustments	-	550	232	38	137	-	957
At 31 December 2020	(72,751)	(25,271)	(147,120)	(14,180)	(6,808)	-	(266,130)
Charge for the year	(14,867)	(23,579)	(42,916)	(3,452)	(5,059)	-	(89,873)
Written back on disposals	-	-	984	1,099	-	-	2,083
Exchange adjustments	-	424	148	21	99	-	692
At 31 December 2021	(87,618)	(48,426)	(188,904)	(16,512)	(11,768)	-	(353,228)
Net book value:							
At 31 December 2021	283,431	164,615	190,481	19,242	29,598	127,361	814,728
At 31 December 2020	254,885	130,007	179,279	11,392	21,675	48,633	645,871

Certain of the Group's property, plant and equipment in Biomedical Research Models, Inc. ("Biomere") were pledged to secure certain bank borrowings of Biomere (Note 29(c)).

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(Expressed in RMB unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2021 RMB'000	2020 RMB'000
Property leased for own use, carried at depreciation cost:		
– Land use rights	80,125	60,863
– Leased land	3,842	4,704
– Office buildings	80,026	64,440
– Equipment	622	–
	164,615	130,007

The Group leased land expires from 5 to 20 years, leases of offices and equipment expire from 2 to 10 years. None of the leases includes an option to purchase the leased assets at the end of the lease term.

The analysis of expense items in relation to leases recognised in profit or loss are as follows:

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying assets:		
– Land use rights	1,590	1,243
– Leased land	862	853
– Office buildings	20,970	12,340
– Equipment	157	–
	23,579	14,436
Interest on lease liabilities (Note 7(a))	3,541	2,684
Expense relating to short-term leases	4,129	4,634

Further details on lease liabilities are set out in Notes 28(c) and 32.

Notes to the Financial Statements

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14 INTANGIBLE ASSETS

	Patents and trademarks RMB'000	Software RMB'000	Non- competition agreement RMB'000	Customer relationships RMB'000	Total RMB'000
Cost:					
At 1 January 2020	609	18,208	13,501	42,262	74,580
Additions	-	7,850	-	-	7,850
Exchange adjustments	-	-	(873)	(2,734)	(3,607)
At 31 December 2020	609	26,058	12,628	39,528	78,823
Additions	-	6,817	-	-	6,817
Exchange adjustments	-	-	(289)	(904)	(1,193)
At 31 December 2021	609	32,875	12,339	38,624	84,447
Accumulated amortisation:					
At 1 January 2020	(342)	(4,195)	(375)	(352)	(5,264)
Charge for the year	(50)	(2,625)	(4,451)	(4,180)	(11,306)
Exchange adjustments	-	-	266	250	516
At 31 December 2020	(392)	(6,820)	(4,560)	(4,282)	(16,054)
Charge for the year	(48)	(3,504)	(4,163)	(3,909)	(11,624)
Exchange adjustments	-	-	154	145	299
At 31 December 2021	(440)	(10,324)	(8,569)	(8,046)	(27,379)
Net book value:					
At 31 December 2021	169	22,551	3,770	30,578	57,068
At 31 December 2020	217	19,238	8,068	35,246	62,769

The amortisation of intangible assets is mainly included in cost of services and general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The useful lives of patents and trademarks of 10 years are determined based on terms of expiry of related legal rights.

The useful lives of software are around 5-10 years which are determined based on technological obsolescence.

Non-competition agreement is amortised over the shorter of the unexpired term of the agreement and its estimated useful lives, which is 3 years.

The useful life of the customer relationship recognised in acquisition of Biomere is 10 years, which is determined based on the factor of the attrition rate.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

15 GOODWILL

	RMB'000
Cost	
At 1 January 2020	133,962
Exchange adjustments	(8,666)
At 31 December 2020	125,296
Exchange adjustments	(2,865)
At 31 December 2021	122,431

Impairment tests for cash-generating units containing goodwill

The goodwill arose from the acquisition of Biomere in 2019.

The recoverable amount of the cash-generating unit was determined based on value-in-use calculation. These calculations use cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using estimated nil growth rate at 31 December 2021 and 2020.

	2021	2020
Annual growth rate of revenue during the 5-year forecast period	3.00%-17.85%	3.35%-9.58%
Pre-tax discount rate	14.54%	14.34%

The headroom calculated based on the recoverable amounts deducting the carrying amount of the cash-generating unit as at 31 December 2021 is RMB35,274,000 (2020: RMB16,189,000).

Management have undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to annual growth rate and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as at 31 December 2021 and 2020:

	2021	2020
Decrease in annual growth rate	0.7%	0.2%
Increase in pre-tax discount rate	2.5%	0.7%

As a result of the above impairment tests, the directors of the Company are of the view that there was no impairment of goodwill as at 31 December 2021 and 2020.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

Particulars of subsidiaries of the Group as at 31 December 2021 are as follows:

Name of company	Place of incorporation/ establishment and operation, and kind of legal entity	Particulars of issued/paid-in capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
JOINN Suzhou 昭衍(蘇州)新藥研究中心有限公司 (Note)	The PRC, limited liability company	RMB 500,000,000	100%	100%	–	Non-clinical studies services and sales of research models
JOINN Laboratories (Chongqing) Co., Ltd. 昭衍(重慶)新藥研究中心有限公司 (Note)	The PRC, limited liability company	RMB 300,000,000	100%	100%	–	Non-clinical studies services
JOINN Laboratories (Guangzhou) Co., Ltd. 昭衍(廣州)新藥研究中心有限公司 (Note)	The PRC, limited liability company	RMB 300,000,000	100%	100%	–	Non-clinical studies services
JOINN Biotech (Wuzhou) Co., Ltd. 梧州昭衍生物技術有限公司 (Note)	The PRC, limited liability company	RMB 100,000,000	100%	100%	–	Research models breeding
JOINN Laboratories (Wuzhou) Co., Ltd. 梧州昭衍新藥研究中心有限公司 (Note)	The PRC, limited liability company	RMB 50,000,000	100%	100%	–	Non-clinical studies services
JOINN Medical Testing Laboratories (Beijing) Co., Ltd. 昭衍(北京)檢測技術有限公司 (Note)	The PRC, limited liability company	RMB 50,000,000	100%	100%	–	Clinical trial and related services
JOINN Laboratories (Wuxi) Co., Ltd. 昭衍(無錫)新藥研究中心有限公司 (Note)	The PRC, limited liability company	RMB 50,000,000	80%	80%	–	Non-clinical studies services
JOINN MedSafe Co., Ltd. 北京昭衍鳴訊醫藥科技有限責任公司 (Note)	The PRC, limited liability company	RMB 20,000,000	100%	100%	–	Clinical trial and related services
JOINN Clinical (Beijing) Co., Ltd. 昭衍(北京)醫藥科技有限公司 (Note)	The PRC, limited liability company	RMB 20,000,000	100%	100%	–	Clinical trial and related services

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ establishment and operation, and kind of legal entity	Particulars of issued/paid-in capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
JOINN Clinical (Suzhou) Co., Ltd. 蘇州昭衍醫藥科技有限公司 (Note)	The PRC, limited liability company	RMB 10,000,000	100%	100%	–	Clinical trial and related services
Qiyang Biotech (Guangxi) Co., Ltd. 廣西前沿生物技術有限公司 (Note)	The PRC, limited liability company	RMB 20,000,000	100%	–	100%	Research models breeding
JOINN Laboratories, CA Inc.	The USA, limited liability company	10,000,000 shares	100%	100%	–	Non-clinical studies services
Qichen (Suzhou) Biological Science and Technology Co., Ltd. 蘇州啟辰生物科技有限公司 (Note)	The PRC, limited liability company	RMB 10,000,000	55%	55%	–	Non-clinical studies services
JOINN Laboratories (Shanghai) Co., Ltd. 昭衍(上海)新藥研究有限公司 (Note)	The PRC, limited liability company	RMB 10,000,000	100%	100%	–	Non-clinical studies services
JOINN Laboratories Yichuang (Suzhou) Co., Ltd. 昭衍易創(蘇州)新藥研究 有限公司 (Note)	The PRC, limited liability company	RMB 10,000,000	100%	100%	–	Non-clinical studies services
JOINN Laboratories (HK) Limited 昭衍(香港)新藥研究中心有限公司	Hong Kong, limited liability company	3,000,000 shares	100%	100%	–	Investment management
Beijing Shikang Qiyang Technology Co., Ltd. 北京視康前沿技術有限公司 (Note)	The PRC, limited liability company	RMB 1,000,000	65%	65%	–	Clinical trial and related services
Biomedical Research Models, Inc	The USA, limited liability company	200,000 shares	100%	–	100%	Non-clinical studies services
Joinn Laboratories (Delaware) Corporation	The USA, limited liability company	1,500 shares	100%	100%	–	Investment management
Biomere-Joinn (CA), Inc.	The USA, limited liability company	20,000,000 shares	100%	–	100%	Non-clinical studies services

Note:

The official names of these entities incorporated in the PRC are in Chinese. The English translation is included for identification purpose only.

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17 INTEREST IN AN ASSOCIATE

The following list contains only the particulars of a immaterial associate, which is unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Proportion of ownership interest				Principal activities
			Particulars of issued/paid-in capital	Group's effective interest	Held by the company	Held by a subsidiary	
Jiangsu Sinotau Molecular Imaging Science & Technology Co.,LTD 江蘇先通分子影像科技有限公司	Incorporated	The PRC, limited liability company	RMB 30,000,000	30%	30%	-	Radioactive and molecular imaging technology test

The above associate is accounted for using the equity method in the consolidated financial statements.

Aggregate information of the associates that are not individually material:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated statements of financial position	25,289	-

Aggregate amount of the Group's share of those associates

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Loss for the year	(426)	-
Total comprehensive income	(426)	-

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

18 BIOLOGICAL ASSETS

The biological assets of the Group are mainly including research models for non-clinical studies which are classified as current assets, and research models for breeding which are classified as non-current assets of the Group.

	2021	2020
	RMB'000	RMB'000
Non-current assets		
– Non-human primates for breeding	74,102	19,421
– Rodents for breeding	13	13
	74,115	19,434
Current assets		
– Non-human primates for non-clinical studies	160,208	67,178
– Rodents for non-clinical studies	291	284
	160,499	67,462
	234,614	86,896

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

18 BIOLOGICAL ASSETS (CONTINUED)

(a) Analysis of non-human primates

	Non-human primates for breeding RMB'000	Non-human primates for non-clinical studies RMB'000	Total RMB'000
At 1 January 2020	11,949	18,815	30,764
Increase due to purchasing/raising	–	17,172	17,172
Breeding cost*	–	2,204	2,204
Decrease due to sales	(12)	(14,753)	(14,765)
Decrease due to mortality	(209)	(3,299)	(3,508)
Changes in fair value of biological assets (Note 6)	7,651	47,081	54,732
Transfer	42	(42)	–
At 31 December 2020	19,421	67,178	86,599
Increase due to purchasing/raising	–	86,896	86,896
Breeding cost*	–	3,347	3,347
Decrease due to sales	–	(65,584)	(65,584)
Decrease due to mortality	(389)	(1,882)	(2,271)
Changes in fair value of biological assets (Note 6)	35,522	89,801	125,323
Transfer	19,548	(19,548)	–
At 31 December 2021	74,102	160,208	234,310

Note:

* Breeding cost incurred for non-human primates mainly include feeding costs, staff costs, depreciation and amortisation expenses and utilities costs. Breeding cost incurred for non-human primates for breeding has been charged to profit or loss.

The quantities of non-human primates are summarised as follows:

	2021 (Heads)	2020 (Heads)
Non-current biological assets		
– Non-human primates for breeding	1,043	674
Current biological assets		
– Non-human primates for non-clinical studies	2,169	2,096

18 BIOLOGICAL ASSETS (CONTINUED)

(b) Fair value measurement of biological assets

The fair value measurements of biological assets fall into level 3 of the fair value hierarchy.

The Group's non-human primates were revalued as at 31 December 2021 and 2020. The valuations were carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer. The Group's finance manager and the chief financial officer have discussed with the valuers on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

The fair values of biological assets are determined using market approach and depreciated replacement cost approach. Market price and replacement cost and adjustment factors based on the characteristics of the biological assets (including age, gender, health status, breeding useful life and etc.) were used in the calculations of fair values.

Information about Level 3 fair value measurements:

Type	Valuation approach	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Male non-human primate research models at 3 to 5 years	The fair value of male non-human primate research models at 3 to 5 years old is determined by referring to the market price.	Average market price of the male non-human primates of 3 to 5 years old: RMB95,000 (2020: RMB34,000 to RMB45,000)	The higher the market price, the higher the fair value
Female non-human primate research models of 3 to 5 years	The fair value of female non-human primate research models at 3 to 5 years old are determined by referring to the market price.	Average market price/ replacement cost of the female non-human primates of 3 to 5 years old: RMB95,000 (2020: 3 to 8 years old: RMB34,000 to RMB46,000)	The higher the market price, the higher the fair value
Non-human primate research models below 3 years	The fair values of non-human primate research models below 3 years are determined through adjusting the market price of non-human primate research models at 3 years old by cost to completion and the margins that would be required by a raiser.	Average market price of non-human primates of 3 years old: RMB95,000 (2020: RMB34,000) Costs for raising non-human primate research models to the age of 3: Nil to RMB3,223 (2020: Nil to RMB2,856)	The higher the market price, the higher the fair value. The higher the breeding costs, the lower the fair value

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

18 BIOLOGICAL ASSETS (CONTINUED)

(b) Fair value measurement of biological assets (continued)

For female non-human primate research models and male non-human primate research models above 5 years, the fair values is estimated using depreciated replacement cost approach, which are based on the residue useful lives of female non-human primate research models and male non-human primate research models at the age of 5 years.

The estimated fair value of non-human primates increases/decreases as a result of an increase/decrease in the market price and replacement cost. As at 31 December 2021 if market price and replacement cost increases/decreases by 10%, the estimated fair value of biological assets would have increased/decreased by RMB23,431,000 (2020: RMB8,660,000).

Changes in fair value of biological assets are presented in "Gains arising from changes in fair value of biological assets" in the consolidated statement of profit or loss and other comprehensive income.

19 FINANCIAL ASSETS AT FVOCI

	2021 RMB'000	2020 RMB'000
Equity investments designated at FVOCI (non-recycling)		
– Equity investments in an unlisted company	105,661	64,445

The amount represents equity investment in an unlisted company incorporated in Beijing and engaged in medical research. The Group designated the unlisted equity investments at FVOCI (non-recycling), as the investment is held for the long term for strategic purposes.

No dividends were received on this investment during the year (2020: Nil).

20 CERTIFICATES OF DEPOSITS

	2021 RMB'000	2020 RMB'000
3-year certificates of deposits	1,405,323	–

The amount represents certificates of deposits with PRC commercial banks with initial maturity of 3 years and bear fixed interest rate. The Company manages the above financial assets with the objective of the collection of contractual cash flows. The certificates of deposits are measured at amortised cost.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

21 OTHER NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Prepayment for land use rights	17,794	20,831
Prepayments for acquisition of property, plant and equipment	52,432	12,956
Others	3,898	3,352
	74,124	37,139

22 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2021 RMB'000	2020 RMB'000
Raw materials and consumables	106,293	91,011
Less: write-down of inventories	-	-
	106,293	91,011

(b) The analysis of the amount of inventories recognised as expense and included in the consolidated statement of profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories used	427,672	240,643
Recognition/(reversal) of write-down of inventories	-	(58)
	427,672	240,585

23 CONTRACT COSTS

	2021 RMB'000	2020 RMB'000
Costs to fulfil contracts	439,933	252,550
Less: write-down of contract costs	(6,139)	(4,808)
	433,794	247,742

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

24 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2021 RMB'000	2020 RMB'000
Contract assets	99,496	67,148
Less: loss allowance	(497)	(336)
	98,999	66,812

The contract assets primarily relate to the Group's right to the consideration for work completed but not yet billed. The contract assets will be transferred to trade receivables when the rights become unconditional.

(b) Contract liabilities

	2021 RMB'000	2020 RMB'000
Amounts received in advance of the delivery of services	972,213	583,537

	2021 RMB'000	2020 RMB'000
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	408,697	230,693

Normally the Group receives advanced payments before the provision of non-clinical study services to customers. Contract liabilities represent the Group's obligations to transfer services to customers for which the Group have received advanced payments received from such customers.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

25 TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	RMB'000
Trade receivables	112,967	94,589
Less: loss allowance	(5,361)	(5,723)
	107,606	88,866
Bills receivables	7,904	2,175
	115,510	91,041

The ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	RMB'000	RMB'000
Within 1 year	89,926	73,478
1 to 2 years	10,657	8,224
2 to 3 years	6,728	6,411
Over 3 years	295	753
	107,606	88,866

Trade receivables are due within 21 to 45 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 37(a).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

26 PREPAYMENTS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments for purchase of inventories and receiving of services	38,806	32,389
Value added tax recoverable	11,354	4,034
Prepayments for costs incurred in connection with the issuance of the Company's H shares	–	17,775
Prepayments for miscellaneous expenses	8,051	6,209
Deposits	5,057	7,683
Income tax recoverable (Note 34(a))	275	2,507
Others	1,099	539
	64,642	71,136
Less: loss allowance	(330)	(110)
	64,312	71,026

All of the prepayments and other receivables are expected to be recovered or recognised as expense within one year.

27 FINANCIAL ASSETS AT FVTPL

	2021 RMB'000	2020 RMB'000
RMB wealth management products (i)	605,534	238,903
Equity investments in a listed company (ii)	75,444	–
	680,978	238,903

Notes:

- (i) The RMB wealth management products include structured deposits, non-fixed term deposits, etc. which are yield enhancement deposits with expected but not guaranteed rates of return. The Directors considered the RMB wealth management products shall be classified as financial assets at FVTPL and the amount paid for the products approximates its fair value at the end of each reporting period.
- (ii) The amount represents investment in a company listed on the Shanghai Stock Exchange and is subject to a lock-up period up to June 2022.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

28 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2021 RMB'000	2020 RMB'000
Cash on hand	–	–
Cash at bank	4,154,099	308,690
Cash at bank and on hand included in the consolidated statement of financial position	4,154,099	308,690
Less: restricted deposits	(3,703)	(3,646)
Cash and cash equivalents included in the consolidated cash flow statement	4,150,396	305,044

(b) 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 liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 (Note 29)	Interest payable RMB'000 (Note 31)	Considerations received for subscribing restricted A shares RMB'000 (Note 31)	Lease liabilities RMB'000 (Note 32)	Total RMB'000
At 1 January 2020	22,323	–	14,283	67,856	104,462
Changes from financing cash flows:					
Proceeds from borrowings	35,622	–	–	–	35,622
Repayment of borrowings	(31,780)	–	–	–	(31,780)
Interest paid	–	(762)	–	–	(762)
Capital element of lease rentals paid	–	–	–	(12,953)	(12,953)
Interest element of lease rentals paid	–	–	–	(304)	(304)
Considerations received for subscribing restricted shares of the Company	–	–	2,986	–	2,986
Total changes from financing cash flows	3,842	(762)	2,986	(13,257)	(7,191)
Exchange adjustments	(1,709)	–	–	(4,004)	(5,713)

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

28 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000 (Note 29)	Interest payable RMB'000 (Note 31)	Considerations received for subscribing restricted A shares RMB'000 (Note 31)	Lease liabilities RMB'000 (Note 32)	Total RMB'000
Other changes:					
Interest expenses (Note 7(a))	-	837	-	2,684	3,521
Capitalisation of new leases	-	-	-	14,411	14,411
Unlock of restricted shares	-	-	(7,168)	-	(7,168)
Effects of payments of dividend for restricted shares	-	-	(185)	-	(185)
Total other changes	-	837	(7,353)	17,095	10,579
At 31 December 2020 and 1 January 2021	24,456	75	9,916	67,690	102,137
Changes from financing cash flows:					
Repayment of borrowings	(3,723)	-	-	-	(3,723)
Interest paid	-	(421)	-	-	(421)
Capital element of lease rentals paid	-	-	-	(21,446)	(21,446)
Interest element of lease rentals paid	-	-	-	(963)	(963)
Total changes from financing cash flows	(3,723)	(421)	-	(22,409)	(26,553)
Exchange adjustments	(263)	-	-	(1,414)	(1,677)
Other changes:					
Exemption of borrowings	(10,987)	(75)	-	-	(11,062)
Interest expenses (Note 7(a))	-	421	-	3,541	3,962
Capitalisation of new leases	-	-	-	38,431	38,431
Unlock of restricted shares	-	-	(5,847)	-	(5,847)
Effects of payments of dividend for restricted shares	-	-	(134)	-	(134)
Total other changes	(10,987)	346	(5,981)	41,972	25,350
At 31 December 2021	9,483	-	3,935	85,839	99,257

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28 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(c) Total cash outflow for leases

	2021 RMB'000	2020 RMB'000
Within operating cash flows	4,411	2,979
Within investing cash flows	14,160	28,844
Within financing cash flows	22,409	13,257
	40,980	45,080

These amounts relate to the following:

	2021 RMB'000	2020 RMB'000
Lease rentals paid	26,820	16,236
Payments for land use right and leased land	14,160	28,844
	40,980	45,080

29 INTEREST-BEARING BORROWINGS

(a) The Group's short-term bank borrowings are analysed as follows:

	2021 RMB'000	2020 RMB'000
Current portion of long-term bank borrowings (Note 29(b))	4,544	3,081

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(Expressed in RMB unless otherwise indicated)

29 INTEREST-BEARING BORROWINGS (CONTINUED)

(b) The Group's long-term bank borrowings are analysed as follows:

	2021 RMB'000	2020 RMB'000
Bank borrowings		
– Secured (Note 29(c))	9,483	13,469
– Paycheck Protection Program loan ("PPP loan", Note 29(d))	–	10,987
	9,483	24,456
Less: Current portion of long-term bank borrowings (Note 29(a))	(4,544)	(3,081)
	4,939	21,375

The Group's long-term bank borrowings are repayable as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	4,544	3,081
After 1 year but within 2 years	2,984	14,171
After 2 years but within 5 years	1,955	7,204
	9,483	24,456

(c) Secured bank borrowings

In 2019, Biomere signed a loan and security agreement with a bank to request a US\$2,000,000 line of credit loan for 2 years, a US\$800,000 equipment line of credit loan with a 5-year term, and a US\$1,632,000 term loan with a 5-year term and annual interest rate of 3.98%. As the collaterals, Biomere granted to the bank a continuing security interest in and so pledged and assigned to the bank all the present and future right, title and interest in the assets and rights of Biomere, wherever located, whether now owned or hereafter acquired or arising and all products and proceeds thereof: all, instruments (including promissory notes), documents, accounts, chattel paper, deposit accounts, letter of credit rights, commercial tort claims, securities and all other investment property, all general intangibles, supporting obligations, any other contract rights or rights to the payment of money, account receivables, insurance claims and proceeds, tort claims and all other personal and equipment and fixtures of any kind and nature.

As at 31 December 2021 and 2020, the loan balance for line of credit loan amounted to US\$864,000 (31 December 2020: US\$1,561,000), and the loan balance for equipment line of credit loan amounted to US\$623,000 (31 December 2020: US\$775,000).

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

29 INTEREST-BEARING BORROWINGS (CONTINUED)

(c) Secured bank borrowings (continued)

The interest rates for the line of credit loan and the equipment line of credit loan are variable equal to the highest per annum rate of interest published by Wall Street Journal from time to time. For the effective interest rates, please refer to Note 37(c).

(d) PPP loan

On 28 April 2020, Berkshire Bank approved a US\$1,683,900 loan to Biomere, under the Paycheck Protection Program (PPP) pursuant to the Coronavirus Aid, Relief and Economic Security (CARES) Act. The PPP loan has a term of two years, is unsecured, and is guaranteed by the Small Business Administration (the "SBA"). The loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest and principal deferred.

On 7 January 2021, the SBA has approved Biomere's application for forgiving the PPP loan and the amount of the PPP loan has been recorded as "government grants" in other gains and losses, net (Note 5).

30 TRADE PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	53,644	60,286

At 31 December 2021, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	53,285	59,937
1 to 2 years	359	349
	53,644	60,286

As at 31 December 2021, all trade payables of the Group are expected to be settled within one year or are payable on demand.

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31 OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Payables for staff related costs	76,953	49,700
Payables for acquisition of property, plant and equipment	46,951	17,128
Payables for other taxes	7,596	8,573
Deposits received	–	1,570
Considerations received from employees for subscribing restricted shares of the Company under share incentive scheme (Note 28)	3,935	9,916
Interest payable (Note 28)	–	75
Others	4,893	5,624
	140,328	92,586

All of the other payables are expected to be settled within one year or are repayable on demand.

32 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities.

	2021		2020	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	21,651	22,081	14,520	14,829
After 1 year but within 2 years	19,224	20,339	13,379	14,243
After 2 years but within 5 years	44,127	49,959	30,880	35,520
After 5 years	837	1,419	8,911	11,502
	64,188	71,717	53,170	61,265
	85,839	93,798	67,690	76,094
Less: total future interest expenses		(7,959)		(8,404)
Present value of lease obligations		85,839		67,690

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 27 February 2018, a share option and restricted share award scheme (“2018 Share Option and Restricted Share Award Scheme”) was approved at the Company’s first extraordinary general meeting of 2018. On 9 March 2018, the Company granted 396,000 share options and 342,000 restricted shares respectively to the eligible directors and employees of the Group under 2018 Share Option and 2018 Restricted Share Award Scheme, of which the registration was completed on 19 April 2018. Each option gives the participants the right to subscribe for one ordinary share of the Company at an exercise price of RMB56.62, and the participants are entitled to subscribe the Company’s restricted shares at RMB28.31 each.

On 15 August 2019, a share option and a restricted share award scheme (“2019 Share Option and 2019 Restricted Share Award Scheme”) was approved at the Company’s 4th extraordinary general meeting of 2019. On 9 September 2019, the Company granted 1,124,000 share options and 405,000 restricted shares respectively to the eligible directors and employees of the Group under 2019 Share Option and 2019 Restricted Share Award Scheme, of which the registration was completed on 14 October 2019 (the “First Batch”). Each option gives the participants the right to subscribe for one ordinary share in the Company at an exercise price of RMB48.11, and the participants are entitled to subscribe the Company’s restricted shares at RMB24.06 each.

On 24 June 2020, the Company granted 175,000 share options and 63,000 restricted shares respectively to the eligible directors and employees of the Group under 2019 Share Option and 2019 Restricted Share Award Scheme, of which the registration was completed on 11 August 2020 (the “Second Batch”). Each option gives the participants the right to subscribe for one ordinary share in the Company at an exercise price of RMB94.77, and the participants are entitled to subscribe the Company’s restricted shares at RMB47.39 each.

On 15 July 2020, a share option (“2020 Share Option”) was approved at the Company’s second extraordinary general meeting of 2020. On 17 July 2020, the Company granted 2,090,000 share options to the eligible directors and employees of the Group under 2020 Share Option, of which the registration was completed on 31 August 2020. Each option gives the participants the right to subscribe for one ordinary share of the Company at an exercise price of RMB94.77.

Pursuant to the terms of the above schemes, the numbers and exercise/repurchase prices of the outstanding share options and restricted shares will be adjusted according to the resolution in respect of the Company’s dividend distribution and transfer from share premium in capital reserve to share capital.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Share options

(i) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting Conditions	Contractual life of options
Options granted to directors:			
– on 24 June 2020 under 2019 Share Option and Restricted Share Award Scheme	108,000	Both performance and service period conditions apply (Note (ii))	1-2 years
– on 17 July 2020 under 2020 Share Option and Restricted Share Award Scheme	186,000	Both performance and service period conditions apply (Note (i))	1-3 years
Options granted to employees:			
– on 9 March 2018 under 2018 Share Option and Restricted Share Award Scheme	396,000	Both performance and service period conditions apply (Note (i))	1-3 years
– on 9 September 2019 under 2019 Share Option and Restricted Share Award Scheme	1,124,000	Both performance and service period conditions apply (Note (i))	1-3 years
– on 24 June 2020 under 2019 Share Option and Restricted Share Award Scheme	67,000	Both performance and service period conditions apply (Note (ii))	1-2 years
– on 17 July 2020 under 2020 Share Option and Restricted Share Award Scheme	1,904,000	Both performance and service period conditions apply (Note (i))	1-3 years
Total share options granted	3,785,000		

Notes:

- (i) The options will vest over a three-year period, with 50%, 30% and 20% of total options vesting respectively on the first trading day after the first, second and third anniversary date from the date of the registration of grant, upon meeting the achievement of vesting conditions with reference to both financial performance of the Group and service period and individual performance of the directors and the employees.
- (ii) The options will vest over a two-year period, with 50% and 50% of total options vesting respectively on the first trading day after the first and second anniversary date from the date of the registration of grant, upon meeting the achievement of vesting conditions with reference to both financial performance of the Group and service period and individual performance of the directors and the employees.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Share options (continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	2021		2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	RMB64.29	3,202,829	RMB43.40	1,479,740
Granted during the year	-	-	RMB94.77	2,265,000
Effect of issuance of shares under bonus issue (Note 36(d))		1,209,790		504,637
Exercised during the year	RMB50.75	(2,026,690)	RMB32.90	(908,544)
Forfeited during the year	RMB48.71	(221,676)	RMB33.77	(138,004)
Outstanding at the end of the year	RMB42.14	2,164,253	RMB64.29	3,202,829
Exercisable at the end of the year		-		-

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	2018 Share Option and Restricted Share Award Scheme	The First Batch under 2019 Share Option and Restricted Share Award Scheme in 2019	The Second Batch under 2019 Share Option and Restricted Share Award Scheme in 2020	2020 Share Option and Restricted Share Award Scheme
Fair value at measurement date	RMB5.88 – RMB14.89	RMB15.34 – RMB17.90	RMB12.06 – RMB18.75	RMB13.40 – RMB23.62
Share price	RMB60.88	RMB62.50	RMB94.61	RMB96.86
Exercise price	RMB56.62	RMB48.11	RMB94.77	RMB94.77
Expected volatility (expressed volatility used in the modelling under Black-Scholes model)	20% – 33%	26% – 30%	30% – 32%	30% – 32%
Option life (contract life used in the modelling under Black-Scholes model)	1–3 years	1–3 years	1–2 years	1–3 years
Expected dividends	0%	1%	0.18%	0.17%
Risk-free interest rate	1.50% – 2.75%	1.50% – 2.75%	2.22% – 2.63%	2.22% – 2.69%

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Restricted shares

(i) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Restricted shares granted to directors:			
– on 9 March 2018 under 2018 Share Option and Restricted Share Award Scheme	80,000	Both performance and service period conditions apply (Note (i))	1-3 years
– on 9 September 2019 under 2019 Share Option and Restricted Share Award Scheme	120,000	Both performance and service period conditions apply (Note (i))	1-3 years
Restricted shares granted to employees:			
– on 9 March 2018 under 2018 Share Option and Restricted Share Award Scheme	262,000	Both performance and service period conditions apply (Note (i))	1-3 years
– on 9 September 2019 under 2019 Share Option and Restricted Share Award Scheme	285,000	Both performance and service period conditions apply (Note (i))	1-3 years
– on 24 June 2020 under 2019 Share Option and Restricted Share Award Scheme	63,000	Both performance and service period conditions apply (Note (ii))	1-2 years
Total share Restricted shares granted	810,000		

Notes:

- (i) The restricted shares will vest over a three-year period, with 50%, 30% and 20% of total restricted shares vesting respectively on the first trading day after the first, second and third anniversary date from the date of the registration of grant, upon meeting the achievement of vesting conditions with reference to both financial performance of the Group and service period and individual performance of the directors and employees.
- (ii) The restricted shares will vest over a two-year period, with 50% and 50% of total restricted shares vesting respectively on the first trading day after the first and second anniversary date from the date of the registration of grant, upon meeting the achievement of vesting conditions with reference to both financial performance of the Group and service period and individual performance of the employees.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

33 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Restricted shares (continued)

(ii) Set out below are details of the movements of the restricted shares:

	2021	2020
Outstanding at the beginning of the year	554,596	727,420
Granted during the year	–	63,000
Effect of issuance of shares under bonus issue (Note 36(d))	153,567	218,056
Unlocked during the year	(441,746)	(453,880)
Outstanding at the end of the year	266,417	554,596

The restricted shares granted on 9 March 2018, 9 September 2019 and 24 June 2020 were valued at RMB32.57, RMB38.44 and RMB47.22 per share, respectively, which is the difference between the market price of the ordinary share at the grant date and the proceeds received from the employees.

(c) The Group has recognised share-based payment expenses of RMB23,513,000 during the year ended 31 December 2021 (2020: RMB29,906,000).

34 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the statement of financial position represents:

	2021 RMB'000	2020 RMB'000
Net balance of income tax payable at 1 January	17,790	17,929
Provision for the year (Note 8(a))	79,412	44,981
Credit to reserve	(34,076)	(11,885)
Income tax paid	(41,539)	(33,235)
Net balance of income tax payable at 31 December	21,587	17,790
Represented by:		
Income tax recoverable included in prepayments and other receivables (Note 26)	(275)	(2,507)
Income tax payable	21,862	20,297
	21,587	17,790

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(Expressed in RMB unless otherwise indicated)

34 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

(i) Movements of each component of deferred tax assets and liabilities

The deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

	Assets						Liabilities						Total RMB'000
	Unused tax losses RMB'000	Credit loss allowance RMB'000	Deferred income RMB'000	Equity settled share-based payments RMB'000	Others RMB'000	Subtotal RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Changes in fair value of financial assets RMB'000	Accelerated tax allowance for depreciation expenses RMB'000	Changes in fair value of biological assets RMB'000	Subtotal RMB'000	Total RMB'000	
At 1 January 2020	14,415	1,821	3,338	3,649	2,358	25,581	(17,069)	(106)	(3,469)	(3,013)	(23,657)	1,924	
Credited/(charged) to profit or loss (Note 8(a))	1,033	(1,151)	(1,020)	1,153	1,488	1,503	4,363	(629)	(1,948)	(5,252)	(3,466)	(1,963)	
Credited to the reserve	937	-	-	6,714	-	7,651	-	-	-	-	-	7,651	
Charged to other comprehensive income (Note 11)	-	-	-	-	-	-	-	(7,867)	-	-	(7,867)	(7,867)	
Exchange adjustments	288	238	-	-	-	526	(210)	-	-	-	(210)	316	
At 31 December 2020 and 1 January 2021	16,673	908	2,318	11,516	3,846	35,261	(12,916)	(8,602)	(5,417)	(8,265)	(35,200)	61	
Credited/(charged) to profit or loss (Note 8(a))	4,927	(66)	(290)	275	2,102	6,948	2,375	(4,868)	(7,414)	(3,216)	(13,123)	(6,175)	
Credited to the reserve	-	-	-	1,901	-	1,901	-	-	-	-	-	1,901	
Charged to other comprehensive income (Note 11)	-	-	-	-	-	-	-	(482)	-	-	(482)	(482)	
Exchange adjustments	(256)	-	-	-	-	(256)	377	-	-	-	377	121	
At 31 December 2021	21,344	842	2,028	13,692	5,948	43,854	(10,164)	(13,952)	(12,831)	(11,481)	(48,428)	(4,574)	

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

34 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Reconciliations to the statement of financial position

	2021 RMB'000	2020 RMB'000
Deferred tax assets	43,854	35,261
Deferred tax liabilities	(48,428)	(35,200)
	(4,574)	61

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB92,759,000 as at 31 December 2021 (2020: RMB50,801,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction/entity.

Such cumulative tax losses will be carried forward and expire in years as follows:

	2021 RMB'000	2020 RMB'000
Year of 2021	–	4,111
Year of 2022	–	4,795
Year of 2023	2,333	7,011
Year of 2024	9,638	1,208
Year of 2025	12,631	844
After 2025	68,157	32,832
	92,759	50,801

35 DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
At 1 January	67,041	77,931
Additions	1,095	8,560
Credit to profit or loss	(7,292)	(19,450)
At 31 December	60,844	67,041

Deferred income of the Group mainly represents government grants received in relation to the acquisition of property, plant and equipment, which would be recognised in "Other gains and losses, net" over the expected useful lives of the relevant assets.

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(Expressed in RMB unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 36(d))	Capital reserve RMB'000 (Note 36 (e)(i))	Share award reserve RMB'000 (Note 36 (e)(ii))	Statutory reserve RMB'000 (Note 36 (e)(iii))	Fair value reserve (non-recycling) RMB'000 (Note 36 (e)(v))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2021	227,455	240,609	(9,916)	59,290	44,578	411,764	973,780
Changes in equity:							
Profit for the year	-	-	-	-	-	281,383	281,383
Other comprehensive income	-	-	-	-	2,734	-	2,734
Total comprehensive income for the year	-	-	-	-	2,734	281,383	284,117
Issue of shares under H share initial public offering (Note 36(b))	43,365	5,241,855	-	-	-	-	5,285,220
Issue of shares under bonus issue (Note 36(d))	108,399	(108,399)	-	-	-	-	-
Shares issued under share option scheme	2,027	100,820	-	-	-	-	102,847
Unlock of restricted shares (Note 33(b)(ii))	-	-	5,847	-	-	-	5,847
Recognition of share-based payments (Note 33)	-	23,513	-	-	-	-	23,513
Recognition of tax effect related with share-based payments	-	21,885	-	-	-	-	21,885
Appropriation to reserves	-	-	-	28,138	-	(28,138)	-
Dividends declared and paid in respect of the previous year (Note 36(c)(ii))	-	-	134	-	-	(94,850)	(94,716)
At 31 December 2021	381,246	5,520,283	(3,935)	87,428	47,312	570,159	6,602,493

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(Expressed in RMB unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(a) Movements in components of equity (continued)

	Share capital RMB'000 (Note 36(d))	Capital reserve RMB'000 (Note 36 (e)(i))	Share award reserve RMB'000 (Note 3 (e)(ii))	Statutory reserve RMB'000 (Note 36 (e)(iii))	Fair value reserve (non- recycling) RMB'000 (Note 36 (e)(v))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2020	161,717	232,063	(14,283)	35,206	-	250,077	664,780
Changes in equity:							
Profit for the year	-	-	-	-	-	240,822	240,822
Other comprehensive income	-	-	-	-	44,578	-	44,578
Total comprehensive income for the year	-	-	-	-	44,578	240,822	285,400
Issue of shares under bonus issue (Note 36(d))	64,766	(64,766)	-	-	-	-	-
Issue of restricted shares (Note 33)	63	2,923	(2,986)	-	-	-	-
Shares issued under share option scheme	909	28,978	-	-	-	-	29,887
Unlock of restricted shares (Note 33(b)(ii))	-	-	7,168	-	-	-	7,168
Recognition of share-based payments (Note 33)	-	29,906	-	-	-	-	29,906
Recognition of deferred tax asset related with share-based payments	-	11,505	-	-	-	-	11,505
Appropriation to reserves	-	-	-	24,084	-	(24,084)	-
Dividends declared and paid in respect of the previous year (Note 36(c)(ii))	-	-	185	-	-	(55,051)	(54,866)
At 31 December 2020	227,455	240,609	(9,916)	59,290	44,578	411,764	973,780

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Issuance of H shares under initial public offering

On 26 February 2021, 43,324,800 ordinary H shares of RMB1 each were issued and offered for subscription at a price of HKD151 each upon the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited. On 19 March 2021, additional 40,800 H shares was issued at a price of HKD151 each under the over-allotment option. The proceeds equivalent to RMB43,365,000, representing the par value, were credited to the Company's share capital. The remaining proceeds deducting the share issuance expenses, equivalent to RMB5,241,855,000, were credited to the share premium in capital reserve account.

(c) Dividends

(i) Cash dividends payable to equity shareholders of the Company attributable to the year

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.36 per ordinary share (2020: RMB0.35 per ordinary share)	137,248	94,850

In addition, on 30 March 2022, the directors of the Company proposed 4 new shares for every 10 existing shares (2020: 4 new shares for every 10 existing shares) of the Company to be issued out of reserve to all shareholders of the Company on the record date for determining the shareholders' entitlement to the profit distribution plan.

The profit distribution plan is subject to the approval of the equity shareholders at the forthcoming AGM and application be made to and approved by the Stock Exchange for the listing of and permission to deal in the new H share (in respect of the bonus issue). The final dividend proposed after the end of the reporting period has not been recognised as a liability or transferred from reserve at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.35 per ordinary share (2020: RMB0.34 per ordinary share)	94,850	55,051

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(Expressed in RMB unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Share capital

Issued share capital

	2021		2020	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Ordinary shares, issued:				
At 1 January	227,454,729	227,455	161,716,920	161,717
H share initial public offering (Note 36(b))	43,365,600	43,365	–	–
Issue of restricted shares (Note 33)	–	–	63,000	63
Shares issued under share option scheme	2,026,690	2,027	908,544	909
Issue of shares under bonus issue	108,399,473	108,399	64,766,265	64,766
At 31 December	381,246,492	381,246	227,454,729	227,455

Pursuant to the written resolutions of the shareholders of the Company passed on 4 August 2021, 4 new shares for every 10 existing shares of the Company were issued out of reserve to all shareholders. As a result, 108,399,473 shares were issued and approximately RMB108,399,000 was transferred from share premium in capital reserve to share capital.

Pursuant to the written resolutions of the shareholders of the Company passed on 12 May 2020, 4 new shares for every 10 existing shares of the Company were issued out of reserve to all shareholders. As a result, 64,766,265 shares were issued and approximately RMB64,766,000 was transferred from share premium in capital reserve to share capital.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

36 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises the following:

- the net proceeds received in excess of the total amount of the par value of shares issued.
- the portion of the grant date fair value of unexercised share options and unvested restricted shares granted to the employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(t)(ii).
- the difference between the total amount of the nominal value of shares issued and the amount of the net assets injected by the promoters upon the establishment of the Company.
- the difference between the consideration paid on the acquisition of non-controlling interests and the carrying amount of the non-controlling interests.

(ii) Share award reserve

The amount represents the consideration payable to the employees of the Group for restricted shares issued under the share incentive scheme before vesting conditions are met.

(iii) Statutory reserve

Pursuant to the Company's Articles of Association, the Company is required to transfer 10% of net profit (after offsetting prior year losses) in accordance with the accounting rules and regulations of the PRC to the statutory reserve until such reserve reaches 50% of the registered capital of the Company. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the Company and is non-distributable other than in liquidation.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statement of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(x).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(h)(ii)).

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36 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The gearing ratios as at the end of the reporting periods were as follows:

	2021 RMB'000	2020 RMB'000
Interest-bearing bank borrowings	9,483	24,456
Total equity	7,144,436	1,221,809
Gearing ratio	0.1%	2.0%

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37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, contract assets and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents, bills receivable and certificates of deposits is limited because the counterparties are banks and financial institutions with a minimum credit rating assigned by the management of the Group, which the Group considers to represent low credit risk. The Group's exposure to credit risk arising from refundable rental deposits is considered to be low, taking into account (i) the landlords' credit rating and (ii) the remaining lease term and the period covered by the rental deposits.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2021, 4% (2020: 5%) of the total trade receivables and contract assets, were due from the Group's largest debtor, and 18% (2020: 21%) of the total trade receivables and contract assets, were due from the Group's five largest debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 21 to 45 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Group segments its trade receivables and contract assets based on geographic regions, due to different loss patterns experienced in the different regions.

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37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Trade receivables and contract assets (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets:

	Expected loss rate %	2021 Gross carrying amount RMB'000	Loss allowance RMB'000
Less than 90 days and not past due	0.5%	146,817	738
Less than 90 days and past due	1.0%	25,461	255
More than 90 days but less than 1 year	2.0%	17,999	360
1 to 2 years	6.2%	11,362	704
2 to 3 years	11.0%	7,560	832
3 to 4 years	73.7%	1,121	826
Over 4 years	100.0%	2,143	2,143
		212,463	5,858
	Expected loss rate %	2020 Gross carrying amount RMB'000	Loss allowance RMB'000
Less than 90 days and not past due	0.5%	102,586	513
Less than 90 days and past due	1.5%	19,895	298
More than 90 days but less than 1 year	2.2%	19,040	419
1 to 2 years	7.5%	8,891	667
2 to 3 years	13.7%	7,429	1,018
3 to 4 years	57.9%	1,787	1,035
Over 4 years	100.0%	2,109	2,109
		161,737	6,059

Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

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(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Trade receivables and contract assets (continued)

Movement in the loss allowance account in respect of trade receivables and contract assets of the Group during the year is as follows:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	6,059	11,646
Exchange adjustments	(17)	(40)
Loss allowance recognised/(reversed) during the year	962	(2,759)
Write-off during the year	(1,146)	(2,788)
Balance at 31 December	5,858	6,059

Movement in the loss allowance account in respect of other receivables of the Group during the year is as follows:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	110	84
Loss allowance recognised during the year	220	26
Balance at 31 December	330	110

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at 31 December 2021 of the Group's interest-bearing borrowings and lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest dates the Group can be required to pay:

	2021					Carrying amount RMB'000
	Contractual undiscounted cash flow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	
Interest-bearing borrowings (Note 29)	4,799	3,076	2,009	–	9,884	9,483
Lease liabilities (Note 32)	22,081	20,339	49,959	1,419	93,798	85,839

	2020					Carrying amount RMB'000
	Contractual undiscounted cash flow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	
Interest-bearing borrowings (Note 29)	3,624	14,489	7,495	–	25,608	24,456
Lease liabilities (Note 32)	14,829	14,243	35,520	11,502	76,094	67,690

The contractual cash flows of other financial liabilities equal to the carrying amount on the statement of financial position as at 31 December 2021 and 2020.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table details the profile of the Group's interest-bearing financial liabilities at the end of each reporting period.

	2021		2020	
	Effective interest rate %	Amounts RMB'000	Effective interest rate %	Amounts RMB'000
Fixed rate borrowings				
– Lease liabilities	3.98%-4.90%	85,839	3.98%-4.90%	67,690
– Interest-bearing borrowings	3.98%	5,507	1%-6.49%	19,398
		91,346		87,088
Variable rate borrowings				
– Interest-bearing borrowings	2.81%	3,976	3.25%	5,058
Total borrowings		95,322		92,146
Fixed rate borrowings as a percentage of total net borrowings		95.8%		94.5%

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through sales which give rise to cash, receivables and payables balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currency gives rise to this risk is primarily US\$, Japanese Yen ("JPY") and HKD.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date. Differences resulting from the translation of financial statements of foreign operations into the Group's presentation currency are excluded.

	2021			2020	
	US\$ RMB'000	JPY RMB'000	HKD RMB'000	US\$ RMB'000	JPY RMB'000
Cash at bank and on hand	670,162	2,630	667	31,926	3,001
Contract assets	673	-	-	6,068	-
Trade receivables	19,659	-	-	26	-
Trade payables	-	-	-	(1,005)	-
Other payables	-	-	(49)	-	-
Gross exposure arising from recognised assets and liabilities	690,494	2,630	618	37,015	3,001

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax	
		2021 RMB'000	2020 RMB'000
US\$	5%	29,346	1,263
	(5%)	(29,346)	(1,263)
JPY	5%	112	128
	(5%)	(112)	(128)
HKD	5%	26	–
	(5%)	(26)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets. The analysis is performed on the same basis as 2020.

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement

Fair value hierarchy

Fair values are categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy.

	2021 Fair value measurements categorised into Level 2 RMB'000	2021 Fair value measurements categorised into Level 3 RMB'000	2020 Fair value measurements categorised into Level 3 RMB'000
Equity investment in a listed company	75,444	–	–
Equity investments in an unlisted company (Note 19)	–	105,661	64,445
RMB wealth management products (Note 27)	–	605,534	238,903

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (continued)

Fair value hierarchy (continued)

(i) Financial assets measured at fair value (continued)

Information about Level 2 fair value measurements

The Group's investment in equity interest in a listed company is subject to a lock-up period up to June 2022. The market closing price of the shares is RMB68.60 as of 31 December 2021. The fair value of the equity investments in a listed company subject to lock-up is estimated using the Asian put model, which includes main inputs of Risk-Free interest rate, expected dividend yield and stock price volatility etc.

Information about Level 3 fair value measurements

The fair value of equity investments in an unlisted company is determined using the price to book ratio of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. At 31 December 2021, if the discount for lack of marketability had been one percentage point higher/lower, the Group's total comprehensive income and fair value reserve (non-recycling) would have been RMB870,000 lower/higher.

The fair value of RMB wealth management products is determined by calculating based on the discounted cash flow method. The main level 3 inputs used by the Group for RMB wealth management products are the expected rates of return. As at 31 December 2021, if the expected rate of return of the investment in RMB wealth management products held by the Group had been one percentage point higher/lower, the Group's profit for the year and retained profits would have been RMB7,288,000 higher/lower.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (continued)

Fair value hierarchy (continued)

(i) Financial assets measured at fair value (continued)

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2021 RMB'000	2020 RMB'000
Equity investments in a listed company (Note 27):		
At 1 January	–	–
Additions in investments	43,620	–
Net realised and unrealised gains or losses recognised in profit or loss during the year (Note 5)	31,824	–
At 31 December	75,444	–
Equity investments in an unlisted company (Note 19):		
At 1 January	64,445	12,000
Additions in investments	38,000	–
Changes in fair value recognised in other comprehensive income (Note 11)	3,216	52,445
At 31 December	105,661	64,445

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

37 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (continued)

Fair value hierarchy (continued)

(i) Financial assets measured at fair value (continued)

	2021 RMB'000	2020 RMB'000
RMB wealth management products (Note 27):		
At 1 January	238,903	130,701
Additions in investments	1,137,883	444,000
Net realised and unrealised gains or losses recognised in profit or loss during the year (Note 5)	18,056	5,737
Disposal of financial assets	(789,308)	(341,535)
At 31 December	605,534	238,903

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2021.

38 COMMITMENTS

Capital commitments outstanding at 31 December 2021 and 2020 not provided for in the consolidated financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Purchase of property, plant and equipment:		
– Contracted for	224,929	74,268

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

39 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

	2021 RMB'000	2020 RMB'000
Sales of research models to a company controlled by the controlling shareholders (Note 41)	821	182
Provision of services to companies controlled by the controlling shareholders	33,146	21,861
Lease expenses of offices and equipment from a company controlled by close family members of the controlling shareholders	–	2,166
Provision of services to a company controlled by close family member of the controlling shareholders	55	–

(b) Balances with related parties

The Group's balances with related parties as at the end of reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Contract assets due from a company controlled by the controlling shareholders	15,701	11,005
Trade and bills receivables due from companies controlled by the controlling shareholders	2,156	837
Other receivables due from a company controlled by close family members of the controlling shareholders	634	–
Contract liabilities		
– due to companies controlled by the controlling shareholders	25,562	11,325
– due to a company controlled by close family member of a director of the Company	280	66
Other payables due to a company controlled by close family member of the controlling shareholders	–	2,262

The balances with related parties disclosed above are trade in nature.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

39 MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10 is as follows:

Total remuneration is included in "staff costs" in Note 7(b).

	2021	2020
	RMB'000	RMB'000
Short-term employee benefits	10,869	9,222
Retirement scheme contributions	436	265
Share-based payments	3,996	5,357
	15,301	14,844

(d) Leasing arrangements

In 2021, the Group entered into a lease agreement in respect of certain premises including research model facilities, laboratories and office, together with all equipment to be used for research and development space, from a company controlled by close family members of the controlling shareholders.

At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of USD6,025,000, which is equivalent to RMB38,413,000. The rental paid/payable by the company in 2021 amounted at USD1,232,000, which is equivalent to RMB7,948,000.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions for the year ended on 31 December 2021 included in Note 39 (a) and 39 (d) constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Connected and Continuing Connected Transactions of the Report of Directors.

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

40 COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property plant and equipment		109,119	131,751
Intangible assets		14,158	14,481
Investments in subsidiaries	16	834,268	549,278
Interest in an associate		25,289	–
Financial assets at FVOCI		105,661	64,445
Certificates of deposits		1,405,323	–
Other non-current assets		6,454	4,510
Deferred tax assets		10,488	10,414
		2,510,760	774,879
Current assets			
Inventories		51,612	25,071
Contract costs		115,654	78,347
Contract assets		66,813	34,223
Trade and bills receivables		19,085	7,980
Prepayments and other receivables		107,727	87,097
Financial assets at FVTPL		680,978	208,004
Cash at bank and on hand		3,740,653	49,940
		4,782,522	490,662
Current liabilities			
Trade payables		75,259	30,899
Contract liabilities		304,424	194,127
Other payables		277,853	35,606
Lease liabilities		1,406	1,363
		658,942	261,995
Net current assets		4,123,580	228,667
Total assets less current liabilities		6,634,340	1,003,546
Non-current liabilities			
Lease liabilities		454	1,774
Deferred tax liabilities		17,616	13,885
Deferred income		13,777	14,107
		31,847	29,766
NET ASSETS		6,602,493	973,780
CAPITAL AND RESERVES			
Share capital	36	381,246	227,455
Reserves		6,221,247	746,325
TOTAL EQUITY		6,602,493	973,780

Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

41 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate and ultimate controlling parties of the Group at 31 December 2021 to be Ms. Feng Yuxia and Mr. Zhou Zhiwen.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, a new standard IFRS 17, *Insurance contract*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1, <i>Classification of liabilities as current or non-current</i>	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 12, <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.