康龙化成
PHARMARON

Pharmaron Beijing Co., Ltd.*

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

Stock Code: 3759

2021 ANNUAL REPORT

* For identification purposes only

PREMIER R&D SERVICE PROVIDER FOR THE LIFE SCIENCES INDUSTRY

About Pharmaron

Pharmaron (Stock Code: 300759.SZ/3759.HK) is a premier R&D service provider for the life sciences industry. Founded in 2004, Pharmaron has invested in its people and facilities and established a broad spectrum of research, development and manufacturing service capabilities throughout the entire drug discovery, preclinical and clinical development process across multiple therapeutic modalities, including small molecules, biologics and CGT products. With around 15,000 employees, and operations in China, U.S., and U.K., Pharmaron has an excellent track record in the delivery of R&D solutions to its partners in North America, Europe, Japan and China.

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Corporate Information

EXECUTIVE DIRECTORS

Dr. LOU Boliang (樓柏良) *(Chairman)*
Mr. LOU Xiaoqiang (樓小強)
Ms. ZHENG Bei (鄭北)

NON-EXECUTIVE DIRECTORS

Mr. CHEN Pingjin (陳平進)
Mr. HU Baifeng (胡柏風)
Mr. LI Jiaqing (李家慶)
Mr. ZHOU Hongbin (周宏斌)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Lixin (戴立信)
Ms. CHEN Guoqin (陳國琴)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
Mr. YU Jian (余堅)

SUPERVISORS

Dr. YANG Kexin (楊珂新) *(Chairperson)*
Ms. FENG Shu (馮書)
Ms. ZHANG Lan (張嵐)

AUDIT COMMITTEE

Mr. YU Jian (余堅) *(Chairperson)*
Ms. CHEN Guoqin (陳國琴)
Mr. TSANG Kwan Hung Benson (曾坤鴻)

REMUNERATION AND APPRAISAL COMMITTEE

Ms. CHEN Guoqin (陳國琴) *(Chairperson)*
Dr. LOU Boliang (樓柏良)
Mr. LOU Xiaoqiang (樓小強)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
Mr. YU Jian (余堅)

NOMINATION COMMITTEE

Ms. CHEN Guoqin (陳國琴) *(Chairperson)*
Dr. LOU Boliang (樓柏良)
Ms. ZHENG Bei (鄭北)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
Mr. YU Jian (余堅)

STRATEGY COMMITTEE

Dr. LOU Boliang (樓柏良) *(Chairperson)*
Mr. LOU Xiaoqiang (樓小強)
Mr. CHEN Pingjin (陳平進)
Mr. LI Jiaqing (李家慶)
Mr. DAI Lixin (戴立信)

COMPANY SECRETARY

Ms. MAK Po Man Cherie (麥寶文)

AUTHORIZED REPRESENTATIVES

Mr. LOU Xiaoqiang (樓小強)
Ms. MAK Po Man Cherie (麥寶文)

AUDITOR

Ernst & Young

27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

LEGAL ADVISERS

As to Hong Kong law:
O'Melveny & Myers

31st Floor, AIA Central
1 Connaught Road Central
Hong Kong

As to PRC law:
Zhong Lun Law Firm

23-31/F, South Tower
of CP Center, 20 Jin He East Avenue
Chaoyang District
Beijing 100022
P.R China

REGISTERED OFFICE IN THE PRC

8th Floor, Block 1
6 Tai-He Road
Beijing Economic Technological Development Area
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

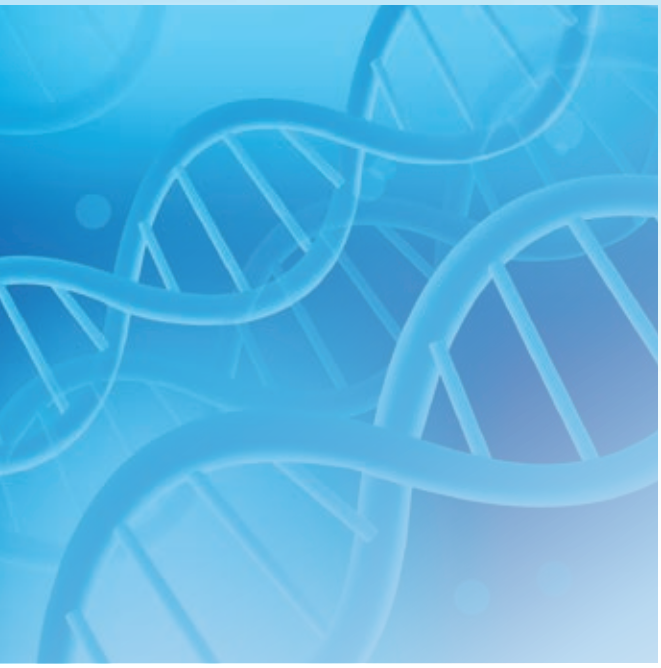
STOCK CODE

3759

COMPANY WEBSITE

www.pharmaron.com

Chairman's Statement



Dear Shareholders:

I would like to extend my sincere gratitude for your continuous trust and support. On behalf of the Board of Directors of Pharmaron and its subsidiaries (collectively, the "Company"), I present to you the results of the Company for the year ended December 31, 2021.

Despite the continuation of the global COVID-19 pandemic in 2021, we steadfastly worked towards our business and growth goals with solidarity and resilience while implementing robust epidemic prevention and control measures. In 2021, the business of the Company continued to grow rapidly with our expanded service offerings and deepened collaborations with the global biopharmaceutical community.

In 2021, the Company recorded revenue of RMB7,443.8 million, representing an increase of 45.0% over the same period of last year; profit attributable to owners of the parent of RMB1,661.0 million, representing an increase of 41.7% over the same period of last year; net cash flows generated from operating activities of RMB2,058.0 million, representing an increase of 24.8% over the same period of last year. By the end of 2021, the company achieved total assets of RMB18,389.1 million, increasing 54.4% compared with the beginning of the year; equity attributable to owners of the parent of RMB10,129.2 million, increasing 14.2% compared with the beginning of the year.

1. **Strengthening the end-to-end and fully integrated service platform to support global drug innovation**

   We have been striving to strengthen the core competitiveness of our one-stop, fully integrated service platform. While we continuously strengthen our well-established and fully integrated R&D and manufacturing service platform for small molecule drugs throughout drug discovery, pre-clinical and clinical development and the commercialization process, we have been accelerating the building of our biologics and CGT service platform. We are committed to becoming a global leader in life science R&D services across multiple therapeutic modalities. Through our integrated service platform, we are devoted to support our partners in developing innovative medicines for human health in an accelerated and cost-effective manner!

a) Supporting global and Chinese drug innovation

Our pharmaceutical R&D service platform provided services to over 2,000 customers in 2021, which include over 800 new customers and the global top 20 pharmaceutical companies. With our strong expertise and technical capabilities and well-established systems and infrastructures that adhere to the highest international standards, we helped our domestic and international partners rapidly advance their R&D projects from preclinical to clinical stages and regulatory registration. In 2021, we participated in 565 drug discovery projects and 1,013 drug molecules or intermediates in the CMC (small molecule CDMO) services, which included 754 projects in preclinical stage, 224 projects in Phase I-II clinical trials, 30 projects in Phase III clinical trial and five projects in process validation and commercialization stage. Also, we contributed to the innovative drug development in China by conducting studies for 77 investigational new drugs (IND) or new drug applications (NDA) filings for our Chinese customers, which included 56 projects applied simultaneously in multiple jurisdictions (including China, U.S. and EU).

b) Enhancing the end-to-end, fully integrated services platform

In 2021, we continued to strengthen the service platform vertically and horizontally. Vertically, we strengthened the seamless integration of the same discipline at different drug R&D stages. Horizontally, we tightened the integration of different disciplines at the same drug R&D stages. This was achieved by improving the science and technology of each discipline, expanding the service offerings and promoting the interdisciplinary collaborations.

c) Global operation and expansion

The core of our competitive strategy focuses on enhancing the capabilities of our integrated services platform and providing customized services and solutions with the latest technologies through international operations that fully utilize our resources around the globe. In 2021, as part of the strategy to overcome the negative impact of the global pandemic, we systematically enhanced our own international operations' capabilities and collaborations among our global teams. In addition, we continued to identify and implement cutting-edge technologies and attract world-class talent that fit into our growth strategy and corporate culture. The acquisition of Absorption Systems in U.S. at the end of 2020, and Allergan Biologics Limited in U.K. in the second quarter of 2021, allowed us to quickly enter the field of CGT services. Our recent acquisition of the API commercial production site at Cramlington in U.K. will be integrated with our existing service capabilities of discovery, process development and early-stage cGMP API manufacturing at Hoddesdon. This will enable complete end-to-end services from discovery chemistry through to commercial manufacturing in U.K.

d) Capacity expansion

We continued to carry out our ambitious plan of capacity expansion in China, U.K. and U.S. in 2021, to support the future growth. 1) In U.K., we expanded the laboratory space in the Hoddesdon site in 2021 to meet the growing business needs and will gradually expand the laboratory and manufacturing space for other sites in U.K.; 2) To support the growth of U.S. laboratory services and CGT lab services, we completed the buildup of new laboratories at the Boston site and will further expand the laboratory spaces in San Diego and Exton sites; 3) In China, we accelerated the infrastructure construction with significant expansion in laboratory and manufacturing spaces in our Ningbo, Tianjin and Shaoxing sites to meet the rapid growth needs of our laboratory services and our strategy to expand CMC (small molecule CDMO) service downstream from late-stage clinical to commercial manufacturing services.

2. Continuing to invest in our talent pool and technologies to support our long-term and sustainable growth

Since inception, we have put great emphasis on the development of technology, innovation and talent, which are the foundation of innovation and the key to strengthening our core competitiveness. In 2021, we continued to build an inclusive and open development platform to attract and train our talent pool to support our long-term and sustainable growth. In addition, cutting-edge technologies were identified and implemented to improve effectiveness and efficiency of our service offerings, in combination with the efforts of improving our management aspects.

a) Talent development

It is our long-standing human resources strategy to build an inclusive and open development platform to attract, train and promote our talent globally and form a well-balanced talent echelon to support the long-term and sustainable growth. In 2021, we further expanded and enhanced our multi-dimensional and comprehensive training system, which included "Pharmaron College," visiting scholar programs at globally renowned academic laboratories, courses and lectures by prominent professors and top-notch industry scientists, internal weekly seminars, "Chemistry Star" award and "Chemistry Reaction of the Day". In line with the business growth, we will continue to develop our internal academic-sharing platform in order to promote the innovation and new technology adoptions.

b) Investment in technology

Technological advancement is essential for us to maintain a leading position in the industry. In the laboratory services area in 2021, we continued to develop the high-throughput experimentation (HTE) platform for reaction condition screening, DNA-encoded chemical library technology platform, multi-electrode array (MEA) platform on human iPSC-derived cardiomyocyte, *in vivo* imaging platform, radiotherapy technology and assay platform based on 3D spheroid and organoid. To continuously improve the production service efficiency and enhance market competitiveness of our CMC (small molecule CDMO) services in 2021, we continued to invest in flow chemistry and biocatalysts technology which resulted in significant progress in these areas.

c) Improvement in corporate governance

We strive to be an excellent corporate citizen and support the accomplishment of sustainable economic, environmental and social development goals with concrete steps. In order to improve our ESG governance, the board approved the "*Corporate Environmental, Social and Corporate Governance Objectives and Management Measures*" in April 2021. As a result, we built a three-tiered ESG governance structure that comprised the three levels of "governance, management, and implementation." In addition, we set sustainable development goals (SDGS) for 2021-2025 with specific targets for emission, waste reduction, energy efficiency and water efficiency, and developed the future work plan including specific measures according to the feasibility and industry developments. Consequently, our ESG ratings are improving with the MSCI ESG Rating rising from BB in 2020 to BBB in 2021.

Discovering and developing new medicines to meet unmet medical needs is crucial for human health. In 2022, we will once again put safety, science/tech and people as our top priority and work toward our mission "To Support Our Partners' Success in Discovery, Development and Commercialization of Innovative Medicines." We will continue to be a responsible corporate citizen in our communities and make positive contributions to the development of the society with our actions.

On behalf of the Board of Directors and our hard-working employees, I would like to once again express my sincere appreciation to our shareholders who have trusted and supported us!

Pharmaron Beijing Co., Ltd.
Dr. Lou Boliang
Chairman and Chief Executive Officer

March 25, 2022

Financial Highlights

	Year ended December 31,		
	2021	2020	Change
	RMB'000	RMB'000	%
Revenue	**7,443,770**	5,133,597	45.0
Gross profit	**2,672,044**	1,916,113	39.5
Profit attributable to owners of the parent	**1,661,029**	1,172,383	41.7
Non-IFRSs adjusted net profit attributable to owners of the parent	**1,461,985**	1,064,029	37.4
Net cash flows generated from operating activities	**2,058,044**	1,648,610	24.8

- During the Reporting Period, the Group recorded aggregate revenue of approximately RMB7,443.8 million, representing an increase of approximately RMB2,310.2 million, or 45.0%, as compared to the year ended December 31, 2020.

- During the Reporting Period, the profit attributable to owners of the parent was approximately RMB1,661.0 million, representing an increase of approximately 41.7% as compared to the year ended December 31, 2020.

- During the Reporting Period, the net cash flows generated from operating activities was approximately RMB2,058.0 million, representing an increase of approximately 24.8% as compared to the year ended December 31, 2020.

- The Board proposed to declare a final dividend as follows:

  (i) a cash dividend of RMB4.5 (inclusive of tax) per 10 shares or an aggregate of approximately RMB357.4 million for the year ended December 31, 2021.

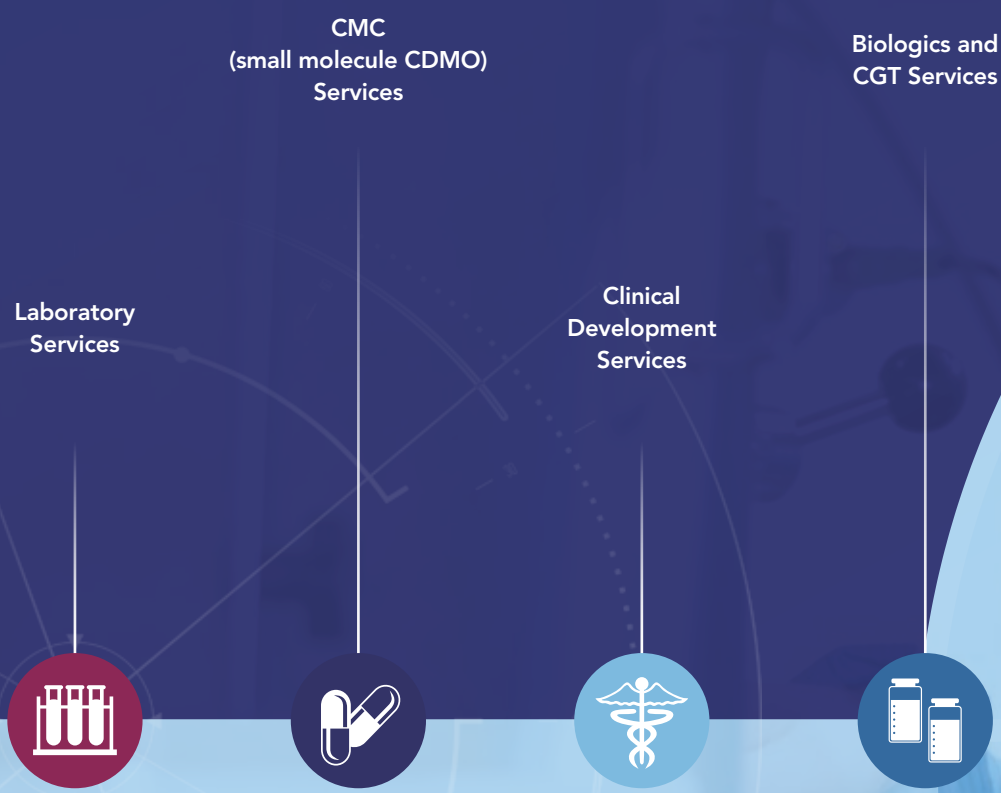
  (ii) 5 new Shares for every 10 existing Shares to be issued out of reserve to all Shareholders.

Financial Summary

	For the year ended December 31				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021 RMB'000**
Operating results					
Revenue	2,294,118	2,908,123	3,757,160	5,133,597	**7,443,770**
Gross profit	774,465	948,050	1,331,701	1,916,113	**2,672,044**
Profit for the year	218,664	335,843	530,672	1,146,992	**1,620,077**
Profit attributable to owners of the parent	222,497	336,042	547,190	1,172,383	**1,661,029**
Profitability					
Gross profit margin	33.8%	32.6%	35.4%	37.3%	**35.9%**
Profit margin for the year	9.5%	11.5%	14.1%	22.3%	**21.8%**
Earnings per share (RMB)					
Earnings per share – Basic	0.3767	0.5689	0.8284	1.4825	**2.0982**
Earnings per share – Diluted	0.3767	0.5689	0.8282	1.4781	**2.0537**

	For the year ended December 31				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021 RMB'000**
Total assets	4,143,664	4,802,079	9,935,037	11,908,792	**18,389,124**
Total liabilities	2,145,560	2,475,508	2,097,019	2,975,053	**8,093,817**
Non-controlling interests	12,618	12,991	70,955	63,420	**166,066**
Equity attributable to owners of the parent	1,985,486	2,313,580	7,767,063	8,870,319	**10,129,241**
Gearing ratio	51.8%	51.6%	21.1%	25.0%	**44.0%**

SUPPORTING OUR PARTNERS' SUCCESS IN DISCOVERY, DEVELOPMENT AND COMMERCIALIZATION OF INNOVATIVE MEDICINES




3M 9042

STATE-OF-THE-ART FACILITIES LOCATED IN CHINA, UK AND US

PHARMARON IN CHINA

Beijing Headquarters

Beijing TSP

PHARMARON IN CHINA

Ningbo

Shanghai

Tianjin

Xi'an

Shaoxing

Nanjing

PHARMARON IN UNITED KINGDOM

Cardiff

Hoddesdon

Rushden

Liverpool

Cramlington

PHARMARON IN UNITED STATES

Baltimore

Germantown

Exton

San Diego

Boston

Management Discussion and Analysis

A. BUSINESS REVIEW

1. Principal Business

The Company is a leading fully-integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. The Company provides fully-integrated drug research, development and manufacturing services throughout the research and development cycle and is continuously strengthening the integration of its service offerings both vertically and horizontally. Vertically, the Company is strengthening the seamless integration of the same discipline across different pharmaceutical R&D stages. Horizontally, the Company is strengthening the integration of different disciplines at the same pharmaceutical R&D stages, improving the science and technology of each discipline, expanding the service offerings, and promoting the interdisciplinary collaborations. In addition, the Company recently has been accelerating the establishment of R&D service capabilities for Biologics and CGT services, and committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic modalities.

2. Operating Models

Our principal business is categorized into four business segments: laboratory services, CMC (small molecule CDMO) services, clinical development services, and biologics and CGT services.

(1) Laboratory services

Laboratory services of the Company include laboratory chemistry and bioscience services. Pharmaron's business started from laboratory chemistry.

Laboratory chemistry services include medicinal chemistry, synthetic chemistry, analytical and purification chemistry, and computer-aided drug design (CADD). Laboratory chemistry provide customers with chemistry services such as design and synthesis of compound library, discovery of hit and lead compounds, design and/or synthesis and optimization of lead compounds, and chiral and non-chiral separation and purification.

Bioscience services include *in vitro* and *in vivo* DMPK/ADME, *in vitro* biology and *in vivo* pharmacology, safety assessment and U.S. laboratory services. Bioscience services provide customers with drug discovery services such as target validation, structure activity relationship studies, candidate compound identification, and drugability studies. The Company's U.S. laboratory services provide customers with DMPK/ADME and bioanalysis required in the discovery and development of small molecule pharmaceutical products and in the areas of ophthalmology and medical devices.

(2) CMC (small molecule CDMO) services

Our experienced CMC (small molecule CDMO) services team provides customers with small molecule APIs process development and manufacturing, material science/pre-formulation, formulation development and manufacturing, and analytical development services to support pre-clinical and other stages of clinical development and commercial manufacturing needs. The process development and manufacturing team provides such services as discovery and development of efficient and green synthetic routes, optimization of existing synthetic routes, and process scale-up; the material science/preformulation team provides services for crystal screening, process development, and early formulation development; the formulation development team designs, modifies, and prepares oral formulations to satisfy preclinical, clinical, and commercial needs; and the analytical development team provides comprehensive analytical support for process development and manufacturing of APIs and pharmaceutical products.

The CMC (small molecule CDMO) services of the Company mainly provide pharmaceutical companies with chemical and formulation process development and manufacturing services with capabilities and capacities to cover the needs in all clinical and commercial stages. The cGMP API and drug product manufacturing facilities of the Company have had the qualification to manufacture products to support clinical trials in global markets, including U.S., China and EU. Our quality assurance system follows the guidelines of the International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use (ICH Guidelines) and supports the development and manufacture of APIs and pharmaceuticals meeting the regulatory requirements from FDA, NMPA and EMA, and can also support the preparation of complete regulatory data packages and documentation for regulatory filings and cGMP audits in U.S., EU, and Asia.

(3) Clinical development services

Our clinical development services include overseas and domestic clinical development services.

The overseas clinical development services include radiolabelled science services and early stage clinical trial services. The radiolabelled science services of the Company help customers synthesize ^{14}C and tritium ^{3}H radiolabelled compounds and use for DMPK/ADME studies of various compounds in human, so as to accelerate their clinical development process. Through the independent early clinical R&D center with 96 beds in Maryland, U.S., the Company provides customers with clinical research services including comprehensive FIH studies, vaccine development/infectious challenge studies, comprehensive ^{14}C drug absorption, distribution and excretion trial, TQT/cardiac safety, and cross-ethnic bridging studies.

Domestic clinical development services include clinical research services and site management services, covering different service needs of clinical research. Among which, clinical research services mainly include: regulatory affairs and product registration, medical affairs, medical monitoring, clinical operations, data management and biostatistics, bioanalysis, pharmacovigilance, quantitative pharmacology, etc.; site management services include CRC services, hospital research and selection, SSU (Study Start Up) rapid start-up, healthy and patient volunteer recruitment and management, quality assurance and its training, post-marketing studies, etc.

The Company's bioanalytical platforms in China and U.S. are able to support the bioanalysis of clinical trials of small molecules and biologics around the world. In addition, with the collaboration among the domestic and overseas clinical development services and the pre-clinical service offerings, it allows the Company to simultaneously submit IND applications for customers' drug candidates to regulatory agencies in China, U.S. and EU.

(4) Biologics and CGT services

Biologics and CGT Services include biologics discovery, development and manufacturing services (CDMO), CGT lab and Gene therapy CDMO services and other service platforms.

Biologics discovery services include biologics plasmid design, cell screening, target biologics expression and purification, analytical method development, and analysis of products, primarily serving various needs for cells and proteins, including mAbs, at the early stage of research and development.

For biologics development and manufacturing services (CDMO), the Company is accelerating the build-up of the biologics CDMO service platform. It is expected that the biologics drug development and manufacturing facility with a facility of nearly 70,000 m^2 will be put into operation in 2023. After the project is completed, it will be able to provide services including cell line supply and cell culture development, upstream and downstream process development, formulation development and fill-and-finish process development, supported by analytics with method development, as well as drug substance and product manufacturing services armed with 200L to 2,000L production capacity to support projects from pilot to commercial stage production.

Biologics and CGT lab services include analytical method development and validation for various proteins, cells, and DNA and RNA products. The analytical platform also provides services in evaluation of activity, toxicity, tissue distribution and viral shedding, as well as quantitative analysis of gene and cell products, in compliance with GLP/GCP/GMP regulations during the pre-clinical and clinical development and marketing stages.

Gene therapy CDMO services include plasmid synthesis containing therapeutic genes, cell line development, cell bank establishment, plasmid and cell production process development, formulation process development, manufacturing of products, analytical method development and validation, product-related impurities identification and analysis, stability evaluation, product analysis and GMP batch release, etc., covering the entire gene therapy CDMO process, to support the needs for pre-clinical safety evaluation, Phase I, II and III clinical trials, and post-marketing product life cycle management. The facility has been licensed by MHRA, the UK pharmaceutical administration authority, for the manufacture of biologics and CGT products.

B. FINANCIAL REVIEW

1. Overall Operation Results

In 2021, the Company continued to build a fully-integrated services platform, and further improved its small molecule drug R&D and manufacturing services platform throughout the drug discovery, preclinical, clinical development and commercial stages by further integrating its service offerings both vertically and horizontally. In addition, the Company further accelerated the establishment of R&D services capabilities for biologics and CGT services platform and committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic modalities. Thanks to the joint efforts of all the employees, during the Reporting Period, the Company realized revenue of RMB7,443.8 million, with a year-on-year growth of 45.0% (or 52.2% if the weighted average USD exchange rate in the Reporting Period remains the same as the same period of last year); with the economy of scales, the Company realized gross profit of RMB2,672.0 million; gross margin was 35.9%, with an decrease of 1.4 percentage points over last year (if the weighted average USD exchange rate in the Reporting Period remains the same as the same period of last year, the gross margin shall be 38.6%, with an increase of 1.3 percentage points over last year); profit attributable to owners of the parent of RMB1,661.0 million, with a year-on-year growth of 41.7%, and the Non-IFRSs adjusted net profit attributable to owners of the parent of RMB1,462.0 million. During the Reporting Period, the Company recorded income tax expenses of RMB290.9 million, with an increase of 68.8% over the last year. With the growth in business demand, the Company continuously expanding its talent pool. As of December 31, 2021, the total number of employees reached 14,923, including 13,455 R&D, production technology and clinical services staffs, accounting for 90.2% of the total number of employees in the Company. As of December 31, 2021, the number of R&D, production technology and clinical services staffs increased by 3,628 compared with that of December 31, 2020.

In 2021, the Company continued to adhere to the "Customer Centric" corporate philosophy, with approximately 90% of the revenue coming from a large, diverse, loyal and repeated customer base that includes the global top 20 pharmaceutical companies, among which, the revenue of such customers from global top 20 pharmaceutical companies accounted for 19.0% of the revenue of the Company. In addition, the Company actively expanded its customer base, by introducing more than 800 new customers in 2021. In 2021, the revenue from customers in North America accounted for 64.2%, revenue from customers in EU (including U.K.) accounted for 15.6%, revenue from customers in China accounted for 17.1%, and revenue from customers in other regions accounted for 3.1%. With the increase of number of customers, the Company further optimizes its revenue structure by reducing the revenue concentration of the top 20 customers from 41.1% in 2020 to 33.8% in 2021. While the revenue concentration decreased, the average revenue from the top 20 customers increased by 19.2% when compared with 2020. The advantages of the fully-integrated service strategy have been further validated, and customer loyalty was further improved. In addition, the Company conducted extensive scientific collaboration with customers and jointly published research findings. In 2021, a total of 29 papers were published in *J. Med. Chem., Bioorg. Med. Chem. Lett.*, and *J. Pharm. Sci*. and other international scientific journals, together with 27 patent inventorship at home and abroad (with intellectual properties owned by customers).

With the strategy of building a fully-integrated service platform, the Company expanded its service capabilities to meet its business needs and further improved its international services platform and new services expansion through both internal construction and external expansion, providing new impetus for the mid-and long-term growth of the Company. During the Reporting Period, the Company's capital expenditure for internal construction and external expansion was RMB2,092.8 million and RMB1,436.9 million, increasing by 59.0% and 30.6% respectively over 2020. With the expansion of global footprint, the Company owns 10 operating facilities and has more than 1,100 employees in U.K. and U.S.. In 2021, the revenue of the overseas subsidiaries accounted for 13.7% of the revenue of the Company.

To better support the long-term development and expansion plan, the Company successfully issued H shares convertible bonds in the international capital market in June 2021. The net proceeds from the offering was approximately RMB3,776.0 million. The offering represented the first issuance of convertible bonds in both Renminbi and US dollars by a company listed on the Hong Kong Stock Exchange. The Company issued $300 million convertible bonds with zero interest and zero yield, and obtained the highest conversion premium of the USD convertible bonds among the medical enterprises listed in Hong Kong stock market. The offering effectively reflected the capital market's trust and recognition of the Company's operating ability market positions.

The Company attaches great importance to the improvement and constant optimization of the corporate governance, in order to maximize the long-term benefits of the Company. To improve the environmental, social and corporate governance ("ESG") structure, the Board reviewed and approved the ESG management measures of the Company in April 2021, built a three-level ESG governance structure consisting of the Board and the strategy committee as the "governance layer", the ESG executive committee as the "management layer", and the "execution layer" composed of all departments and tier 1 subsidiaries. The ESG executive committee of the Company shall regularly discuss and develop ESG work plan, work progress and the latest developments in the capital market and report to the governance layer. In addition, the Company set the sustainable development goals (SDGS) of 2021-2025 for emission target, waste reduction target, energy efficiency target and water efficiency target, and developed the future work plan and specific measures according to the feasibility and industry developments.

During the Reporting Period, the Company continued to improve its management system and included information security into our safety production efforts, with an aim to improve and upgrade the information system of our global operations. Our information security management system passed the ISO27001 international information security standard certification in November, 2021. In addition, by providing information security training to employees, the Company improved the information security awareness by its employees, so as to ensure that the security of customer information and intellectual property rights as well as personal information of clinical subjects is continuously and effectively safeguarded.

2. Operation results of each business segment

(1) Laboratory services

As global pharmaceutical R&D investment continues to grow and the penetration rate for pharmaceutical R&D outsourcing continues to increase, the business volume from high quality customers and potential projects is on the rising trend. During the Reporting Period, with solid foundation of our laboratory service capabilities, the Company supported our customers to advance their pharmaceutical R&D programs more efficiently, which contributed to the rapid growth of laboratory service revenue. During the Reporting Period, the laboratory services segment realized revenue of RMB4,565.8 million, with a year-on-year growth of 41.1%; and gross margin of 43.4%, with an increase of 0.8 percentage points over last year. The customers in North America, Europe (including U.K.), China and other regions accounted for 74.6%, 11.1%, 11.0%, and 3.3%, respectively, of the laboratory service revenue.

To meet the business needs, the Company continues to expand and improve its R&D team. As of December 31, 2021, the Company employed 7,136 employees in its laboratory services business, with an increase of 1,579 employees compared with that of December 31, 2020. The Company has nearly 4,900 laboratory chemists and technicians in laboratory chemistry which is one of the world leading laboratory chemistry group in terms of size and expertise. During the Reporting Period, the Company further strengthened the global services network of laboratory services, and provided customers with more flexible and comprehensive laboratory services

through the collaboration of laboratory service teams in China, U.K. and U.S.. In addition, with the improvement of the technical capabilities and capacities of different biosciences service segment and the seamless integration with laboratory chemistry services, bioscience services experienced rapid growth with bioscience revenue contribution to the laboratory services increased to 46.6%, representing an increase of 5.8 percentage points as compared to last year.

With global R&D team and quality system put in place, the Company helps customers rapidly advance their R&D projects from preclinical to clinical in many countries by providing comprehensive drug discovery and development services. During the Reporting Period, the Company participated in 565 drug discovery projects. Also, the Company contributed to the development of global innovative drug R&D by applying our long-accumulated expertise in pharmaceutical R&D and conducted studies for 77 investigational new drugs (IND) or new drug applications (NDA) filing for our Chinese customers, of which, 56 projects applied simultaneously in multiple jurisdictions (including China, U.S. and EU), an integrated service package for IND enabling R&D services gained more and more customer recognition.

The Company continued to put emphasis on the improvement and optimization of the quality system. Our drug safety assessment services which passed three GLP field inspections by the U.S. FDA and Belgium OECD, required for IND and NDA applications to our global customers, passed the GLP re-inspection by NMPA in 2021. In addition, the San Diego division of U.S. laboratory services successfully passed the GLP field inspection by the FDA in 2021.

The Company continued expanding the laboratory facilities to meet the growing business demand. During the Reporting Period, the Company continued the construction of Phase II of the Campus I in Ningbo, of which, the first 120,000 m^2 of laboratory space was gradually in operation starting from the first quarter of 2021. The construction of the main structure of remaining 42,000 m^2 was completed and the internal installation has begun. Upon the completion of Phase II project, the number of laboratory service scientists and technicians will increase by nearly 2,000. During the Reporting Period, to further expand the Company's capacities for safety assessment, DMPK and pharmacology, the Company commenced the construction of 140,000 m^2 animal testing facility in Phase I of the Campus III in Ningbo. In addition, the Company continued to expand the laboratory spaces in Beijing and started the laboratory expansion in Qingdao and Chongqing. Also, in order to optimize the quality control and supply chains of laboratory animals, the Company acquired the controlling interest of Biomedical Research, and 100% equity of Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd. (now "Kangruitai (Zhanjiang) Biotechnology Co., Ltd." 康瑞泰(湛江)生物技術有限公司). As of December 31, 2021, with both acquisitions, the Company had the NHP colony of nearly 10,000 which helps to improve the assurance of the supply chain for the laboratory animals.

(2) CMC (small molecule CDMO) services

During the Reporting Period, the CMC (small molecule CDMO) services realized revenue of RMB1,746.2 million, with a year-on-year growth of 42.9%; and gross margin of 34.8%, with an increase of 2.2 percentage points when compared with last year. The customers in North America, Europe (including U.K.), China and other regions accounted for 54.6%, 28.6%, 14.1%, and 2.7%, respectively, of the CMC (small molecule CDMO) service revenue.

With the seamless integration of the Company's fully-integrated R&D service platform and the coordination of different service segment, approximately 80% of CMC (Small molecule CDMO) revenue came from the existing customers of drug discovery services (laboratory chemistry and biological sciences). In addition, through international operation, we strengthened the capabilities of our fully integrated services platform and provided customized services and solutions with the cutting-edge technology to our customers by utilizing the R&D resources of our global service network. Our process development teams in China and U.K. cooperated closely to provide customized solutions in an innovative hybrid mode, gaining recognition from more and more customers and achieving growing order quantity and quality. The services covered 1,013 drug molecules or intermediates, including 754 projects in preclinical stage, 224 projects in Phase I-II clinical trials, 30 projects in Phase III clinical trial, five projects in process validation and commercialization stage. In 2021, approximately 80% of CMC (Small molecule CDMO) revenue was generated from preclinical to Phase II clinical trial stages. The revenue contribution from the later stage business will gradually increase as the early stage projects progress to the later stages and the Company's CMC (small molecule CDMO) manufacturing capacity increases.

During the Reporting Period, the Company continued to strengthen its quality management by adhering to the highest international quality control standards to pave the way for further development of CMC (small molecule CDMO) services. The plant in Hoddesden successfully passed the GMP inspection of MHRA by the end of June 2021. In addition, with the continuously global outbreak of COVID-19, our QA team continued to provide customers with a variety of flexible audit methods, including remote online audit and combination of online and offline audits. We completed 74 QA audits for customers including the global top 20 pharmaceutical enterprises, and all the audits were passed. After the implementation of the electronic quality document management system, the data integrity management performance of the Company was further improved. In addition, the Company was committed to continuously improving the EHS management by setting higher standard for employee's health protection and safety operation.

During the Reporting Period, Phase III of Tianjin plant (40,000 m^2) and Phase II of Ningbo Campus I gradually in operation, which provide laboratory spaces for nearly 1,000 process and analytical chemists and technicians. With our strategy to expand out CMC (small molecule CDMO) service downstream to late-stage clinical and commercial manufacturing services, we accelerated the construction of Shaoxing Phase I facility with an area of 81,000 m^2 and reactor volume of 600 m^3 in 2021, of which, 200 m^3 has commenced operation in early 2022 and the remaining 400 m^3 are expected to be completed and operational by mid-2022. In addition, the Company acquired Aesica Pharmaceuticals Limited (now "Pharmaron Manufacturing Services (UK) Ltd") in Cramlington, UK in January 2022. The facility has a reactor volume of over 100 m^3 and can provide cGMP

API manufacturing services from pilot to commercial scale. The facility has been inspected and approved by a number of regulatory agencies including the FDA and MHRA. Our commercial production facility in Shaoxing together with the API commercial product plant in Cramlington will provide our customers with comprehensive, end-to-end API production services in China and U.K..

To meet the growing demand for CMC (Small molecule CDMO) services, the Company is actively expanding its CMC (Small molecule CDMO) service team. As of December 31, 2021, the Company had 2,621 employees engaged in CMC (Small molecule CDMO) services, representing an increase of 687 employees as compared to December 31, 2020.

(3) Clinical development services

During the Reporting Period, the Company continued to invest in clinical development services, especially the capabilities and capacities of domestic clinical development services. During the Reporting Period, the clinical development services enjoyed rapid growth and realized revenue of RMB956.4 million, with a year-on-year growth of 52.0%; and gross margin of 10.3%. The customers in North America, Europe (including U.K.), China and other regions accounted for 28.9%, 15.5%, 52.4% and 3.2%, respectively, of the clinical development service revenue. The low gross margin was mainly due to the rapid expansion of the team to support the growth strategy of clinical development services.

In May 2021, the Company established Pharmaron Clinical, and began to reorganize the clinical development capabilities of its subsidiaries and departments into Pharmaron Clinical so as to optimize the organizational structure of the teams and integrating the services in clinical operations, site management, data management and biostatistics, regulatory affairs, medical affairs, quantitative pharmacology, recruitment, bioanalysis, pharmacovigilance, and medical device services, and built a fully-integrated clinical development service platform, so as to provide customers with higher quality, more comprehensive and more efficient integrated clinical development services. While Pharmaron Clinical building fully-integrated clinical development service platform in China, it will also further strengthen the close collaboration between China and U.S., and provide end-to-end solutions to customers for clinical development solutions in both China and U.S. In addition, the seamless integration with drug discovery, preclinical R&D and CDMO service platforms in China, U.S., and U.K. will provide solid foundation for the growth of the Pharmaron Clinical.

To meet the needs for the increased business volume, the Company further increased the talent pool in clinical development service to support the growth strategy. As of December 31, 2021, the Company had 3,357 employees in clinical development services, representing an increase of 1,149 employees as compared to December 31, 2020.

In addition, Enyuan Pharmaceutical and DeltaMed and their subsidiaries were acquired during the Reporting Period, strengthening Pharmaron Clinical's capabilities in quantitative pharmacology, pharmacovigilance, medical monitoring, medical strategy and medical writing.

(4) Biologics and CGT services

As part of the mid and long-term growth strategy, the Company continued to invest in building the capabilities and capacities of biologics and CGT services and began to report it as a separate service segment in 2021. During the Reporting Period, the biologics and CGT services segment realized revenue of RMB151.0 million and gross margin of -13.8%. The customers in North America, Europe (including U.K.), China and other regions accounted for 93.4%, 4.6%, 1.7%, and 0.3%, respectively, of the biologics and CGT service revenue. The loss of biologics and CGT services segment was mainly because the biologics and gene therapy CDMO services were still in the investment stage with high operating cost for the newly acquired gene therapy CDMO services capabilities in 2021.

As of December 31, 2021, the Company had 341 employees engaged in biologics and CGT services, representing an increase of 213 employees as compared to December 31, 2020.

During the Reporting Period, the Company continued to strengthen the biologics discovery team. The biologics and CGT laboratory services in U.S. are gaining customer recognition with rapid increase in both revenue and market share. In the second quarter of 2021, the Company completed its acquisition of Pharmaron Biologics UK in Liverpool, England. Pharmaron Biologics UK is equipped with advanced and flexible cGMP biologics manufacturing facilities and has over 100 experienced science and technology and production personnel. It provides customers with comprehensive CDMO services covering process development and cGMP manufacturing for gene therapy products. Pharmaron Biologics UK has been holding a biologics production license issued by MHRA since 2007. The Company transformed Pharmaron Biologics UK from an in-house R&D center to gene therapy CDMO service platform and began to take third-party customer orders by the end of 2021.

In addition, to meet the capacity requirements of biologics CDMO, the Company continued to build the domestic biologics CDMO platform during the Reporting Period. As the Company's biologics development and production service center (covering nearly 70,000 m^2), the Phase I of Campus II in Ningbo is expected to undertake large molecule GMP production service projects in the first half of 2023. After the completion of the project, the Company will be able to provide development services for cell line and cell culture process, upstream and downstream process development, formulation development and fill-and-finish process development and analytics method development, as well as drug substances and product manufacturing services with 200L to 2,000L production capacity to support the project from pilot to commercial stage production.

3. Profit in the Reporting Period

The profit attributable to owners of the parent in the Reporting Period was approximately RMB1,661.0 million, increased by 41.7% as compared to approximately RMB1,172.4 million for the year ended December 31, 2020. The increase was mainly due to the further increase from economies of scale under the growth in revenue.

4. Basic and Diluted Earnings Per Share

The basic earnings per share was approximately RMB2.0982, increased by 41.5% as compared to approximately RMB1.4825 for the year ended December 31, 2020. The diluted earnings per share was approximately RMB2.0537, increased by 38.9% as compared to approximately RMB1.4781 for the year ended December 31, 2020. The increase in the basic and diluted earnings per share were primarily due to the increase in the profit attributable to owners of the parent resulting from the business growth.

5. Non-IFRSs Adjusted Net Profit for the Year Attributable to Owners of the Parent

To supplement the financial statements prepared by us, we use non-IFRSs adjusted net profit attributable to owners of the parent as an additional financial measure. We define non-IFRSs adjusted net profit attributable to owners of the parent as net profit before certain expenses/(gains) as set out in the table below.

The Company believes that the consideration of the non-IFRSs adjusted net profit attributable to owners of the parent by eliminating the impact of certain incidental, non-cash or non-operating items is useful for better understanding and assessing underlying business performance and operating trends for the Company's management, shareholders and potential investors.

The non-IFRSs adjusted net profit attributable to owners of the parent is not an alternative to (i) profit before tax or net profit (as determined in accordance with IFRSs) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to satisfy our cash needs, or (iii) any other measures of performance or liquidity. In addition, the presentation of the non-IFRSs adjusted net profit attributable to owners of the parent is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRSs. Shareholders and potential investors should not view the non-IFRSs adjusted net profit attributable to owners of the parent on a stand-alone basis or as a substitute for results under the IFRSs, or as being comparable to results reported or forecasted by other companies.

	Year ended December 31, 2021 RMB'000	Year ended December 31, 2020 RMB'000
Profit attributable to owners of the parent	**1,661,029**	1,172,383
Add:		
Share-based compensation expenses	**56,769**	51,949
Interest and issuance expense on convertible bonds	**60,002**	–
Gains on fair value change of convertible bonds-embedded derivative component	**(72,854)**	–
Foreign exchange related gains	**(23,415)**	(8,247)
Non-IFRS net profit attributable to owners of the parent	**1,681,531**	1,216,085
Add:		
Realized and unrealized gains or losses from equity investments	**(219,546)**	(152,056)
Non-IFRS adjusted net profit attributable to owners of the parent	**1,461,985**	1,064,029

The Non-IFRSs adjusted net profit attributable to owners of the parent in the Reporting Period was RMB1,462.0 million, increased by 37.4% as compared to RMB1,064.0 million for the year ended December 31, 2020.

6. Cash Flows

During the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB2,058.0 million, representing an increase of approximately RMB409.4 million or 24.8% as compared to the year ended December 31, 2020. The increase was mainly due to the increase in revenue and profit of the Group during the Reporting Period.

During the Reporting Period, net cash flows used in investing activities of the Group amounted to approximately RMB5,258.1 million, representing an increase of approximately RMB1,887.1 million or 56.0% as compared to the year ended December 31, 2020. The net cash flows used in investing activities during the Reporting Period was mainly from (1) net cash outflows used in purchase of time deposits over three months and some medium-risk and low-risk wealth management products purchased from a number of reputable international banks of RMB1,889.3 million; (2) construction of our Campus II in Ningbo, Shaoxing Phase I facility and purchases of other property, plant and equipment of approximately RMB2,082.5 million; (3) net cash outflows used in acquisition of subsidiaries and capital injection in associates and other equity investments of approximately RMB1,436.9 million; (4) net of cash inflows from disposal of an equity investment at fair value through profit or loss of RMB68.7 million.

During the Reporting Period, net cash flows generated from financing activities of the Group amounted to approximately RMB3,661.4 million, representing an increase of approximately RMB3,941.6 million or 1,406.8% as compared to the year ended December 31, 2020. The increase was primarily due to the proceeds of convertible bonds issued during the Reporting Period.

7. Liquidity and Financial Resources

The Group has maintained a sound financial position during the Reporting Period. As at December 31, 2021, the Group's cash and cash equivalents amounted to approximately RMB3,526.6 million. For the Reporting Period, net cash flows generated from operating activities of the Group amounted to approximately RMB2,058.0 million.

The Group recorded total current assets of approximately RMB8,643.5 million as at December 31, 2021 (December 31, 2020: approximately RMB5,540.4 million) and total current liabilities of approximately RMB2,982.0 million as at December 31, 2021 (December 31, 2020: approximately RMB1,981.8 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 2.9 as at December 31, 2021 (December 31, 2020: approximately 2.8).

8. Borrowings and Gearing Ratio

As at December 31, 2021, the Group aggregated interest-bearing bank borrowings of approximately RMB1,438.4 million. Among the total borrowings, approximately RMB482.3 million will be due within one year and approximately RMB956.1 million will be due after one year. The principal amount of floating interest rate borrowings was RMB1,334.0 million.

As at December 31, 2021, the gearing ratio, calculated as total liabilities over total assets, was 44.0%, as compared with 25.0% as at December 31, 2020.

9. Pledge of Assets

As at December 31, 2021, the Group mortgaged property, plant and equipment with a net carrying amount of approximately RMB422.5 million (December 31, 2020: approximately RMB405.6 million); and the mortgaged right-of-use assets had a net carrying amount of approximately RMB135.3 million (December 31, 2020: approximately RMB180.5 million).

Those pledged assets above have been used to secure the Group's interest-bearing bank borrowings.

Besides, as at December 31, 2021, the Group pledged deposits of approximately RMB17.2 million (December 31, 2020: approximately RMB7.3 million) to issue letters of credit and for environmental protection.

10. Final Dividend

The Board proposed to declare a final dividend as follows: (i) a cash dividend of RMB4.5 (inclusive of tax) per 10 shares or an aggregate of approximately RMB357.4 million for the year ended December 31, 2021; (ii) 5 new Shares for every 10 existing Shares to be issued out of reserve to all the Shareholders.

The aforesaid proposal is subject to the consideration and approval at the AGM. If the distribution proposal is approved at the AGM, it is expected that the final dividend for the year ended December 31, 2021 will be paid in 60 days after AGM to the Shareholders.

Details regarding the closure of the register of members of the Company and declaration and payment of dividends will be announced separately.

11. Contingent Liabilities

As at December 31, 2021, the Group did not have any material contingent liabilities.

12. Treasury Policies

Currently, the Group follows a set of funding and treasury policies to manage its capital resources, foreign currencies and cash flows and prevent related risks. The Group applied its cash flows generated from operating activities, bank loans and the proceeds of convertible bonds and new shares to satisfy its operational and investment needs.

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and financing activities in currencies other than the units' functional currencies. The Group is mainly exposed to the foreign currency of the US dollar. During the Reporting Period, the Group used forward currency contracts to hedge against part of our exposure to foreign currency risk.

13. Miscellaneous

(1) Acquisition of 100% equity interests of Allergan Biologics Limited

For details of such acquisition, please refer to the announcement dated March 1, 2021.

(2) Acquisition of 100% equity interests of Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd.

In October 2021, the Company acquired 100% of equity interests of Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd. for RMB205.7 million, following which Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd. became a wholly-owned subsidiary of the Company. Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd. was then renamed to Kangruitai (Zhanjiang) Biotechnology Co., Ltd. (康瑞泰(湛江)生物技術有限公司).

(3) Acquisition of the controlling interest of Biomedical Research (GZ), Ltd.

In June 2021, the Company acquired the controlling interest of Biomedical Research (GZ), Ltd. by way of equity purchase and capital increase. The amount of the acquisition was RMB68.6 million and the amount of the capital increase was RMB41.4 million. After the completion of this transaction, the Company held 50.01% of equity interests in of Biomedical Research (GZ), Ltd., which became a subsidiary of the Company.

(4) Restructuring of Pharmaron Clinical

In May 2021, the Company established Pharmaron Clinical, and began to integrate the clinical development capabilities of its subsidiaries and departments through Pharmaron Clinical to optimize the organizational structure of the experts and management teams. We have integrated clinical R&D services including clinical operations, clinical field management, data management and

statistics, regulatory registration, medical affairs, quantitative pharmacology, subject recruitment, biological sample analysis, pharmacovigilance, and medical device services, and have built a fully-integrated clinical development service platform, so as to provide customers with higher quality, more comprehensive and more efficient integrated clinical development services.

During the Reporting Period, the Company completed the equity restructuring of the subsidiaries within the clinical segments through Pharmaron Clinical. Upon the completion of the restructuring, Pharmaron Clinical wholly owned such subsidiaries as Nanjing Sirui Biotechnology Co., Ltd., Beijing LinkStart Biotechnology Co., Ltd., Beijing Kangsida Health Management Co., Ltd., and RAMED (Beijing) Medical Technology Co., Ltd. In October 2021, the Company signed an agreement with Pharmaron Clinical to restructure and integrate Pharmaron CPC, Inc. (an early-stage clinical trial center in Baltimore, U.S.) into Pharmaron Clinical, further deepening the close cooperation between China and U.S..

In addition, Enyuan Pharmaceutical and DeltaMed and their subsidiaries were acquired during the Reporting Period, and completed the restructuring of Enyuan Pharmaceutical in February 2022, in order to strengthen Pharmaron Clinical' capabilities in quantitative pharmacology, pharmacovigilance, medical supervision, medical strategy and medical writing.

While carrying out equity restructuring in 2021, Pharmaron Clinical also optimized its organizational structure, business division and brand management, and promoted the building of a fully-integrated clinical development service platform, in order to provide one-stop solutions for our customers to carry out clinical research and complementary trials in China and U.S..

(5) Phase II of Campus I in Ningbo was put into service

During the Reporting Period, Ningbo Tech continued the construction of Phase II of Campus I in Ningbo, of which the first 120,000 m^2 of laboratory space has gradually been in operation starting from the first quarter of 2021. The construction of the main structure of remaining 42,000 m^2 was completed and the internal installation has begun. Upon the completion of Phase II project, the number of scientists and technicians can be increased by nearly 2,500, and the capacity of laboratory services and CMC (small molecule CDMO) services will be further expanded.

(6) Acquisition of 100% equity interests of Aesica Pharmaceuticals Limited

During the Reporting Period, Pharmaron UK Limited signed the relevant acquisition agreement to acquire 100% of equity interests in Aesica Pharmaceuticals Limited (now Pharmaron Manufacturing Services (UK) Ltd) in Cramlington, U.K., for approximately GBP55,000,000 (approximately RMB473,352,000) and completed the acquisition of Aesica Pharmaceuticals Limited in January 2022. The facility has a reactor volume of over $100m^3$ and can provide cGMP API manufacturing services from pilot to commercial scale. The facility has been inspected and approved by a number of regulatory bodies including the FDA and MHRA. This acquisition will further enhance the overall capacity of the small molecule CDMO service platform of Pharmaron. With our commercial production facility in Shaoxing together with the acquisition of Pharmaron Manufacturing Services (UK) Ltd, the Company will provide our customers with comprehensive, end-to-end API production services in China and U.K..

C. TECHNICAL INVESTMENT RESULTS

The Company has always focused on technology and innovation and continued to increase investment in new technologies during the Reporting Period. In terms of laboratory services, the high-throughput experimentation (HTE) platform for reaction condition screening, DNA-encoded chemical library technology platform, chemical proteomics platform, multi-Electrode array (MEA) platform on basis of human iPSC-derived cardiomyocyte, *in vivo* imaging technology platform, X-ray radiotherapy technology and screening assay platform of 3D spheroid and organoid of the company have been fully developed.

1. ***High-throughput experimentation (HTE) platform for reaction condition screening:*** the HTE platform rapidly identifies the best possible reaction condition using 24/48/96-well parallel reactors. Hundreds of conditions can be screened within 24 hours, to provide solutions to challenging reactions. In 2021, state-of-the-art automated HTE equipment was installed, which enabled the automation and miniaturization of the platform and improved the efficiency significantly. More than 220,000 conditions which have optimized nearly 5,000 reactions were screened in the platform in 2021.

2 ***DNA-encoded chemical library technology platform:*** in 2021, the platform had been fully upgraded. Currently, we have over 10 billion new small molecule drug-like compounds with innovative and unique structures in our collections. Many DNA-encoded chemical probes and DNA-encoded compound libraries were effectively synthesized for diverse clients' projects, and many series of biologically active compounds were successfully discovered using the Pharmaron's DEL libraries selected for screening against many customers' protein targets of interest during the Reporting Period. We have continuously expanded and optimized the technological capabilities of Pharmaron's DNA-encoded compound library platform by closely tracking and implementing the cutting-edge DEL technologies. We have continuously strengthened the expertise on new technologies by routinely developing new technologies capable of synthesis of DNA-encoded compound libraries, continuously creating novel DELs. We have submitted 9 patent applications to the Chinese Patent Office, and one research paper has also been accepted by a peer reviewed journal.

3. ***Chemical proteomics platform:*** The chemical proteomics is a comprehensive platform combining chemical probes with biological activity with proteome analysis, involving multiple disciplines including medicinal chemistry, biology, bioinformatics, pharmacology, and mass spectrometry. It can not only reveal new drug target proteins in a high-throughput manner, but also help discover potential new targets for the existing drugs. It will play the essential roles in preclinical drug development and greatly improve the development efficiency. In 2021, we fully utilized the strength of chemical proteomics platform by screening covalent binder libraries and established the high-throughput workflow to identify the new targets. Additionally, based on a variety of established quantitative proteomics methods, we not only are capable of determining the binding strength of effective drugs to targets in the cellular context, but also have developed the ability to explore the dynamic landscape of targets across times for protein post-translational modifications and level of highly active sites of amino acid.

4. ***Multi-Electrode array (MEA) platform on basis of human iPSC-derived cardiomyocyte:*** With the issuing of a guideline titled "Clinical and Nonclinical Evaluation of QT/QTc Interval Prolongation and Proarrhythmic Potential" in section of E14/S7B, by International Conference for Harmonization (ICH), the traditional one in-vitro cardiac safety index through hERG channel evaluation has been facing increasing challenges in industry. We have thus upgraded this *in vitro* cardiac safety evaluation platform by moving *in vitro* evaluation on single ion channel to the comprehensive cardiomyocyte study. We are able to induce the differentiation of human iPSC cells to human cardiomyocytes which is then evaluated for *in vitro* cardiac safety assessment for potential drugs. The unique feature of this platform allows test articles to be screened on human cardiomyocytes and access to measurement of electrophysiological process of action potentials. Moreover, the drug-evoked cardiac proarrhythmia is also evaluated based on MEA data with high spatial resolution in micrometer and sufficient sampling frequency in millisecond. The achievement of this technique enables our transition from single ion channel assessment to the comprehensive CiPA studies on human cardiomyocytes, in assistance to achieve the short time cycle for cardiac safety screening. We, therefore, become one of very few CRO companies in China owning both high-throughput patch clamp recording system for single ion channel study and MEA system for real time measurement of cardiac action potentials of human samples.

5. ***In Vivo Imaging Technology Platform:*** An image technique is widely used in mechanism based and efficacy evaluation on orthotopic and metastatic tumor models. The *in vivo* imaging system (IVIS) can help monitor the tumor growth in the orthotopic and metastatic models in-life through fluorescent and bioluminescent imaging technology. Currently, we have established 270 luciferase-expressed tumor cell lines and 112 orthotopic or metastatic tumor models, which cover 30 different cancer types and have been widely utilized in new drug research and development. Meanwhile, we have provided service for dozens of clients to evaluate the blood-brain-barrier permeability and antitumor effect of test articles by utilizing 31 orthotopic and metastatic brain tumor models.

6. ***X-ray radiotherapy technology:*** X-ray can be widely applied to multiple fields of stem cells and DNA damage, oncology, immunology and drug development. An X-ray irradiator with high energy was introduced in Pharmaron, with power up to 225 KV. With precisely targeted X-ray irradiation, a series of radiotherapy models for different tumors were developed for *in vitro* and *in vivo* studies. The combined therapy models based on radiotherapy sensitization can evaluate the effect of radiotherapy and chemotherapy on subcutaneous xenograft tumor models, orthotopic and metastasis models. Meanwhile, the related biomarkers of DNA damage response can be well analyzed using ex-vivo assays. In 2021, we had provided services to many clients for a large number of radiotherapy and chemotherapy studies *in vivo* and *in vitro*, which successfully verified mechanism of action and effects of several radiation sensitizers, and provided substantial important data for study of radiotherapy and chemotherapy induced DNA damage mechanism, as well as for precision radiotherapy.

7. ***Screening assay platform of 3D spheroid and organoid:*** Compared with traditional technique of 2D cell culture, 3D spheroid as well as the organoid is better in mimicking the complex human *in vivo* conditions that could reduce the variation between *in vitro* and *in vivo* study systems. Using 3D culture as an *in vitro* assay model to evaluate the drug efficacy and safety in the preclinical study is more clinically meaningful. The Company has already established a well characterized 3D liver spheroid model which has been validated by testing the chronic hepatotoxicity of 42 clinical drugs in 2021 that have been known and classified with different hepatotoxicity categories, against our 3D liver spheroid model and also primary human hepatocyte. We have analyzed several key biomarkers which indicate the mechanisms of liver injury and provided more insightful data for the drug candidates regarding its mechanism to induce the liver injury.

In addition, in order to continuously strengthen the production service efficiency and market competitiveness of CMC (small molecule CDMO) services, the Company has increased investment in the existing flow chemistry technology and biocatalysis technology during the Reporting Period and made great progress.

1. ***Flow chemistry:*** as a revolutionary green pharmaceutical technology, flow chemistry technology can reduce the use of catalyst and solvent, and reduce by-product during process, with high process safety, high product yield, less impurities, less waste discharge and other huge advantages. In 2021, our flow chemistry technology has made great progress. Multi-step continuous reaction technology, continuous extraction and separation technology, online process analysis PAT technology and automatic control system have been established. From process condition screening to DOE design, a comprehensive flow chemistry service platform has been established. A pilot scale automatic control continuous flow system was established with continuous reaction and continuous extraction, with the capacity of manufacturing of tons of products. In 2021, with the help of flow chemistry technology, a total of nearly 100 projects over kilogram scale had been completed. In 2022, we will continue to enhance our flow chemistry capabilities and build large-scale commercial production capacity of flow chemistry.

2. ***Biocatalysis:*** Biocatalysis refers to the application of biological enzymes to catalyze chemical reactions. Enzymes are nature occurring catalysts that have higher catalytic efficiency, about 107-1,012 times higher than the general chemical catalysts. Biocatalysts are non-toxic, low energy consumption, high stereoselectivity, and environment friendly. It is an essential technology for "green chemistry" and "green manufacture". Since the establishment of the biocatalysis department in 2020, we have produced about 2,000 catalytic enzymes, established the enzyme screening and directed-evolution platforms. We also provided services for our clients to identify high selective enzymes for chiral compound synthesis and production. We are going to clone and produce more biocatalytic enzymes, to optimize the enzyme screening and evolution platforms, to build the larger scale enzyme production plant. We expect the production plant will be in operation by end of 2022.

D. CORE COMPETITIVENESS ANALYSIS

The Company provides customers with fully-integrated services covering drug research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle. With this end-to-end and fully-integrated business model, we gain significant competitive advantages in deepening customer collaboration, establishing core technical expertise and professional team building which enable us to better support our customers' innovative R&D programs.

1. Leading fully-integrated pharmaceutical R&D services platform with strong capabilities and comprehensive service offerings across the globe

The Company is committed to building a R&D and manufacturing service platform across multiple therapeutic modalities (including small molecule, biologics and CGT products) throughout drug discovery, pre-clinical and clinical development process. The Company has a well-established and fully integrated R&D and manufacturing service platform for small molecule drugs, and is building our biologics and CGT service platform. In addition, the Company is in a leading position in drug discovery, pre-clinical and early clinical-stage research, and is committed to expanding its capabilities downstream to late clinical-stage development and commercial manufacturing. In the process of expanding its R&D services, the Company has successfully evolved from a pure laboratory chemistry service provider to an end-to-end pharmaceutical R&D services platform with operations in China, U.S. and U.K.

The Company has established comprehensive expertise in different R&D stages, so as to assist customers in accelerating their R&D programs and cater to a full spectrum of customers' needs. With our professional project management capabilities, we are able to utilize our full integrated services platform to cater for the customers needs. Vertically, the Company is strengthening the seamless integration of the same discipline across different pharmaceutical R&D stages. Horizontally, the Company is strengthening the integration of different disciplines at the same pharmaceutical R&D stages, improving the science and technology of each discipline, expanding the services offering, and promoting the interdisciplinary collaborations. With the integration and collaboration between our discovery and development service platforms, we have accumulated a profound understanding of the unique scientific challenges involved in our customers' new pharmaceutical R&D projects, which will facilitate us to move projects forward more efficiently and in turn maximize the benefits of our customers. The Company's profound industry knowledge, strong execution capability and end-to-end solutions will shorten the drug discovery and development cycle and reduce the associated risks for our customers.

As a fully-integrated pharmaceutical R&D service provider, the Company's comprehensive pharmaceutical R&D services platform has the following five core competences:

(1) Comprehensive chemistry platform throughout the entire drug R&D and commercial stages

As a fully-integrated service provider for the research, development and manufacturing of small molecule pharmaceutical products, the Company's expertise and advantage in chemistry technology is crucial throughout the whole drug R&D process.

With the comprehensive chemical technology platform covering compound design (including CADD), design and synthesis of a compound library, medicinal chemistry, synthetic chemistry, analytical chemistry, early process chemistry, and process chemistry and GMP API manufacturing, the Company can satisfy customers' demand for pharmaceutical R&D and manufacturing in each stage of the pharmaceutical R&D process, including laboratory synthesis process at the drug discovery stage, scale up process development from pre-clinical to clinical stage as well as GMP manufacturing up to commercial stage, which fully cater to the diversified needs of different types of customers. In addition to providing R&D services for the compound synthesis process, combined with its formulation development services, the Company is able to provide customers with fully-integrated pharmaceutical R&D and manufacturing solutions from initial compounds to finished dosages.

(2) DMPK/ADME service platform throughout the entire drug R&D process

The Company provides DMPK/ADME services covering the whole R&D process from drug discovery to development. The early DMPK/ADME studies are of great importance as they can provide a key basis for our customers to determine their late-stage drug development strategy. Radioisotopic analysis technology is critical as an important drug metabolism analysis technology during the clinical stage. Following the approval of the radioisotopic use license at the Company's clinical center in U.S. in early 2018, the Company is the only pharmaceutical R&D service provider that offers integrated pharmaceutical R&D solutions, which cover radioisotope compound synthesis and human ADME studies using regular isotope analysis technology or high-sensitivity AMS technology. In addition, with acquisition of Absorption Systems, the Company broadened its global service network and further strengthen its leading position in discovery and development DMPK platform.

(3) Comprehensive integrated platform from drug discovery to POC ("proof of concept")

From inception, the Company has committed to the establishment of integrated services platform from drug discovery to proof of concept stage, which covers compound design, compound library synthesis, synthetic and medicinal chemistry, biology, DMPK, pharmacology, toxicology, drug safety assessment, radiolabelled chemistry and DMPK, clinical pharmacology, clinical bioanalysis, clinical data statistics, chemical process development and API manufacturing and formulation and drug product manufacturing.

With this comprehensive integrated services platform, the Company has undertaken many integrated research projects, and achieved a considerable number of milestones. In addition, the Company can also provide a customized service package at a particular stage of drug R&D process, such as an integrated service package for IND enabling which includes pre-clinical safety assessment, early process development and manufacturing, pharmacology, DMPK and clinical proposal. With this comprehensive IND enabling solutions and the ability to support IND filing for different jurisdictions, it provides flexibility to the customers, accelerates their drug development process and reduces their overall R&D costs.

(4) Fully-integrated clinical development services in China

As a significant component of our Company's fully integrated service platform, domestic clinical development platform covers various functions, including regulatory and registration services, medical affairs, medical monitoring, clinical operations, data management and biostatistics, bioanalysis, pharmacovigilance, quantitative pharmacology, site management services, healthy and patient volunteer recruitment and management, and quality assurance, which provides customers with complete, efficient, end-to-end Phase I, II, III and IV clinical development services. Through internal capability building, organic growth and external acquisitions over the years and our effort in integrating different functions and processes and optimizing the team and organization structure, we have built a sizeable and highly competitive clinical development services platform in China, offering high-quality clinical development services of new small molecule drugs, biologics and medical devices for domestic and oversea customers.

Leveraging on the technical capabilities and established reputation of our pre-clinical R&D platform, the clinical R&D services platform collaborates with the pre-clinical and business development teams to get involved in clinical study planning discussion with customers as early as possible, so as to provide more comprehensive customer services and at the same time, and generate business opportunity for the clinical development services. Also, the medical affair, regulatory affairs, bioanalytical, quantitative pharmacology and biostatistics departments of the clinical development services work closely with the pre-clinical R&D team for planning of IND-enabling. These high quality interactions between pre-clinical and clinical teams accelerate projects progressing in high quality from pre-clinical to clinical stage, allowing our customers to fully enjoy the benefits of the Company's fully integrated service platform.

Together with the Company's U.S. clinical pharmacology center, data management and biostatistical, bioanalytical and clinical operation teams in U.S. and project management teams who are well versed with clinical development process and culture in both China and U.S., we are able to provide a faster and convenient gateway for domestic customers to present their R&D program globally.

(5) An integrated platform for "laboratory testing-IND enabling-process development and manufacturing" of gene therapy products

In recent years, with the rapid advancement of gene and cell therapy technologies and their application for rare and incurable diseases as well as vaccines that have had significant impact on public health systems, the R&D of cell and gene therapies and disease prevention methods are flourishing. These gene and cell products play an irreplaceable role in the global medical and public health systems. Through acquisition and integration of related resources and platforms, the Company has completed the establishment of an integrated services platform of "laboratory testing – IND enabling – process development and manufacturing" for gene therapy products. With the acquisition in 2020, the Company established a complete and industry leading analytics platform for biologics and CGT products that are in compliance with ICH guidelines of biologics and CGT products of GLP/GCP/GMP. In 2021, the Company acquired capabilities in Pharmaron Biologics UK, which increases the gene therapy product development and GMP manufacturing in U.K.. By combining both the analytics and CMC platforms in gene therapy products with our safety assessment center which has been inspected and/or certified for GLP compliance by NMPA, FDA and OECD regulatory authorities, the Company offers customers a complete pre-clinical IND enabling solution for CGT products, as well as clinical testing material manufacturing and clinical sample analysis services for CGT products.

2. Global operations, profound experience in pharmaceutical R&D and state-of-the-art technologies to provide customized solutions

The Company operates globally through our 18 operating facilities, clinical and manufacturing facilities in China, U.S. and U.K., of which 10 operating facilities are from overseas. The Company's profound experience in global pharmaceutical R&D, together with its global operations and world-class technical capabilities offers our customers a unique proposition that combines our technical expertise in different geographic locations and efficient services with seamless integration. It is the Company's core strategy for each international acquisition to effectively integrate with our global services platform and introduce world class talent and facilities into our integrated services platform to further strengthen our overall services capabilities and increase the efficiency of our services. These strategies complement each other to effectively improve the Company's international operation capability and bring high value-added services to customers.

Through our global operation, the Company has established a services network and strategic presence in global life science hubs which enhances the customer communication and our understanding of customer needs. Further, by carrying out our R&D services under different jurisdictions, it provides flexibility to customize our services solutions that best suit our customers' geographic and strategic needs. For example, the clinical pharmacology team in U.S. has worked seamlessly with our Chinese team to help customers in China for the preparation and filing of IND application and conducted the first-in-human (FIH) studies in U.S.. In addition, the Company's experience in regulatory filings in various jurisdictions and its service model of providing customers with total solution enable our customers to file IND applications for their drug candidates in China, U.S., or EU in parallel, which makes the IND applications of our customers more flexible and efficient.

On the other hand, it is the Company's core strategy for each international acquisition to effectively integrate with our global services platform and brought in the world class talent and facilities into our integrated services platform to further strengthen our overall services capabilities and increase the efficiency of our services. These strategies complement each other to effectively improve the Company's international operation capability and bring high value-added services to customers. For example, by combining the recently acquired commercial manufacturing site in Cramlington, U.K., our U.K. process chemistry team and our advanced intermediates and API manufacturing sites in Tianjin and Shaoxing, China, the Company is able to provide our global customers with end-to-end API production services in a more flexible, larger scale and greener manner.

By adhering to the long-standing growth strategy of building "end-to-end, fully integrated and global" services platform, it facilitates cross-regional and multiple regulatory jurisdictional collaboration for cross-disciplinary and cross-R&D stages projects. Meanwhile, with efficient project management and cross-cultural communication, it facilitates the collaborations among teams, regions and disciplines to maximize the interests of our customers.

3. Committed to utilizing innovative technologies to meet evolving R&D needs and increase efficiency

Since inception, the Company has put great emphasis on technology and innovation to fuel the constant grow of the business and satisfy the evolving R&D needs. It develops new technologies through multiple measures such as internal research and development, collaboration with academic and professional institutions, customer collaboration and acquisitions. In recent years, the Company has been strategically developing new technologies and capabilities in chemistry and bioscience areas, and committed to further strengthening of the integrated services platform. In the chemical synthesis and manufacturing technology area, the Company focuses on the application of the high throughput chemical reaction screening platform, flow chemical technology and biocatalysis technology; in the discovery and bioscience area, the Company had established DNA encoded Library (DEL) screening platform, chemopoteomics platform, *in vivo* imaging technology platform and 3D spheroid and organoid screening platform.

4. Dedicated, stable and visionary management teams, experienced talent pools with progressive corporate culture

The Company's management team is led by Dr. LOU Boliang, our chairman and chief executive officer. With over 30 years of experience in the pharmaceutical industry, he is highly respected in the industry for his excellent leadership that contributes to the Company's rapid development. The Company's senior management team has been with us for more than 10 years. The Company has nearly 100 senior scientific and technical leaders, 2 of whom were named as National Talents and 15 named as Beijing Talents. Members of our highly skilled, experienced and international management team possess diverse expertise and extensive knowledge, and have significantly contributed to the growth of the Company's institutional knowledge base. The Company focuses on its home-grown scientific team consisting of selected, young and promising scientists, which enables us to form a cohesive and vibrant mid-level management team composed of over 2,400 technical managers and high-caliber scientific research talents across all scientific disciplines of the Company. In addition, the Company's visionary management team has established a highly experienced and skilled talent pool with strong execution efficiency. As of December 31, 2021, the Company had over 13,455 R&D, production technology and clinical services staff in China, U.K. and U.S.. The highly professional technical team ensures the Company's continuous provision of high-quality R&D services for customers. The open platform for talent development ensures that the Company will continuously attract talents from around the globe.

The Company is committed to its corporate philosophy of "Employee First and Customer Centric" which put strong emphasis on employee training and improves all mechanisms so as to integrate their career development into the Company's overall development strategy. In order to develop and train our talents, the Company provides training to our employees through our in-house training system including the "Pharmaron College", visiting scholar programs at renowned laboratories and institutions and holds various seminars, forums and academic symposiums regularly, through which our team members acquire updates on the most advanced technology and techniques of the industry. In addition, the Company has developed training programs with the world renowned universities and research institutes for high-caliber scientific research talent. The above measures have greatly improved the scientific research capabilities and cohesion of the Company and its employees. Furthermore, we respect and value every single customer so as to ensure R&D quality by tackling each technical challenges and complete every single tasks with integrity and scientific rigor.

Our dedicated, stable and visionary management team, experienced talent pool and outstanding corporate culture lay a solid foundation for the Company's long-term success.

5. Reputable, loyal and expanding customer base that contributes to our sustainable growth and business collaboration

The Company has a large, diverse and loyal customer base including the global top 20 pharmaceutical companies and numerous reputable biotech companies. In 2021, the Company introduced over 800 new customers, with approximately 90% of revenue contributed by the Company's large, diverse and loyal repeat customers The Company's fully-integrated solution and deep understanding of customers' needs allow it to provide customized pharmaceutical R&D services for customers according to their needs. With further progress made in the existing customers' projects, the loyal and growing customer base will enable us to develop new services in drug development and at the early clinical stage.

The Company benefits from its strategic partnership with specific customers. Through know-how sharing and training provided during our deep collaboration with these customers, the Company is able to further improve technical capabilities and enhance service excellence, thereby creating a virtuous cycle. With our strong technical expertise, advanced technological infrastructure, profound industry knowledge, strong execution capability and quality customer services, the Company is able to become our customers' strategic partner and help them form their drug development or R&D outsourcing strategies, which in turn reinforces our close relationships with such customers. In addition to our strong scientific capabilities, the Company puts emphasis on areas like environmental protection, health, safety and intellectual property protection. The Company takes such measures as establishing the intellectual property protection system and building the information system to ensure that our customers' intellectual properties are well protected, and is widely recognized and trusted by customers in this respect. The Company's high-quality services enable us to accumulate a good reputation among our existing customers, and to further expand our customer base by acquiring new customers through word-of-mouth referrals.

OUTLOOK FOR 2022

A. Discussion and Analysis of Future Development

1. Industry competition and development

The Company is engaged in pharmaceutical research, development and manufacturing services which provides fully integrated services to support customers' R&D for innovative pharmaceutical products throughout the research and development cycle. Its business is closely related to the development of the pharmaceutical industry and pharmaceutical R&D outsourcing market.

(1) Trend on the global and Chinese drug R&D and manufacturing spending

With the accelerated growth of aging population globally, the expansion of the chronic disease patients population and the increase in the total investment in medical and healthcare industry in various countries, the global and Chinese pharmaceutical markets continue to develop, which in turn drives the continuous increase of the pharmaceutical R&D and manufacturing spending. In the future, the spending on research, development and manufacturing are expected to maintain solid growth both globally and in China. According to Sullivan's forecast, the size of the global pharmaceutical R&D and manufacturing spending was approximately US$566.1 billion in 2021, and it is estimated that the global pharmaceutical R&D and manufacturing spending will increase to US$777.1 billion by 2026, representing an expected CAGR of 6.5% from 2021 to 2026; of which, the pharmaceutical R&D and manufacturing spending in China was approximately RMB562 billion in 2021, and it is estimated that pharmaceutical R&D and manufacturing spending in China will increase to RMB956.6 billion, representing an expected CAGR of 11.2% from 2021 to 2026.

(2) Trend on the global and Chinese drug R&D and manufacturing outsourcing services market

Under the pressure of increasing R&D costs and patent cliff, as well as the internal R&D capacity limitation, pharmaceutical companies gradually turn to pharmaceutical R&D and manufacturing outsourcing services with an aim to reduce their overall R&D costs and improve their R&D efficiency. The increasing trend of pharmaceutical R&D and manufacturing spending also provides a solid foundation for the growth of outsourcing services for R&D and manufacturing. According to Sullivan's forecast, the total size of global pharmaceutical R&D and manufacturing outsourcing services was approximately US$140.3 billion in 2021, and it is estimated that such size will increase to US$247.7 billion by 2026, representing an expected CAGR of 12% from 2021 to 2026. In addition, with the continuous improvement of the capabilities and capacities of Chinese drug R&D and manufacturing outsourcing service providers and the continuous increase in drug R&D and manufacturing spending in China, the market share of Chinese services providers in the global drug R&D and manufacturing outsourcing service market is also increasing. According to Sullivan's forecast, the size of Chinese drug R&D and manufacturing outsourcing services accounted for approximately 11.9% of the global market in 2021, and it is estimated that such size will increase to RMB342.4 billion by 2026, which represent 21.4% of the global market.

a. Trend on the drug discovery R&D services

Drug discovery is a multidisciplinary and systematic work and process. According to Sullivan's forecast, the size of global drug discovery CRO service market was estimated to be US$15.9 billion in 2021, representing a outsourcing penetration rate of 46.0% (market size of drug discovery CRO service over the addressable market of drug discovery spending). It is estimated that the size of global drug discovery service market will increase to US$32 billion by 2026, representing an expected CAGR of 15.0% from 2021 to 2026, and the penetration rate of global drug discovery R&D service market will reach 64.2%; meanwhile, the size of China's drug discovery R&D CRO service market was estimated to be RMB16.8 billion in 2021, accounting for approximately 16.3% of the total global size. It is estimated that the size of China's drug discovery R&D service market will increase to RMB51.2 billion by 2026 with the market share increase to 24.6% of the total global market.

b. Trend on the pharmaceutical development and manufacturing services

Pharmaceutical development and manufacturing (CDMO) services cover the whole process from preclinical, clinical, registration to commercial manufacturing. According to Sullivan's forecast, the size of global pharmaceutical CDMO service market was estimated to be US$63.7 billion in 2021. It is estimated that the size of global pharmaceutical CDMO service market will increase to US$118.8 billion by 2026, representing an expected CAGR of 13.3% from 2021 to 2026; meanwhile, the size of China's pharmaceutical CDMO service market was estimated to be RMB43.2 billion in 2021, accounting for 10.5% of the global pharmaceutical CMO service market. It is estimated that the size of China's pharmaceutical CDMO service market will increase to RMB152.6 billion by 2026 with the market share increase to 19.8% of the total global market.

c. Trend on the clinical development services

Clinical development services cover Phase I to Phase III clinical trials and post-market studies of pharmaceutical products. According to Sullivan's forecast, the size of global drug clinical development services market reached US$50 billion in 2021, with outsourcing penetration rate of 42.9% (market size of clinical development CRO service over the addressable market of clinical development spending). The size of global market is expected to reach US$79.7 billion by 2026, representing an expected CAGR of 9.8% from 2021 to 2026, and the outsourcing penetration rate will rise to 47.8%; meanwhile, the market for China's drug clinical development outsourcing services was estimated to be RMB31.6 billion in 2021, accounting for 9.8% of the global clinical development services market. With the growth of the Chinese pharmaceutical industry, it is expected that the size of China's clinical development services will reach RMB100.3 billion by 2026 with the market share increase to 19.4% of the total global market.

2. *Outlook and strategy of the Company's future development*

The Company adheres to our core growth strategy to build and improve our global end-to-end drug R&D services platform that is fully-integrated with highest international standard. In addition to continuously strengthen our leading position in the small molecule integrated R&D services, the Company will accelerate the establishment of R&D service capabilities for biologics and CGT products. For the small molecule integrated R&D service platform, through continued expanding and training our talent pools, investing in cutting-edge technologies, upgrading our service capabilities and strengthening the management capabilities for global multidisciplinary collaborations, the Company will further improve the fully-integrated services platform and provide customers with tailored, more flexible and efficient solutions. Cater to the specific needs of domestic and oversea customers, the Company establishes multidisciplinary and collaborative services teams for customers in a timely manner to address customers' R&D needs, so as to help customers successfully and efficiently advance their pharmaceutical R&D programs. For the new therapeutic modalities such as biologics and CGT products, the Company will continue accelerating the construction of a global end-to-end and integrated service platform for biologics and CGT products through both internal construction and external expansion, and is committed to becoming a global leader in pharmaceutical R&D services across multiple therapeutic modalities.

We will adhere to the business development strategy that puts emphasis on both domestic and oversea markets. With our established effort in developing oversea market and our large customers base with solid relationship, we will continuously improve the capabilities of our R&D service platform in order to provide higher service quality and expand our collaboration with our customers. Also, we will take advantage of our brand reputation and develop and introduce our services to more customers. For the domestic market, we will pay more attention to cultivating the domestic market and adopt a specific market strategy to address the domestic needs.

3. *Main operational plan of the Company for 2022*

Adhere to our growth strategy of building an "end-to-end, fully integrated and global" pharmaceutical R&D service platform, the Company will focus on the following works in 2022:

(1) Strengthen its leading position in the small molecule R&D service area

After years of efforts, the Company has built a small molecule pharmaceutical R&D and manufacturing service platform broadly covering the full process from drug discovery to preclinical and clinical development. In 2022, the Company will continue to deepen its efforts in strengthening its leading position in small molecule R&D services and further enhance its competitiveness globally. On one hand, we will continue to invest in new technology in small molecule services to ensure our leading position; on the other hand, we will continue to expand and deepen our services offerings. Specifically, in 2022, we will continue to treat laboratory chemistry as the core business and cornerstone of our growth strategy, actively expanding geographically while improving our global program management system, and expanding our service networks in the pharmaceutical R&D hotspots in China. We will also further strengthen the synergy and integration between laboratory chemistry and small molecule CDMO, accelerate the construction of the commercial manufacturing base in Shaoxing, and vigorously develop one-stop chemistry and manufacturing services globally. For bioscience services, while we continuously strengthen our bioscience services in the discovery stage, we will expand our services offerings based on customers' needs and make significant scientific and technical advancement assisted by cutting-edge technologies invested.

(2) Continue accelerating the build-up of biologics and CGT service platform

For building the biologics service platform, in 2022, we will accelerate the build-up of the CDMO service platform for biologics, further develop our biologics discovery service capabilities by expanding our team, hence broadening our services offerings. We will also accelerate the construction of biologics development and manufacturing facilities in Ningbo and establish a quality system that meets the highest international standard.

For cell and gene therapies service platform, in 2022, we will further integrate Absorption Systems, our CGT testing services in U.S. with our gene therapy CDMO services in U.K. with synergy while enhancing their corresponding capabilities and capacities, so as to further develop our CGT services platform.

(3) Continue to strengthen the fully integrated clinical development service platform

Building upon the established and integrated clinical development service platform in China, we will continue to deepen the integration and expand our service offerings to further complete and strengthen our end-to-end and fully integrated clinical development services platform in China. For our overseas clinical development services, we will continue to strengthen our healthy volunteer-based early clinical research services and expand to patient clinical studies for oncology and other therapeutic areas.

(4) Continue to strengthen our talent pool to support our long-term and sustainable growth

Talents are the foundation of innovation and the key to strengthening our core competitiveness. It is our long-standing human resources strategy to build an inclusive and open development platform to attract and train our talent pool. In 2022, we will continue to attract high calibre R&D talents globally, and further expand and enhance our multi-dimensional and comprehensive training system. In 2022, we will focus on the training of our middle and senior level of managers so as to provide strong support to the future growth of the Company.

(5) Further enhance management capabilities

In 2022, the Company will continue to take production safety and information security as the top priority in our daily operation so as to protect the health of employees and safeguard information and intellectual property of our customers. We will continue to provide high quality services and products to our customers by adhering to the highest international quality standards. While ensuring the safety and quality, in 2022, we will improve the execution efficiency of our management team and actively implement "transparent, timely, professional and efficient" project management, and system to further improve the international operation efficiency and effectiveness of our integrated services platform, so as to provide strong support to our global expansion strategy implementation.

(6) Continue to expand domestic and overseas market shares

For the overseas market growth, we will continue to maintain our solid relationships with our existing customer base, analyze and explore in-depth customer needs, expand our service offerings, increase customer loyalty through ensuring service quality, and introduce new customers with the help of our reputation and brand influence. For the domestic market, we will implement a China market strategy based on the characteristics of Chinese market, continue to expand customer base to better understand and address the domestic needs, emphasize team building and service quality building to improve our competitiveness in the domestic market.

(7) Develop infrastructure and expand capacity

In 2022, we will continue to carry out our ambitious plan of capacity expansion in China, U.K. and U.S. to support the future growth of the Company. In U.K., we will expand the laboratory and manufacturing spaces in Hoddesdon, Liverpool and Rusden sites to meet the growing business needs. In U.S., we will expand the laboratory spaces in both San Diego and Exton to support the growth of our U.S. laboratory and CGT laboratory services. In China, we will continue to accelerate the capacity expansion and ensure to complete the construction projects for laboratory spaces in Beijing, large molecule CDMO capacity in Ningbo Campus II and *in vivo* bioscience and safety assessment facilities in Ningbo Campus III, in a high-quality and timely manner. Also, in addition to commencement of construction for the new campus in Beijing and Xi'an, we will add in laboratory spaces in Qingdao, Chongqing and Zhuhai, so as to expand our footprints and increase our capacities in the hotspots of research talents in China in the next few years.

4. Potential risks

(1) *Risk of declining demand in pharmaceutical R&D service market*

The Company is a leading fully-integrated pharmaceutical R&D service platform with global operations to accelerate drug innovation for our customers. While the global pharmaceutical industry is expected to keep growing driven by such factors as an aging population, higher disposable income and increased spending on healthcare, there is no guarantee, however, that the pharmaceutical industry will grow at the rate we project. If the growth of the global pharmaceutical market slows down in the future, customers may suspend their pharmaceutical R&D projects or reduce their pharmaceutical R&D budget, which will have an adverse impact on the Company's business performance and prospects. The Company will continue to implement its strategies, improve its scientific research capabilities and service quality and enhance its market competitiveness.

(2) *Risk of losing scientific and technological talents and senior management members*

The Company has established a talent team with extensive experience and strong execution capability, which possesses the ability to provide customers with high-quality services in a timely manner and keep up with the cutting-edge technology and latest development of pharmaceutical R&D. However, there is a limited supply of qualified R&D personnel with requisite experience and expertise and such qualified personnel are also highly-sought after by large pharmaceutical companies, biotech start-ups and scientific research institutes. If the Company fails to maintain competitiveness in attracting and retaining excellent scientific and technological personnel in the future, we may not be able to provide customers with high-quality services, which could have a material adverse impact on its business.

The Company will optimize and improve the human resource management system, further strengthen efforts in various aspects such as attraction, assessment, training and incentives, and constantly improve the long-term incentive mechanism (including equity incentives) for all kinds of talent, striving to establish a talent team with first-class caliber that can adapt to international competition.

(3) *Risks regarding intellectual property protection*

Protection of intellectual property rights associated with customers' R&D services is critical to all of our customers. The service agreements and confidentiality agreements signed between the Company and our customers typically require the Company to exercise all reasonable precautions to protect the integrity and confidentiality of our customers' information. Any unauthorized disclosure of our customers' intellectual property or confidential information could subject the Company to liability for breach of contract and result in significant damage to our reputation, which could have a material adverse impact on the Company's business and operating results.

The Company will continuously improve the existing confidentiality policy, software and hardware, and continue to carry out internal training for employees to enhance their awareness of confidentiality and intellectual property protection.

(4) Risks regarding policies and regulation

There are strict laws, regulations and industry standards in many countries or regions to which drugs are intended to be ultimately sold (such as China, U.S., U.K. and several EU countries) to regulate drug development and manufacturing. The pharmaceutical regulatory authorities of these countries (e.g., FDA or NMPA) also conduct planned or unplanned facility inspections over drug development and manufacturing agencies (e.g., our customers and us) to ensure that relevant facilities meet regulatory requirements. During the past periods, the Company has passed the inspection of relevant regulatory authorities on drug discovery, development and manufacturing processes and facilities in all major aspects. If the Company fails to continuously meet the requirements of regulatory policies or fails to pass the on-site inspection by regulatory authorities in the future, it may be disqualified or subject to other administrative penalties, resulting in the termination of cooperation by our customers.

In addition, the operation of the Company is subject to national and regional laws on environmental protection, health and safety, including but not limited to the use of hazardous chemicals that are flammable, explosive and toxic and the treatment of pollutants (waste gas, waste water, waste residue or other pollutants). If the relevant environmental protection policies become more stringent in the future, the Company's costs for environmental compliance will rise.

The Company will monitor the trend of applicable policies and regulations to ensure its continuous fulfilment of regulatory policy requirements.

(5) Risk of international policy changes

We are a pharmaceutical R&D service platform with well-established global operations and a substantial portion of our customers are pharmaceutical and biotechnology companies outside of China. The demand for our services by these customers may be impacted by trade policies promulgated by respective local governments against Chinese pharmaceutical R&D service providers as a result of the rise in trade protectionism and unilateralism in recent years. In the event the trade tension between China and other major countries continue to escalate, or any such countries impose restrictions or limitations on pharmaceutical R&D outsourcing, our business and results of operations may be adversely affected. We have been expanding our service capabilities in overseas markets from 2015 with an aim to mitigate any potential impact such policy changes may have on our business.

(6) Risk of failure to obtain the licenses required for carrying out businesses

The Company is subject to a number of laws and regulations on pharmaceutical R&D and manufacturing. These laws and regulations require that the Company obtain a number of approvals, licenses and permits from different competent authorities to operate our business, some of which are subject to regular renewal. The Company has and will continue to strictly monitor its licensing management. If the Company fails to obtain the approval, license and permit required for its operations, it will have to suspend its operation as ordered by the relevant regulatory authorities.

(7) Risks regarding exchange rates

The Company's exchange currency risk mainly relates to USD, GBP and EUR. During the Reporting Period, the Company's income from overseas customers took up a much higher portion than that from domestic customers, and a considerable portion of our income came from sales denominated in USD. However, most of the Company's personnel and operating facilities are located in China, and the relevant operating costs and expenses are denominated in RMB. In recent years, as affected by China's political and economic conditions, trade tensions between U.S. and China, international economic and political developments, as well as the decision of the Chinese government to further promote the reform of the RMB exchange rate system and enhance the flexibility of RMB exchange rates, the exchange rates between RMB and USD and other currencies fluctuate.

In response to the risk of exchange rate fluctuations, the Company has reduced and will continue to reduce such risk through hedging transactions.

(8) Risks regarding market competition

The global pharmaceutical R&D service market for innovative drugs is highly competitive. The Company is committed to becoming a multi-therapy drug R&D service company that boasts the capabilities of laboratory services, CMC (small molecule CDMO) services, clinical development services and biologics and CGT services. Therefore, the Company expects to compete with domestic and international competitors at specific stages of pharmaceutical R&D. At the same time, the Company also competes with the discovery, trial, development and commercial manufacturing departments within pharmaceutical companies. As more competitors enter the market, level of competition is expected to escalate. The Company is confronted with market competition in terms of service quality, breadth of integrated service, timeliness of delivery, R&D service strength, intellectual property protection, depth of customer relationship, price, etc.

(9) Risks regarding technological innovation

With the continuous market development and innovation of R&D technologies, advanced technologies are vital for the Company to maintain its leading position in the industry. The Company shall keep up with the development direction of new technologies and processes to maintain our leading position in the industry. The Company will continue to invest a large amount of human and capital resources to develop new technologies and upgrade our service platform. If target companies with new technologies appeal to us, the Company will consider acquisitions to inject new service capabilities into our platform.

(10) Risks regarding service quality

Service quality and customer satisfaction are one of the important factors for the Company to maintain performance growth. The Company's pharmaceutical research, development and production services mainly provide customers with experimental data and samples, which serve as an important basis for customers to carry out subsequent R&D and manufacturing. Meanwhile, our customers have the right to review the standard operating procedures and records of the Company's services, and check the facilities used to provide services to them. If the Company fails to maintain high service quality, or the experimental data or samples we provide are defective, or our service facilities fail to pass customers' review, the Company may face liquidated damages and suffer loss of customers due to reputation damage, which will have an adverse impact on the Company's business.

OTHER INFORMATION

A. Employee Remuneration and Relations

As at December 31, 2021, the Group had a total of 14,923 employees, as compared to 11,012 employees as at December 31, 2020. The Group provides employees with competitive remuneration and benefits, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provides employees with opportunities to work on cutting-edge drug development projects with world-class scientists, as well as offer opportunities to continue academic learning in the Group's Pharmaron College.

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

At the extraordinary general meetings held on May 28, 2021 and July 12, 2021, the Shareholders have approved the special resolution to repurchase (at the repurchase price of RMB17.85 per Share) and cancel a total of 210,364 Restricted A Shares due to the resignation of six participants. The repurchase and cancellation were completed in 2021.

C. Material Events after the Reporting Period

Acquisition of Aesica Pharmaceuticals Limited

In December 2021, Pharmaron UK Limited, a wholly-owned subsidiary of the Company, signed an agreement with Consort Medical Limited to acquire its 100% stake in Aesica Pharmaceuticals Limited for an expected consideration of approximately GBP55,000,000 (RMB473,352,000). The acquisition will further enhance the overall strength of Pharmaron's platform in small molecule CDMO service.

On January 7, 2022, the Group completed the acquisition of Aesica Pharmaceuticals Limited, which became a subsidiary of the Company. Aesica Pharmaceuticals Limited was renamed to Pharmaron Manufacturing Services (UK) Ltd.

Save as disclosed above, there are no material events affecting the Company after the Reporting Period and up to the date of this announcement.

Profile of Directors, Supervisors and Senior Management

Below are the brief profiles of the current Directors, Supervisors and senior management of the Group.

DIRECTORS

The Board currently comprises 11 Directors, of which three (3) are executive Directors, four (4) are non-executive Directors and four (4) are independent non-executive Directors. The following table sets forth information in respect of our Directors:

Name	Age	Position	Date of Appointment as Director
Dr. LOU Boliang	58	Chairman, chief executive officer and executive Director	October 27, 2016
Mr. LOU Xiaoqiang	53	Chief operating officer, president and executive Director	October 27, 2016
Ms. ZHENG Bei	54	Executive vice president and executive Director	October 27, 2016
Mr. CHEN Pingjin	51	Non-executive Director	October 13, 2017
Mr. HU Baifeng	40	Non-executive Director	October 13, 2017
Mr. LI Jiaqing	48	Non-executive Director	October 27, 2016
Mr. ZHOU Hongbin	48	Non-executive Director	October 27, 2016
Mr. DAI Lixin	97	Independent non-executive Director	October 27, 2016
Ms. CHEN Guoqin	49	Independent non-executive Director	October 27, 2016
Mr. TSANG Kwan Hung Benson	57	Independent non-executive Director	November 28, 2019
Mr. YU Jian	47	Independent non-executive Director	July 23, 2020

SUPERVISORS

Our Supervisory Committee consists of three (3) Supervisors. The following table sets forth information in respect of our Supervisors:

Name	Age	Position	Date of Appointment as Supervisors
Dr. YANG Kexin	59	Chairman of the Supervisory Committee	October 27, 2016
Ms. FENG Shu	36	Supervisor	December 11, 2020
Ms. ZHANG Lan	40	Employee representative Supervisor	October 27, 2016

EXECUTIVE DIRECTORS

Dr. LOU Boliang (樓柏良), aged 58, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. Dr. LOU is the brother of Mr. LOU and the brother-in-law of Ms. ZHENG.

Since November 2006, Dr. LOU has been a director of Pharmaron Holdings Limited, which was our business and asset holding vehicle prior to the restructuring in connection with our A Share Offering.

Dr. LOU has over 25 years of experience in the life sciences and biotech industry. Prior to founding our Group, Dr. LOU worked at several life sciences and biotech companies such as Cytel Corporation, Ontogen Corporation and Advanced SynTech (formerly known as Helios Health, Inc.).

Dr. LOU obtained a master's degree and a doctorate degree in science at the Shanghai Institute of Organic Chemistry (中國科學院上海有機化學所) in May 1986 and May 1989, respectively. From 1990 to 1994, he conducted post-doctoral research at the University of Montreal in Canada.

Dr. LOU's awards and recognitions include:

- President's Special Award of the Chinese Academy of Sciences (1989);
- Beijing Overseas Returnee Entrepreneur Award (2008); and
- Bo-Da Contribution Award from the Office of Beijing Economic and Technological Development Area (BDA) (2010).

Mr. LOU Xiaoqiang (樓小強), aged 53, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr. LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group's growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. Mr. LOU is the brother of Dr. LOU and the husband of Ms. ZHENG.

From March 2007 to January 2016, Mr. LOU was a director of Pharmaron Holdings Limited.

Prior to joining our Group, he worked in sales and management roles at various electronics companies. For more details, please refer to the paragraphs headed "Directors, Supervisors and Senior Management – Executive Directors" of the Prospectus.

Mr. LOU obtained a bachelor's and a master's degree in material science and engineering from Beijing University of Aeronautics and Astronautics (北京航空航天大學) in July 1990 and March 1993, respectively. Mr. LOU obtained a master's degree in business administration from the China-Europe International Business School (中歐國際工商學院) in September 2009.

Ms. ZHENG Bei (鄭北), aged 54, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. Ms. ZHENG is the wife of Mr. LOU and the sister-in-law of Dr. LOU.

From March 2007 to January 2016, Ms. ZHENG was a director of Pharmaron Holdings Limited. For more details of Ms. ZHENG's previous experience, please refer to the paragraphs headed "Directors, Supervisors and Senior Management – Executive Directors" of the Prospectus.

Ms. ZHENG received her master's degree in law from Peking University (北京大學) in July 1992.

NON-EXECUTIVE DIRECTORS

Mr. CHEN Pingjin (陳平進), aged 51, is our non-executive Director. Mr. CHEN is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. CHEN joined our Group on October 13, 2017.

Since April 2016, Mr. CHEN has served as a deputy general manager of Gold Stone Investment Co., Ltd. (金石投資有限公司) ("Gold Stone Investment"), a subsidiary of CITIC Securities Co., Ltd. (中信証券股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600030) where he has successively served various roles from December 2006 to March 2016.

Mr. CHEN obtained his bachelor's degree in electrical engineering from East China Jiaotong University (華東交通大學) in July 1992. He obtained his master's degree in information economics from Beijing Jiaotong University (北京交通大學) (formerly known as Northern Jiaotong University (北方交通大學)) in April 1998.

Mr. HU Baifeng (胡柏風), aged 40, is our non-executive Director. Mr. HU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. HU joined our Group on October 27, 2016 and was our Supervisor from October 2016 to October 2017.

Since March 2018, he has served as a board director of Ampleon Cooperatief UA, a company primarily engaged in the financial holdings business in the Netherlands. Since February 2017, Mr. HU has served as a director of Gold Stone Investment. From May 2014 to January 2017, Mr. HU served as a director at CITIC M&A Fund. From 2006 to 2013, he worked at the investment department of several companies.

Mr. HU obtained his bachelor's degree in economics from Hunan University (湖南大學) in June 2003. He obtained his master's degree in economics from the University of Ottawa in Canada in October 2005.

Mr. LI Jiaqing (李家慶), aged 48, is our non-executive Director. Mr. LI is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. LI joined our Group on March 12, 2007.

From March 2007 to January 2016, Mr. LI was a director of Pharmaron Holdings Limited. Since 2007, he has served as a managing director of Legend Capital. From December 2011 to February 2018, he served as a director of Wuxi Lead Intelligent Equipment Co., Ltd. (無錫先導智能裝備股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300450). From March 2011 to February 2014, he served as a supervisor of Shanghai Amarsoft Information Technology Co., Ltd. (上海安碩信息技術股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300380). From September 2010 to April 2018, Mr. LI served as a director of Yunnan Hongxiang Yixintang Pharma Co., Ltd. (雲南鴻翔一心堂藥業(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002727). From 2001 to 2007, he successively served as vice president of investment, senior vice president of investment, and executive director of Legend Capital.

Mr. LI obtained his dual bachelor's degree in mechanical engineering and economic management and a master's degree in management from Tsinghua University (清華大學) in July 1996 and July 1999, respectively. He obtained his master's degree in business administration from the Engineering School of Paris in France in June 2001.

Mr. ZHOU Hongbin (周宏斌), aged 48, is our non-executive Director. Mr. ZHOU is primarily responsible for providing guidance on corporate strategy and governance to our Group. Mr. ZHOU joined our Group on October 27, 2016.

Since September 2015, he has served as a director of Milkyway Chemical Supply Chain Service Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603713). Since June 2015, he has served as a supervisor of Guangzhou Kingmed Diagnostics Group Co., Ltd. (廣州金域醫學檢驗集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603882). Since April 2015, he has served as a managing director of Legend Capital. From 2005 to 2015, he successively served as investment manager, investment vice president, investment director and executive director of Legend Capital.

Mr. ZHOU obtained his bachelor's degree in urban construction and master's degree in engineering from Wuhan University (武漢大學) in July 1994 and June 1997, respectively. He obtained his doctorate degree in management from Fudan University (復旦大學) in July 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. DAI Lixin (戴立信), aged 97, was appointed as an independent non-executive Director on October 27, 2016. Mr. DAI is primarily responsible for supervising and providing independent advice to the Board.

Mr. DAI has over 70 years of experience in the chemical sciences industry. In 1953, Mr. DAI was assigned by the Chinese Academy of Sciences (中國科學院) to work in the Shanghai Institute of Organic Chemistry (上海有機科學研究所) (the "SIOC"), where he has continued his study of organic chemistry till now. He served successively in SIOC as an assistant researcher, associate researcher and since 1986 as a research professor. From 1950 to 1953, he served in administration positions in the Shanghai Iron and Steel Company (上海鋼鐵公司) and the Shanghai Bureau of Minerals and Metallurgy (上海礦治局). In 1948, he joined the Shanghai Third Iron and Steel Factory (上海鋼鐵公司第三鋼鐵廠) as an engineer in the analytical laboratory. From 1947 to 1948, he worked as a teacher in Zhong-Hua Vocational School (中華職業學校).

Mr. DAI obtained his bachelor's degree from the Chemistry Department of Zhejiang University (浙江大學) in 1947. In 1993, Mr. DAI was elected as an academician of the Chinese Academy of Sciences. He has published more than 200 academic papers and 11 books and has authorized 13 patents in China. He has supervised 38 students to obtain doctorate degrees and 3 students to obtain master degrees. He is a member of the Chinese Chemical Society (中國化學會) and also a member of Shanghai Society of Chemistry and Chemical Industry (上海市化學化工學會), and currently an honorary chairman of the latter society. Mr. DAI has won twice the National Natural Science 2nd Class Awards (國家自然科學獎二等獎) in 2002 and in 2013, the Ho Leung Ho Lee Foundation Science and Technology Progress Award (何梁何利基金科學與技術進步獎) in 2002 and the Chiral Chemistry Lifetime Achievement Award of Chinese Chemical Society (中國化學會手性化學成就獎) in 2014, and the Lifetime Achievement Award by the Chinese Chemical Society in 2018.

Ms. CHEN Guoqin (陳國琴), aged 49, was appointed as an independent non-executive Director on October 27, 2016. Ms. CHEN is primarily responsible for supervising and providing independent advice to the Board.

Since February 2001, she has been a lawyer at S&P Law Firm (北京市尚公律師事務所), a law firm based in Beijing, where she currently serves as a director and senior partner.

Ms. CHEN obtained her bachelor's degree in economics from Xiamen University (廈門大學) in July 1995. Ms. CHEN obtained her master's degree in law from the Beijing University of International Business and Economics (北京對外經濟貿易大學) in June 2006.

Mr. TSANG Kwan Hung Benson (曾坤鴻), age 57, was appointed as an independent non-executive Director on August 15, 2019 (effective from the Listing Date). Mr. TSANG is primarily responsible for supervising and providing independent advice to the Board.

Since March 2019, he has served as the director of Hongsen Investment Management Limited, the general partner of Hongsen Investment Fund L.P. which started operation since January 2020. Since July 2018, he has served as an independent director and chairman of the audit committee of Athenex Inc., a company listed in the United States (NASDAQ: ATNX). From July 2017 to August 2020, he has served as a director of the board of Puritek Canada Inc., the Canadian investment arm of Puritek China Company. From July 2014 to August 2020, he has served as a director of the board of Hydraservices Inc., a waste management and odour control solutions company based in Canada. From October 2017 to December 2018, he served as an executive-in-residence adviser at ShangPharma Innovation Inc., an early stage pharmaceutical company based in the United States. From March 2010 to June 2015, he served as the chief financial officer of ATA Inc., a large scale computer-based testing service provider listed in the United States (NASDAQ: ATAI). From November 2010 to March 2013, he served as an independent director at ShangPharma Corp., a pharmaceutical R&D contract service organization company previously listed in the United States (NYSE: SHP), which was privatized in September 2013.

From July 2006 to February 2009, he served as the chief financial officer of Wuxi Pharma Tech Cayman Inc., a pharmaceutical R&D contract service organization company previously listed in the United States (NYSE: WX), which was privatized in December 2015. From 1988 to 2006, Mr. TSANG served in finance and audit roles at various companies.

Mr. TSANG obtained his Chartered Accountant certificate in Canada and Hong Kong in 1991 and 1993, respectively. He is a member (non-practising) of the Hong Kong Institute of Certified Public Accountants. He obtained his bachelor's degree in commerce and his master's degree in business administration at McMaster University in Canada in June 1987 and May 1988, respectively.

Mr. YU Jian (余堅), aged 47, was appointed as an independent non-executive Director on July 23, 2020. Mr. YU is primarily responsible for supervising and providing independent advice to the board.

Mr. YU has extensive experience in finance and accounting. He has served as independent director of Milkyway Chemical Supply Chain Services Co., Ltd. (密爾克衛化工供應鏈服務股份有限公司) since September 2015. He has served as independent director of Pengxin International Mining Co., Ltd. (鵬欣環球資源股份有限公司) since May 2015. Since October 2008, he has worked in the Teaching and Research Department of Shanghai National Accounting Institute (上海國家會計學院) as an associate professor, and engaged in teaching and research in financial management. He served as the financial director of Infoservice Information Technology Co., Ltd. (上海英孚思為信息科技有限公司) from January to September 2008. He served as the financial director of Shanghai Chengtou Land Group Co., Ltd. (上海城投置地集團有限公司) from January 2006 to January 2008. He served as the financial director of Shanghai Transportation Investment Group Co., Ltd. (上海交通投資集團有限公司) from December 2004 to January 2006. He served as the financial director of Shanghai Pulan Investment Management Co., Ltd. (上海普蘭投資管理有限公司) from August 2002 to December 2004. From March 1999 to February 2002, he served successively as the financial supervisor of the Planning and Finance Department, deputy head of the audit and supervision department, and deputy head of the project investment department in the headquarters of Shanghai Chengtou Group Corporation (上海城投集團).

Mr. YU is a CPA, and obtained his bachelor's degree in economics from Zhejiang Institute of Finance (浙江財經學院) in July 1996. Mr. YU obtained his master' degree in management from Shanghai University of Finance and Economics (上海財經大學) in January 1999. He obtained his PhD in management from Shanghai University of Finance and Economics (上海財經大學) in July 2005.

SUPERVISORS

Dr. YANG Kexin (楊珂新), aged 59, was appointed as the chairman of the Supervisory Committee on October 27, 2016 and is primarily responsible for the overall operation of the Supervisory Committee and supervision of the performance of the Directors and senior management members. Dr. YANG joined our Group on July 1, 2004 and is currently our vice president of chemical technology.

Dr. YANG obtained his master's degree in organic chemistry at Lanzhou University (蘭州大學) in June 1986. He obtained his doctorate degree in organic chemistry at the University of Calgary in Canada in November 1992.

Ms. FENG Shu (馮書), aged 36, was appointed as a Supervisor on December 11, 2020. Ms. FENG is primarily responsible for the supervision of the performance of the Directors and senior management members.

From February 2016 to May 2017, she served as Vice President and Senior Vice President of CITIC M&A Fund Management Co., Ltd.* (中信併購基金管理有限公司) ("CITIC M&A Fund"), which is a substantial shareholder of the Company. Since May 2017, she has worked at Goldstone Investment Co., Ltd.* (金石投資有限公司) ("Goldstone Investment"), the sole shareholder of CITIC M&A Fund, and currently serves as the Director at Goldstone Investment; since August 2019, she has served as the Director, the Head of Strategy and Business Development, the Executive Director of Private Equity of CLSA Capital Partners (HK) Limited and a Member of the Investment Committee of CLSA Capital Partners (HK) Limited.

Ms. FENG obtained her bachelor's degree from Zhejiang University (浙江大學) and a master' degree from Baylor University in the U.S..

Ms. ZHANG Lan (張嵐), aged 40, was appointed as the employee representative Supervisor on October 27, 2016 and is primarily responsible for the supervision of the performance of the Directors and senior management members. Ms. ZHANG joined our Group on April 5, 2006 and currently serves as the director of the asset management team of the Company.

Ms. ZHANG obtained her bachelor's degree in English at Tangshan Teacher's College (唐山師範學院) in Hebei, China in June 2005.

SENIOR MANAGEMENT

CHAIRMAN & CEO

Boliang LOU, Ph.D.

Dr. LOU Boliang (樓柏良), aged 58, is the chairman, chief executive officer and an executive Director of our Company. Dr. LOU co-founded our Group together with Mr. LOU and Ms. ZHENG in July 2004. He is primarily responsible for the overall management, strategic planning and corporate development of our Group. He is also actively involved in formulating our business development strategy and developing strategic relationship with our customers. He also serves as a director of most of the subsidiaries of our Group. See "– Executive Directors" for more details.

PRESIDENT & COO

Larry LOU, EMBA, M.Eng

Mr. LOU Xiaoqiang (樓小強), aged 53, is the chief operating officer, president and an executive Director of our Company. Mr. LOU co-founded our Group together with Dr. LOU and Ms. ZHENG in July 2004. Mr.LOU is primarily responsible for the overall operations of the business of our Group. In particular, Mr. LOU is responsible for the execution of our Group' growth strategy both in China and globally. He also serves as a director at several subsidiaries of our Group. See "– Executive Directors" for more details.

EXECUTIVE VICE PRESIDENT

Bei ZHENG, M.A.

Ms. ZHENG Bei (鄭北), aged 54, is the executive vice president and an executive Director of our Company. Ms. ZHENG co-founded our Group together with Dr. LOU and Mr. LOU in July 2004. Ms. ZHENG is primarily responsible for the administration and asset management of our Group. In particular, she is responsible for the facilities expansion of our Group. See "– Executive Directors" for more details.

CHIEF SCIENTIFIC OFFICER

Hua YANG, Ph.D.

Dr. YANG Hua (陽華), aged 59, is our chief scientific officer. He joined our Group in July 2007 as our chief scientific officer and is primarily responsible for the overall research and scientific development strategy for the integrated services platform of our Group. Since March 2017, he has also served as a director of one of our subsidiaries.

Prior to joining our Group, he successively served in various roles, including assistant director, at AstraZeneca R&D Montreal. Since joining our Group in 2007, Dr. YANG has extensively engaged in the service R&D platform building, encompassing discovery, preclinical and clinical development and their integration.

Dr. YANG obtained his doctorate degree at The Victoria University of Manchester (currently known as the University of Manchester) in England in November 1990. He also conducted his post-doctoral research at the University of Montreal in Canada. Dr. YANG is a co-author and co-inventor for 46 peer-reviewed scientific publications and patent applications.

CHIEF FINANCIAL OFFICER

Gilbert LI, CFA, CPA

Mr. LI Shing Chung Gilbert (李承宗), aged 43, is our chief financial officer and secretary of our Board. He joined our Group in January 2008 as our financial controller and was appointed as our chief financial officer in January 2015. He was appointed as the secretary of the Board in October 2016 and is primarily responsible for the overall financial function of our Group. In particular, he is responsible for the financing and M&A activities of our Group. Mr. LI also serves as a supervisor or director at several subsidiaries of our Group.

Prior to joining our Group, Mr. LI had served at various roles in accounting and financial areas. From 2000 to 2003, he served as assistant manager of KPMG, a multinational financial audit, tax and advisory firm.

Mr. LI obtained his bachelor's degree in business administration from the Hong Kong University of Science and Technology in November 2000. Mr. LI obtained his master's degree in business administration from the China Europe International Business School (中歐國際工商學院) in July 2012. Mr. LI is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants and a Chartered Financial Analyst.

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2021 (the "year").

CORPORATE GOVERNANCE

The Board of Directors (the "Board") of the Company strives to maintain a high standard of corporate governance and believes that effective and reasonable corporate governance practices are essential to the development of the Group and at the same time protect and enhance shareholders' rights.

The Company's corporate governance practices are based on the principles and code provisions set out in the Appendix 14 Corporate Governance Code (the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Stock Exchange") (the "Listing Rules").

Save as disclosed herein, the Company has complied with the code provisions as set out in the CG Code for the period from January 1, 2021 to December 31, 2021 (the "Related Period").

THE BOARD

Duties and Delegation of Authority to the Management

The Board must be accountable to shareholders and lead the Company in a responsible and effective manner. The Board implements the resolutions made at the general meetings, determines the Company's business plans, investment plans and the establishment of the Company's internal management departments, formulates the Company's annual financial budget plans, final account plans, and profit distribution plans, and employs senior management personnel.

To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee, and has granted these special committees with their respective responsibilities. The Board has granted various responsibilities to each Board committee, and the responsibilities are set out in their respective working rules.

The Board has delegated power and responsibility to the senior management to carry out daily management, administration and operation of the Company. Authorized functions and tasks are reviewed regularly. The management of the Company will also provide sufficient advice to the Board and Board committees in a timely manner for directors to make informed decisions.

All directors perform their duties in good faith, act in the best interests of the Company, comply with applicable laws and regulations, and always act in the interests of the Company and shareholders.

In 2022, the Board will sustain efforts in strengthening the corporate governance standardization, and promote the improvement of internal control and internal audit systems to establish strict and effective internal control and risk control systems in strict accordance with laws and regulations, such as the Company Law, New Securities Law, Rules Governing the Listing of Shares on the ChiNext Market of Shenzhen Stock Exchange, and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. At the same time, the Board will also strengthen communication with shareholders, and listen to their reasonable suggestions to improve corporate governance. The Board will, in light of the Company's particular conditions, standardize the Company's operations through business integrity, transparent management, and constant improvements to the corporate governance structure, so as to maximize the interests of all shareholders and the Company.

Corporate Governance Function of the Board

The Board is responsible for performing the corporate governance functions set out in Code Provision A.2.1 of Part 2 of the CG Code. These functions include, as a minimum, the following contents:

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

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

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

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

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

Board Structure

As at the date of this annual report, the second session of the Board consists of eleven directors and one chairman. The Board members consist of three executive Directors, four non-executive Directors and four independent non-executive Directors.

The Board members as at the end of the Reporting Period and up to the date of this annual report are as follows:

Executive Directors:

Dr. LOU Boliang *(Chairman, Chief Executive Officer and Executive Director)*
Mr. LOU Xiaoqiang *(Chief Operating Officer, President and Executive Director)*
Ms. ZHENG Bei *(Executive Vice President and Executive Director)*

Non-Executive Directors:

Mr. CHEN Pingjin
Mr. HU Baifeng
Mr. LI Jiaqing
Mr. ZHOU Hongbin

Independent Non-Executive Directors:

Mr. DAI Lixin
Ms. CHEN Guoqin
Mr. TSANG Kwan Hung Benson
Mr. YU Jian

Pursuant to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. Each term of office of a Director shall be three years. Director may be re-elected and re-appointed upon expiry of his/her term of office.

The biographies of all Directors are set out under the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report. Dr. LOU Boliang is the Brother of Mr. LOU Xiaoqiang and the Brother-in-law of Ms. ZHENG Bei. Mr. LOU Xiaoqiang is the Brother of Dr. LOU Boliang and the Spouse of Ms. ZHENG Bei. Ms. ZHENG Bei is the Spouse of Mr. LOU Xiaoqiang and the Sister-in-law of Dr. LOU. Save as disclosed above, there are no material relationships among members of the Board (including financial, business, family or other material or relevant relationships).

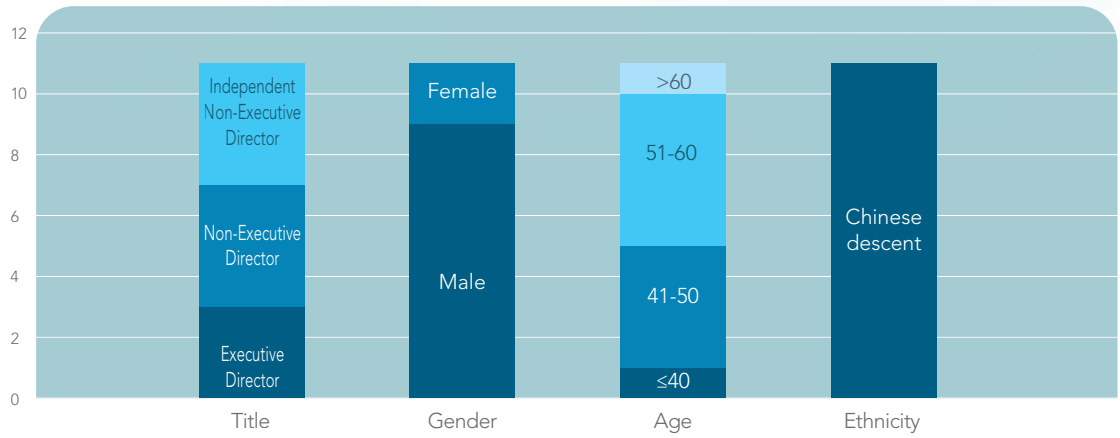
Board Diversity Policy

Our Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Pursuant to the CG Code, the Board has adopted the Board Diversity Policy. The Company understands and believes that the board diversity is of great benefit to the improvement of the Company's performance. In order to achieve sustainable and balanced development, the Company considers the increasing diversity of the Board as a key element to support its achievement of strategic objectives and sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered having due regard for the benefits of diversity on the Board. The Company is committed to selecting the best candidate to serve as a Board member. The selection of candidates will be based on a range of diversified factors, including but not limited to gender, age, cultural background and ethnicity in addition to educational background, professional experience, skills, knowledge and length of service. The final decision will be based on the strengths of the candidate and the contributions the candidate makes to the Board. The composition of the Board (including gender, age, and length of service) will be disclosed annually in the corporate governance report.

The Company's Board consists of 11 members, of whom 9 are male and 2 are female. The Board members have a wide range of academic backgrounds, skills, knowledge and experience. The academic backgrounds cover chemistry, business management, law, information economics, economics, materials science and engineering, business administration, management and various other disciplines; skills, knowledge and experience include scientific research, corporate management, investment, legal services, finance and auditing. The Board of the Company has reviewed the members, structure and composition of the Board, and considers that the Board structure is reasonable, and the directors have experience and skills in various aspects and fields to help the Company maintain a high level of operations.

The following figure shows the diversification of second session of the Board as of December 31, 2021:



Chairman and Chief Executive Officer

Pursuant to Code Provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive officer shall be separate and performed by different individuals.

Up to the date of this annual report, there is no distinction between the positions of chairman and chief executive officer of the Company, and Dr. LOU Boliang ("Dr. LOU") currently holds both positions. Dr. LOU is responsible for the overall management, strategic planning and corporate development of the Group.

In view of Dr. LOU's experience, personal profile and his roles in our Company as mentioned above and that Dr. LOU has assumed the role of chief executive officer of our Company since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Company that upon Listing, Dr. LOU acts as the chairman of the Board and continues to act as the chief executive officer of our Company. While this will constitute a deviation from Code Provision C.2.1 of Part 2 of the CG Code as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of our Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors; (ii) Dr. LOU and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Company accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Company are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Company in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-Executive Directors

The Board at all times met the requirements of Rules 3.10 (1) and 3.10 (2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, under Rule 3.10A of the Listing Rules, independent non-executive Directors shall represent at least one-third of the Board. As at the date of this annual report, the second session of the Board has 4 independent non-executive Directors, accounting for four-elevenths of Board members, and the 4 independent non-executive directors have professional qualifications in chemical science, law, finance and accounting respectively. Therefore, the Company has complied with the relevant regulations.

Pursuant to the Articles of Association, the term of office of independent non-executive Directors is the same as that of other directors of the Company. Director may be re-elected and re-appointed upon expiry of his/her term of office, but the term of re-appointment shall not exceed six years. The Company's independent non-executive Directors shall have more than five years of legal, economic or other work experience necessary to perform the duties of independent non-executive Directors, master the basic knowledge of company operations, be familiar with the rules of the place where the Company's shares are listed, and ensure sufficient time and energy to perform duties.

The Nomination Committee of the second session of the Board has assessed the independence and qualifications of each independent non-executive Director in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Self-regulatory Guidelines for Listed Companies No. 2 of Shenzhen Stock Exchange – Standardized Operation of Listed Companies on the ChiNext Market, and the Company's Work Rules for the Nomination Committee, and received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. After assessing their independence, the Company considers that all independent non-executive Directors meet the independence required by the Listing Rules.

Appointment, Re-election and Removal of Directors

The system and procedures for the appointment, re-election and removal of Directors are set out in the Articles of Association of the Company. Pursuant to the Articles of Association, Directors shall be elected or removed from office by Shareholders at a Shareholders' general meeting. Each term of office of a Director shall be three years. Director may be re-elected and re-appointed upon expiry of his/her term of office. Before the expiration of a Director's term, his/her duties shall not be released by the Shareholders' general meeting without reason. The Shareholders' general meeting may, in compliance with relevant laws, administrative regulations, and relevant regulations of the securities regulatory authority of the place where the Company's shares are listed, remove any director whose term has not expired by ordinary resolution, but this does not affect the director's claims for damages pursuant to any contract.

Each of the current directors has entered into a service contract with the Company for a term of three years, counting from the date of obtaining the relevant shareholders' approval for appointment, and terminating in accordance with their respective terms.

None of the Directors or Supervisors has or is proposed to enter into a service contract with any member of our Group, other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

Board Meetings

Pursuant to the Articles of Association, the Board shall hold at least four meetings each year, which shall be convened by the Chairman and notified to all the directors and supervisors fourteen days prior to the meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. If a director is unable to attend the meeting in person, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the name of the agent, the delegation matters, the scope of authorization and the period of validity. However, directors may not vote on any board resolution that approves a contract, transaction or arrangement or any other relevant Resolution in which he/she or any of his/her close associates (as defined in the applicable Listing Rules in force from time to time) have a significant interest. Board meetings are held on site as a principle. A director who fails to attend a Board meeting or to entrust a representative to attend is deemed to have waived his/her voting right at the relevant meeting. The Board shall make minutes of the decisions on the matters considered at the meeting, and the directors present at the meeting shall sign the minutes of the meeting.

All directors have full and timely access to all relevant information about the meeting matters, and can seek independent professional advice and services from the Company secretary and senior management. After making a reasonable request to the Board, any director may, where appropriate, request independent professional advice at the expense of the Company.

During the year, the Board held ten meetings on February 26, 2021, March 26, 2021, April 28, 2021, June 4, 2021, June 9, 2021, July 14, 2021, July 27, 2021, August 27, 2021, October 27, 2021 and December 21, 2021, respectively.

Directors' Training and Professional Development

During the year, all directors have received directors' training in writing or by attending lectures. The Directors' training is mainly about (i) the annual survey report and interim survey report of Hong Kong Financial Reporting Council; (ii) anti-corruption training of Hong Kong ICAC; (iii) special training for Directors and Supervisors for 2021 organized by the Listed Companies Association of Beijing; and (iv) continuous supervision training for 2020 by Orient Securities Investment Banking Co., Ltd.

Directors keep receiving the latest news on the development of statutory and regulatory systems and business conditions, prompting them to perform their duties. The Company also arranges training for directors when necessary to ensure that the directors have a proper understanding of the Group's business and operations, and fully understand the duties and obligations of directors under the Listing Rules and relevant statutory requirements.

The personal training records received by the directors during the year are summarized as follows:

Name of directors	Attending or participating in relevant seminars/ reading relevant materials
Executive Directors	
Dr. LOU Boliang	✓
Mr. LOU Xiaoqiang	✓
Ms. ZHENG Bei	✓
Non-Executive Directors	
Mr. CHEN Pingjin	✓
Mr. HU Baifeng	✓
Mr. LI Jiaqing	✓
Mr. ZHOU Hongbin	✓
Independent Non-Executive Directors	
Mr. DAI Lixin	✓
Ms. CHEN Guoqin	✓
Mr. TSANG Kwan Hung Benson	✓
Mr. YU Jian	✓

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules of the Stock Exchange as the Company's code of conduct for directors and supervisors in securities transactions. After making specific inquiries to all directors and supervisors, the directors and supervisors each confirmed that they have complied with the required rules set out in the Model Code during the Related Period.

Pursuant to Code B.13 of the Model Code, directors have also requested that any employee of the Company or director or employee of a subsidiary of the Company who may obtain inside information about the securities of the Company as a result of serving or being employed by the Company or a subsidiary shall not trade in securities of the Company as prohibited by the Model Code (just as a director).

Special Board Committees

Pursuant to the CG Code, the Board has established four special committees including the Strategy Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee, and has granted these special committees with their respective responsibilities. The composition, main duties and work of these special committees during the year are set out below:

Strategy Committee

As at the date of this annual report, the second session of the Strategy Committee consist of Dr. LOU Boliang (chairman), Mr. LOU Xiaoqiang, Mr. CHEN Pingjin, Mr. LI Jiaqing and Mr. DAI Lixin with Dr. LOU being the chairman of the Strategy Committee. The main duties of the Strategy Committee include but are not limited to:

The main duties of the Strategy Committee are to review the Company's long-term development strategy and major investment decisions and to make recommendations on such matters. Details are as follows: (i)researching and recommending on long-term development strategy of our Company; (ii) researching and recommending on significant capital expenditure, investment and financing projects of our Company; (iii)researching and recommending on major capital operation (including but not limited to the increase or reduction of registered share capital, issuance of bonds, subsidiary merger, separation, dissolution or change of company form, profit distribution plan and make up for losses program), asset management project, and annual financial budget plan of our Company; (iv) researching and recommending on significant matters relating to the development of our Company; (v) monitoring the above matters and assessing, examining and recommending on significant changes; and (vi) performing such other duties determined by the Board and stipulated in the listing rules or regulatory rules of the place where the shares of our Company are listed.

During the year, the Strategy Committee held two meetings where the following matters were considered:

(1) The second meeting of the Strategic Committee of the second session of the Board was held on April 28, 2021 to consider and approve the Resolution on the Formulating Environmental, Social and Corporate Governance Objectives and Management Measures and Resolution on the Formulating Environmental, Social and Governance Information Management Manual.

(2) The third meeting of the second session of Strategic Committee of the Board was held on December 21, 2021 to consider and approve the Resolution on the Setting Sustainable Development Goals for 2021-2025.

Audit Committee

As at the date of this annual report, the Audit Committee of the second session of the Board consists of Mr. YU Jian (chairman), Ms. CHEN Guoqin and Mr. TSANG Kwan Hung Benson. All members of the Audit Committee are independent non-executive Directors.

The Audit Committee is mainly responsible for reviewing and supervising the Company's financial reports and audit work, including: (i) proposing to engage or replace its external auditor and supervising and evaluating the work of the external auditor; (ii) directing internal audit work and supervising the establishment, improvement and implementation of the Company's internal audit system; (iii) coordinating the communication between the management, internal auditor and external auditor; (iv) reviewing the Company's financial information and its disclosure and expressing opinions; (v) assessing the effectiveness of internal controls and supervising financial reporting systems, risk management, and monitoring systems, reviewing the Company's internal control system, and auditing and supervising major connected transactions; and (vi) other duties as conferred by the Board and other matters stipulated in related laws and regulations.The Audit Committee held seven meetings during the year. The Audit Committee considered the following matters:

(1) The third meeting of the Audit Committee of the second session of the Board was held on March 25, 2021 to consider and approve the Proposal on the Report on the Financial Accounts for 2020, Proposal on the Self-Evaluation Report on the Company's Internal Control for 2020, Proposal on the Full Text and Summary of the 2020 Annual Report and 2020 Annual Results Announcement, Proposal on the Company's Engagement of A Domestic Accounting Firm for 2021, Proposal on the Company's Engagement of An Overseas Accounting Firm for 2021, Proposal on the Special Audit Statement on the Occupation of Funds by the Controlling Shareholders and Other Related Parties of the Company, Proposal on the Confirmation of Daily Connected Transactions and Estimation of Daily Connected Transactions for 2020, Proposal on the Confirmation of Hedging Product Transactions in 2020 and Estimation of Quota of Hedging Product Transactions in 2021, Proposal on Participation in Private Equity Investment Funds and Related Transactions, Proposal on Confirmation of Connected Legal Persons, Connected Natural Persons and Connected Persons of the Company, Proposal on Report on the Inspection of Material Matters of the Company in 2020, Proposal on Report on Internal Control and Internal Audit, and Proposal on the Summary of Audits in 2020.

(2) The fourth meeting of the Audit Committee of the second session of the Board was held on April 28, 2021 to consider and approve the Proposal on 2021 First Quarterly Report of the Company, Proposal on Report on Internal Control and Internal Audit, and Proposal on the Application of Hedge Accounting.

(3) The fifth meeting of the Audit Committee of the second session of the Board was held on July 14, 2021 to consider and approve the Proposal on the Change of Partners and Related Transactions of Ningbo Kangjun Zhongyuan Equity Investment Partnership (Limited Partnership) (寧波康君仲元股權投資合夥企業(有限合夥)), in which the Company intends to invest.

(4) The sixth meeting of the Audit Committee of the second session of the Board was held on July 27, 2021 to consider and approve the Proposal on the Participation in Beijing Junlian Huikang Equity Investment Partnership (Limited Partnership) (北京君聯惠康股權投資合夥企業(有限合夥)) Private Equity Investment Fund and Connected Transactions.

(5) The seventh meeting of the Audit Committee of the second session of the Board was held on August 27, 2021 to consider and approve the Proposal on the Full Text and Summary of the Semi-annual Report and 2021 Interim Results Announcement, Proposal on Confirmation of Connected Legal Persons, Connected Natural Persons and Connected Persons of the Company, and Proposal on the Work Report on the First Half of 2021 of the Internal Control and Internal Audit Department and on the Inspection Report on Material Matters.

(6) The eighth meeting of the Audit Committee of the second session of the Board was held on October 27, 2021 to consider and approve the Proposal on the Work Report on the Internal Control and Internal Audit of the Company in the Third Quarter of 2021, Proposal on the 2021 Third Quarterly Report of the Company, Proposal on Capital Increase to Shareholding Companies and Related Transactions, and Proposal on Signing the Amended Limited Partnership Agreement of Beijing Junlian Huikang Equity Investment Partnership (Limited Partnership).

(7) The ninth meeting of the Audit Committee of the second session of the Board was held on December 21, 2021 to consider and approve the Proposal on the Engagement of the Company's Internal Control Auditor for 2021 and Proposal on the Audit Plan for 2021.

The Audit Committee has reviewed and confirmed the audited consolidated financial statements set out in this annual report, and discussed with the management on the Company's financial statements and internal controls. The Audit Committee is of the opinion that the preparation of these financial statements complies with applicable accounting standards and regulations and has made appropriate disclosures.

The Audit Committee is also aware of the Group's existing risk management and internal control systems, and is aware that these systems will be reviewed annually.

Nomination Committee

As at the date of this annual report, the Nomination Committee of the second session of the Board consists of Ms. CHEN Guoqin (chairman), Dr. LOU Boliang, Ms. ZHENG Bei, Mr. YU Jian and Mr. TSANG Kwan Hung Benson. Among them, independent non-executive Directors serve as the chairman and make up the majority.

The main duties of the Nomination Committee are as follows: (i) reviewing at least once a year the structure, number and composition of the Board (including skills, knowledge and experience), and making recommendations on any changes to the Board in line with the Company's strategy; (ii) making recommendations to the Board on the size and composition of the Board based on the Company's operating activities, assets scale and shareholding structure; (iii) studying the selection criteria and procedures of directors and senior management and making recommendations to the Board; (iv) extensively searching for qualified candidates as directors and senior management, identifying qualified candidates as directors and providing advice to the Board on the nomination of candidates; (v) reviewing and making recommendations on candidates as directors and senior management; (vi) evaluating the independence of independent non-executive Directors; (vii) making recommendations to the Board on the appointment or re-appointment of directors and the succession plan of directors (especially the chairman and chief executive officer); and (viii) other duties as conferred by the Board.

During the year, the Nomination Committee held one meeting. The Nomination Committee considered the following matters:

The first meeting of the Nomination Committee of the second session of the Board was held on December 21, 2021, and considered and approved the Resolution on the Rationality of the Structure of the Board.

Remuneration and Appraisal Committee

As at the date of this annual report, the Remuneration and Appraisal Committee of the second session of Board consists of Ms. CHEN Guoqin (chairman), Dr. LOU Boliang, Mr. LOU Xiaoqiang, Mr. TSANG Kwan Hung Benson and Mr. YU Jian. Among them, independent non-executive Directors serve as the chairman and make up the majority.

The main duties of the Remuneration and Appraisal Committee are as follows: (i) making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) formulating remuneration plans or schemes (remuneration plans or schemes mainly include but are not limited to performance evaluation standards, procedures and the major evaluation system, and main schemes and systems for rewards and penalties, etc.), based on the main scope, responsibilities, importance of management positions of directors and senior management personnel, and the corporate policies and goals set by the Board, and reviewing and approving management's remuneration proposal; (iii) evaluating the remuneration level of the Company's senior management based on the industry's remuneration level provided by the market; (iv) recommending to the Board the remuneration of individual executive directors and senior management personnel, including non-pecuniary benefits, pension rights and compensation amounts (including compensation for loss or termination of office or appointment); (v) making recommendations to the Board on the remuneration of non-executive Directors; (vi) considering the remuneration paid by similar companies, the time and responsibilities required, and the conditions of employment for

other positions within the Company; (vii) reviewing and approving compensation to executive Directors and senior management for their loss or termination of their positions or appointments to ensure that such compensation is consistent with the terms of the contract and is otherwise fair and reasonable; (viii) reviewing and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; (ix) ensuring that no director or any of his/her associates can participate in determining his/her own remuneration; (x) reviewing the performance of the Company's directors and senior management personnel, conducting annual performance reviews, and issuing a special report to the Board; and (xi) other duties as conferred by the Board.

During the year, the Remuneration and Appraisal Committee held three meetings. In the three meetings, the following matters were considered:

(1) The third meeting of the Remuneration and Appraisal Committee of the second session of the Board was held on March 25, 2021, and considered and approved the Resolution on the Remuneration Program of the Company's Directors, Resolution on the Remuneration Program of the Company's Senior Management, and Resolution on the Performance Evaluation of the Company's Senior Management.

(2) The fourth meeting of the Remuneration and Appraisal Committee of the second session of the Board was held on June 9, 2021, and considered and approved the Resolution on the 2021 Restricted A Shares Incentive Plan for 2021 (Draft) of Pharmaron Beijing Co., Ltd. and its Abstract, Resolution on Deliberating the Measures for Management of the 2021 Restricted A Shares Incentive Plan for 2021 of Pharmaron Beijing Co., Ltd., Resolution on Verifying the List of Incentive Targets Granted by the Company's 2021 Restricted A Shares Incentive Plan for 2021 of Pharmaron Beijing Co., Ltd., and Resolution on Requesting the Shareholders' General Meeting to Authorize the Board to Handle Equity Incentive-Related Matters.

(3) The fifth meeting of the Remuneration and Appraisal Committee of the second session of the Board was held on December 21, 2021, and considered and approved the Resolution on Fulfilment of Conditions for Unlocking within the Second Unlocking Period and Temporary Non-listing with Respect to The First Grant under the Restricted Stock and Stock Option Incentive Plan for 2019.

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEE MEMBERS

The following table sets forth the records of each director's attendance at the Board and board committee meetings as well as the Shareholders' General Meeting for the year ended December 31, 2021 during their term of office:

	Attendance/Number of Meetings						
Name of Directors	Board	Audit Committee	Remuneration and Appraisal Committee	Strategy Committee	Nomination Committee	Annual general meeting for 2020	Other General Meetings
Executive Directors							
Dr. LOU Boliang	10/10	N/A	3/3	2/2	1/1	1/1	0/1
Mr. LOU Xiaoqiang	10/10	N/A	3/3	2/2	N/A	1/1	0/1
Ms. ZHENG Bei	10/10	N/A	N/A	N/A	1/1	1/1	1/1
Non-executive Directors							
Mr. CHEN Pingjin	10/10	N/A	N/A	2/2	N/A	1/1	1/1
Mr. HU Baifeng	10/10	N/A	N/A	N/A	N/A	1/1	1/1
Mr. LI Jiaqing	10/10	N/A	N/A	2/2	N/A	1/1	1/1
Mr. ZHOU Hongbin	10/10	N/A	N/A	N/A	N/A	1/1	1/1
Independent Non-executive Directors							
Mr. DAI Lixin	10/10	N/A	N/A	2/2	N/A	0/1	0/1
Ms. CHEN Guoqin	10/10	7/7	3/3	N/A	1/1	1/1	1/1
Mr. TSANG Kwan Hung Benson	10/10	7/7	3/3	N/A	1/1	1/1	1/1
Mr. YU Jian	10/10	7/7	3/3	N/A	1/1	1/1	1/1

REMUNERATION OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

Pursuant to Code Provision E.1.5 of Part 2 of the CG Code, the annual remuneration of the senior management (including Directors and Supervisors) of the Company by band for the year ended December 31, 2021 is set out below:

Remuneration Band (HKD)	Number of Individuals
0-1,000,000	10
2,000,001-2,500,000	1
2,500,001 above	5

DIRECTOR NOMINATION POLICY

According to the Articles of Association, the methods and procedures to nominate directors are as follows: (i) the candidates for Directors (excluding independent Directors) of the Board shall be nominated by the Board or shareholder(s) severally or jointly holding more than 3% of the total number of the voting shares of the Company, and shall be elected at a general meeting of the Company; (ii) the candidates for independent Directors shall be nominated in such a way and procedure as specified by laws, administrative regulations, departmental rules, listing rules of the stock exchange where the Company's shares are listed or the Articles of Association; and (iii) the written notice on the intention for nominating candidates for Directors and candidates' willingness to accept the nominations shall be sent to the Company no earlier than the issue date of the notice of the general meeting and no later than the 7th day prior to the convention of the general meeting. The Company shall give relevant nominees and candidates for Directors at least seven days to submit the aforesaid notice and document (this period is calculated from the day after the issue date of the notice of the general meeting). The candidates for Directors who accept the nominations shall promise that the information publicly disclosed about them is true and complete, and that they will diligently fulfill the duties as Directors if elected.

According to the Terms of Reference of the Nomination Committee of the Board, the procedures for electing and appointing Directors and senior management are as follows: (i) the Nomination Committee shall proactively communicate with relevant departments of the Company to understand the demand for new Directors and senior management and work out written reports; (ii) the Nomination Committee may extensively seek for candidates for Directors and senior management within the Company, the Company's subsidiaries/associated corporations/joint ventures as well as in the recruitment market; (iii) to collect the information on occupation, education background, job title, detailed work experience and all concurrent positions of the proposed candidates, and work out written reports; (iv) to seek the consent of the proposed candidates for nomination; otherwise, they shall not be put on the list of candidates for Directors and senior management; (v) to convene the meeting of the Nomination Committee, and check the eligibility according to the qualifications required for Directors and senior management; (vi) to submit the recommendation and relevant materials about the candidates for Directors and senior management to the Board one or two months prior to the election of new Directors and the appointment of new senior management members; and (vii) to follow up other matters according to decisions and feedback of the Board.

REMUNERATION POLICY

The Company endeavors to improve the measures for managing the remuneration of Directors, Supervisors, and senior management. The remuneration system for the Company's Directors, Supervisors, and senior management adheres to the principle of unifying incentives and constraints in combination with market regulation.

Directors receive remunerations in different forms, including salaries and subsidies.

During the year, no remuneration was paid to, or receivable by, our Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office. Further, none of the Directors, Supervisors or the five highest paid individuals has waived or agreed to waive any remuneration arrangements.

The Company establishes a remuneration management system that matches its strategies, and attracts and retains talents who satisfy the requirements, to enhance its competitiveness and the motivation of employees. The remuneration of employees mainly consists of the basic salary, post salary, welfare benefit, and monthly (topic)/ quarterly/year-end bonus. Based on the formulation and decomposition of annual operating targets, the Company establishes an objective assessment system and specifies efficiency indicators for each department. Under the system, the monthly (topic)/ quarterly/year-end bonus is determined based on the Company's monthly, quarterly, and annual operating benefits and the completion of indicators by each department.

DIVIDEND POLICY

Pursuant to the Articles of Association, the Board may declare dividends in the future after taking into account the Company's results of operations, financial condition, cash requirements and availability, and other factors as it may deem relevant at such time. Although the calculation of the Company's net profit and undistributed profit is in accordance with PRC GAAP, which may differ from the numbers calculated under IFRS, the Company does not expect such difference to be material and to have any substantive impact on its dividend policy. Any declaration and payment as well as the amount of dividends will be subject to the Company's Articles of Association, applicable PRC laws, and approval by the Company's Shareholders. Under the Articles of Association, when the Company makes a profit in the current year and the accumulated undistributed profit is positive, the Company shall give priority to the distribution of cash dividends provided that there is no material capital expenditure or investment in the next 12 months. The total amount of the cash dividends distributed shall be at least 20% of the total dividends in the same distribution.

SUPERVISORY COMMITTEE

As at the date of this annual report, the Supervisory Committee consists of three members, two of whom are elected by shareholders and one by employees. The term of office of Supervisors is three years, and Supervisors can be re-elected upon the expiration of the term of office.

According to the Articles of Association, the Supervisory Committee convenes one meeting at least every six months. The Chairman of the Supervisory Committee is responsible for convening the meeting.

As at the date of this annual report, the Supervisory Committee consists of the following members:

Dr. YANG Kexin
Ms. FENG Shu
Ms. ZHANG Lan

The list and biographies of the Supervisors of the Company are set out in section headed "Profile of Directors, Supervisors, and Senior Management" of this annual report. Save as disclosed herein, there are no other significant relationships among the members of the Supervisory Committee.

The Supervisory Committee shall be accountable to the general meeting and the Supervisory Committee shall perform the following duties: (i) to review the Company's reports prepared by the Board and to provide comments in writing; (ii) to review the Company's financial condition; (iii) to examine the financial information such as the financial reports, business reports, and plans for distribution of profit to be submitted by the Board to the general meetings, to engage certified public accountants or practicing auditors in the name of the Company to assist in the review whenever queries arise; (iv) to supervise the conducts of the Directors and senior management in discharge of their duties and to advise on the dismissal of any Director and senior management who are in breach of laws, administrative regulations, the Articles of Association, or resolutions of the general meetings; (v) to demand rectification from the Directors and senior management of the Company where their conducts are detrimental to the interests of the Company; (vi) to propose to convene an extraordinary general meeting, and to convene and preside over the general meeting where the Board fails to perform its duties to convene or preside over a general meeting as required under the Company Law; (vii) to propose motions at a general meeting; (viii) to take legal actions against Directors and senior management in accordance with Article 151 of the Company Law; (ix) to conduct investigations whenever queries or unusual conditions in the operation of the Company arise and, if necessary, to engage professional institutions such as accounting firms and law firms to assist in their work with expenses to be borne by the Company; and (x) other duties as stipulated by the Articles of Association.

As at the date of this annual report, the Supervisory Committee convened a total of eight meetings.

COMPANY SECRETARY

Ms. MAK Po Man Cherie ("Ms. MAK") has acted as the secretary of the Company since August 28, 2019.

Ms. MAK is the Vice President of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for advising the Board on corporate governance and ensure compliance with the Board's policies and procedures, applicable laws, and rules and regulations. Ms. MAK confirms that she received no less than 15 hours of professional trainings in accordance with Rule 3.29 of the Hong Kong Listing Rules during the year.

The main contact person of Ms. MAK in the Company is Mr. LI Shing Chung Gilbert, the chief financial officer and secretary of the Board.

FINANCIAL REPORTING

The Board is accountable to the Shareholders and is committed to presenting comprehensive and timely information to the Shareholders on assessment of the Company's performance, financial position, and prospects.

The responsibility of Ernst & Young, as the Company's external auditor to the Financial Statements, is set out in section headed "Independent Auditor's Report" of this annual report.

RESPONSIBILITIES OF DIRECTORS CONCERNING FINANCIAL STATEMENTS

All Directors of the Company had committed their responsibilities for the preparation of the financial statements of the Company for the year ended December 31, 2021.

The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board prepared the financial statements on a going concern basis.

AUDITORS' REMUNERATION

The Company engaged Ernst & Young and Ernst & Young Hua Ming LLP as its international auditor and domestic auditor respectively. For the year ended December 31, 2021, the details of the remuneration payable by the Company to the auditors for the audit services and non-audit services were as follows:

Services	Remuneration (RMB' 000)
Audit services	4,760.0
Non-audit services (Note)	2,746.8
Total	7,506.8

Note:Non-audit services comprise Due Diligence services, taxation services rendered by the auditors.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is fully responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving its strategic objectives. The Board is also responsible for strengthening and standardizing the Company's internal management, enhancing the Company's self-discipline, realizing corporate governance goals, and improving the quality of information disclosure, managerial and administrative expertise, and capabilities of forestalling and defusing various risks, to push forward the Company's standardized operations and sustainable development. According to the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Accounting Law of the People's Republic of China, Audit Law of the People's Republic of China, Audit Regulations of the People's Republic of China, Guidelines for the Standardized Operation of Listed Companies on the ChiNext Market of Shenzhen Stock Exchange, Rules Governing the Listing of Stocks on Stock Exchanges, Basic Standard for Enterprise Internal Control, CG Code in Appendix 14 of the Hong Kong Listing Rules, and other laws and regulations and the Articles and Association, and in light of the actual management needs of the Company, the Company has formulated and adopted the Risk Management System, Early Warning System for Major Risks and Emergency Response System, Internal Control Management System, and Internal Audit Management System.

The Company's risk management system is designed to improve the risk prevention capabilities, enhance competitiveness, and advance the sustainable and healthy development of the Company. The internal audit system is intended to improve the quality and efficiency of internal audit, perfect the Company's mechanisms for supervision and risk control, and step up the Company's self-improvement and development. To strengthen the Company's management of major risks and emergencies, the mechanism for early warning and emergency response has been established to minimize losses, maintain the Company's normal operating order, and protect the legitimate interests of investors. The systems aim at managing rather eliminating the risk of failure to achieve business objectives and providing reasonable assurance of no material misstatement or loss.

FUNCTIONAL STRUCTURE OF RISK MANAGEMENT AND INTERNAL CONTROL

The Company implements hierarchical risk management. The Company's organizational system for comprehensive risk management includes: the Board, the Audit Committee and the Internal Control and Internal Audit Department, the general manager office, the Risk Management Working Group, and branches and subsidiaries of other functional departments. Branches and subsidiaries may establish an organizational system for risk management in light of the actual situation.

Being the Company's highest leading body in charge of comprehensive risk management, the Board is responsible for the effectiveness of comprehensive risk management. The Directors are also responsible for establishing, improving, and earnestly implementing the internal control system and evaluating the effectiveness of the system. The Board acknowledges its responsibility for the Company's risk management and internal control systems, and is responsible for reviewing the effectiveness of such systems.

The Audit Committee and the Internal Control and Internal Audit Department are mainly responsible for studying and proposing a supervision and evaluation system for comprehensive risk management, establishing systems relating to supervision and evaluation, conducting supervision and evaluation, and issuing supervision and evaluation reports. The general manager office is the executive bodies of the Company in charge of risk management. The internal auditors of the Internal Control and Internal Audit Department implements the internal audit function of the Company and reports directly to the Audit Committee. The Audit Committee and the internal auditors are also responsible for supervising the establishment and implementation of the Company's internal control.

The Risk Management Working Group, whose members are mainly from the Company's main business and functional areas, is the leading organization of the Company in charge of risk management. It is responsible for planning, advancing, organizing, coordinating, and supervising the risk management of various departments/ enterprises. The various departments/enterprises of the Company are the executive bodies of the Company in charge of specific risk management.

The internal control staff of the Internal Control and Internal Audit Department is responsible for leading and organizing each department/branch and subsidiary to identify internal control problems, urge efforts to do resolve the problems, and continuously optimize the Company's internal control system.

The internal auditors of the Company shall supervise and evaluate the risk management carried out by the Company and the effects of the risk management at least once a year, and the supervision and evaluation reports shall be directly submitted to the Board or the Audit Committee. In addition, the Company checks its internal control voluntarily on a regular basis every year, and the internal auditors evaluate the implementation effects of the internal control. Major matters, including the Company's acquisition and sale of assets, connected transactions, engaging in derivative transactions, providing financial assistance, providing guarantee for others, using proceeds, and entrusting wealth management, are necessary items for the plan of inspection and supervision of internal control. They also provide convenience for the Board to make judgments on the effectiveness of the Company's monitoring and risk management.

The general manager office and the various departments/enterprises of the Company are the executive bodies of risk management and risk control. They are responsible for collecting, analyzing, and feeding back problems detected in risk management and informing the Risk Management Working Group of the problems in time.

SPECIFIC PROCEDURES FOR IDENTIFYING, EVALUATING, AND MANAGING MAJOR RISKS

1. Risk identification

Risk identification refers to the process of identifying possible risks in the Company's enterprises, various important business activities, and important business processes and the types of the risks.

2. Risk analysis

Risk analysis refers to the clear definition and description of the risks identified and their characteristics as well as the analysis and description of the likelihood and conditions of risks. By using a combination of qualitative and quantitative methods, the Company analyzes and ranks the risks identified based on the likelihood and impact of the risks, and determines key risks to be controlled in priority.

3. Risk evaluation

Risk evaluation refers to the evaluation of the impact of risks on the Company's attainment of goals, the value of risks, and so on.

4. Risk response

The Company shall implement dynamic management of the information about risks and conducts risk identification, analysis, and evaluation on a regular or irregular basis, to re-evaluate new risks and changes in existing risks.

5. Risk management strategy

The Company's Risk Management Working Group calls on relevant departments to weigh risks and returns and determine risk response strategies based on the results of risk evaluation and in combination with risk tolerance. Through a reasonable analysis of risks, the Company will know exactly the risk preferences of Directors, managers and other senior management personnel, and employees in key positions. Accordingly, the Company will take appropriate control measures to avoid significant losses to its operations due to personal risk preferences. The Company shall use a combination of countermeasures of risks such as risk aversion, risk reduction, risk sharing, and risk tolerance to achieve effective control of risks.

6. Risk monitoring and improvement

The Company shall establish a channel for communicating risk management information, which runs through the entire risk management process and links superiors and subordinates, departments, and business units, to ensure timely, accurate, and complete information communication, thus laying a foundation for the supervision and improvement of risk management. Relevant departments and enterprises of the Company shall conduct self-inspection and inspection of risk management on a regular basis to detect and fix defects in a timely manner. The self-inspection and inspection can be carried out together with internal control inspection.

PROCESSING AND PUBLISHING INSIDE INFORMATION

The Company has formulated and adopted the Information Disclosure Regulations concerning the procedures for handling and publishing inside information and internal control, to promote the Company's standardized operations, regulate information disclosure behavior, strengthen information disclosure management, ensure the truthfulness, accuracy, completeness, timeliness, and fairness of information disclosure, and protect the legitimate rights and interests of the Company and its investors. The Company is aware of its responsibilities under the Securities and Futures Ordinance and the Hong Kong Listing Rules, the most important principle of which is that if the Company determines relevant information as inside information, it shall publish the information as soon as reasonably practicable while paying close attention to applicable laws and regulations when handling the information.

REGULATIONS FOR EVALUATION AND MANAGEMENT OF INTERNAL CONTROL

The Company has formulated the Regulations for Evaluation and Management of Internal Control according to the Company Law of the People's Republic of China, Rules Governing the Listing of Stocks on Stock Exchanges, Basic Standard for Enterprise Internal Control, Practice Note on the Evaluation of Internal Control of Enterprises, and other laws and regulations and normative documents and in line with the Company's actual circumstances. This aims to standardize the evaluation of Company's internal control, detect defects in internal control in a timely manner, and propose and implement improvement plans, thus ensuring the effective operation of internal control. The evaluation of internal control described in the regulations refers to the process implemented by the Board and management of the Company to comprehensively evaluate the effectiveness of the Company's internal control, draw an evaluation conclusion, and issue an evaluation report. The effectiveness of internal control refers to the reasonable guarantee provided through the establishment and implementation of internal control for the realization of control objectives.

ANNUAL REVIEW

On March 25, 2022, the eighteenth meeting of the second session of the Board of Directors reviewed the risk management and internal control during the year. The results of the internal control, internal audit, and risk management during the year showed the following highlights:

(1) According to the identification of significant defects in internal control over financial reporting of the Company, the Company did not have any significant defect in internal control over non-financial reporting as at the base date of internal control evaluation report. The Company has maintained, in all material respects, effective internal control over financial reporting in accordance with the requirements of the internal control standard and system and related regulations.

(2) According to the identification of significant defects in internal control over non-financial reporting of the Company, no significant defects in internal control over non-financial reporting were found as at the base date of internal control evaluation report.

(3) From the base date of internal control evaluation report to the issuing date of the internal control evaluation report, factors affecting the conclusion of internal control effectiveness evaluation did not occur.

The Board believes that the Company is free from significant risk monitoring errors and major risk. The Company has strictly complied with the provisions on risk management and internal control in the CG Code and the Board evaluates that the Company's risk management and internal control systems are effective and adequate.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company considered and approved the revised Articles of Association at the AGM held on May 28, 2021, EGM held on July 12, 2021 and December 11, 2020 respectively. An up to date version of the Company's Articles of Association is available on the websites of the Company and the Hong Kong Stock Exchange.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, separate resolutions shall 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.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

According to the Articles of Association, shareholder(s) individually or jointly holding a total of 10% or more of the shares carrying the right to vote at the meeting sought to be held may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. The aforesaid number of shares shall be calculated in accordance with the shares held on the day on which the written request is made by the shareholders. The Board shall, in accordance with the provisions of laws, administrative regulations, listing rules of the stock exchange where the Company's shares are listed, and the Articles of Association, submit a written feedback on approval or disapproval of the convening of an extraordinary general meeting or class meeting within ten days after receiving the above-mentioned written request.

PROCEDURES FOR MAKING ENQUIRIES TO THE BOARD

The Shareholders' communication policy of the Company aims to maintain transparency and provide timely information of the major development of the Group to Shareholders and investors. General meetings of the Company are formal channels for communication between Shareholders and the Board. The members of the Board will make themselves available at the general meetings to have direct communication with the Shareholders.

Shareholders may also send their enquiries and concerns to the Board by addressing them to the Board office of the Company at the following address:

Address: 6 Tai-He Road, Economic Technological Development Area, Beijing, the PRC
Postal code: 100176
Tel: 86 010-57330087
Fax: 86 010-57330087

PROCEDURE FOR SUBMITTING PROPOSALS AT GENERAL MEETINGS

According to the Articles of Association, if the Company plans to convene a general meeting, the shareholders holding more than 3% of the shares of the Company separately or jointly may raise a temporary proposal and submit it to the convener in writing ten days before the general meeting is convened. The convener shall, within two days after the receipt of the proposal, issue a supplementary notice to inform the general meeting of the contents of the temporary proposal. The proposal contents shall fall into the terms of reference of the general meeting. There shall be definite topics and specific matters for resolution. The proposal shall comply with the relevant provisions of laws, administrative regulations, listing rules of the stock exchange where the Company's shares are listed, and the Articles of Association.

COMMUNICATION WITH INVESTORS AND INVESTOR RELATIONSHIP

The Board values the investor relation management, complies with the relevant requirements of Securities Law, Articles of Association, the Rules Governing the Meeting of the Board and regulates the operation. The Board has established Information Disclosure Management, Investor Relation Management System, and other regulatory systems to standardize and optimize the investor relation management.

During the Reporting Period, the Board of Directors made timely, truthful, accurate and complete information disclosure and received an "A" rating in the information disclosure assessment by Shenzhen Stock Exchange, which helps the Company establish a good corporate image. While earnestly performing statutory information disclosure obligations, the Company launched investor relation activities in various forms to provide investors with information which they were interested in, to promote the transparency of the Company's corporate operation, and to build mutual understanding and trust. Meanwhile, the Company absorbed advice provided by investors in the course of information delivery and collected feedback from investors to boost benign interactions between the Company and investors.

In investor relation activities, the secretary to the Board and the securities department of the Company were responsible for investor relation management. Work assumed by them included: answering telephone calls through investor hotlines in time; answering online questions raised by investors on the EasyIR platform of the Shenzhen Stock Exchange; holding online illustration meetings on the Company's performance and answering questions raised by investors; receiving delegations of investors and securities analysis agencies; participating in investor promotion activities; and providing particulars about the Company, information disclosure, and corporate governance through the website of the Company (http://www.pharmaron.com), the website of CNINFO (http://www.cninfo.com.cn), and the website of the Hong Kong Stock Exchange (https://www.hkex.com.hk/). In 2021, the Company held 10 research events and received nearly 1,900 institutional and individual investors, facilitating communication between domestic and foreign investors and the Company.

In 2022, the Company will continue strengthening investor relation management in Shenzhen and Hong Kong. The Board will urge relevant departments and personnel to manage investor relations based on the needs of investors, and strengthen contact and communication with investors through various channels, such as non-deal road shows, results presentation, hotline and emails for investors, investor interaction platforms, field research and online briefings. This will help investors deepen their understanding and recognition of the Company and promote long-term, stable and good interaction between the Company and investors. The Board will make appropriate arrangements for reception of target audience, such as institutional investors and news media, to visit the Company for on-site discussion and survey, and for maintaining properly the confidentiality of undisclosed information. The Company will renew efforts to strengthen the protection of legitimate rights and interests of investors in strict accordance with the relevant provisions of the Securities Law on investor protection. The Company will communicate with investors through online and offline channels such as the publicity and education on investor rights protection, hotlines and online platforms. While popularizing risk knowledge to investors to raise their awareness of risk prevention, the Company will answer questions from investors and treat all domestic and foreign investors fairly, openly and impartially, thereby ensuring the legal rights of investors and safeguarding their rights to suggestions and inquiries. In addition, the Company will continue improving its corporate governance and strive to improve its corporate governance mechanism, to secure the legitimate rights and interests of investors.

The Board is pleased to present this annual report for the year 2021 and the audited consolidated financial statements of the Group for the year ended December 31, 2021.

PRINCIPAL ACTIVITIES

The Company is a leading fully-integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. The principal activity of the Group is to provide contract research, development and manufacturing services for innovative pharmaceutical products throughout the research and development cycle and the services are organised in four major categories: laboratory services, CMC (small molecule CDMO) services, clinical development services, and biologics and CGT services.

The activities and particulars of the Company's principal subsidiaries are shown under note 1 to the consolidated financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and note 4 and note 5 to the consolidated financial statements.

BUSINESS REVIEW

The description of principal risks and uncertainties that the Group may be facing, a fair review of the Group's business during the year, and the probable future business development of the Group are provided in the Corporate Governance Report and the Management Discussion and Analysis section on pages 55 to 74 and on pages 14 to 45 respectively of this annual report.

Also, the financial risk management objectives and policies of the Group can be found in note 51 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 8 of this annual report. In addition, discussions on the relationships with its staff, customers and suppliers is also contained in the Environmental, Social and Governance Report of the Company dated April 29, 2022. Discussions on the Group's environmental policies and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Environmental, Social and Governance Report of the Company dated April 29, 2022.

ENVIRONMENTAL PROTECTION

The Group is subject to certain environmental laws and regulations in the PRC. The Group has established an environmental, safety and health department to ensure compliance with applicable legal requirements and internal standards regarding environmental protection. Our measures and procedures to ensure compliance with applicable legal requirements includes (i) adopting protective measures at our facilities, (ii) promulgating safety operation procedures relating to various aspects of our integrated services, such as the use and storage of chemicals and operation of equipment, (iii) conducting regular safety and compliance inspections of our facilities, and (iv) engaging professional waste-disposal companies to manage the disposal of hazardous and biohazardous waste.

To the best of the Group's knowledge, during the year ended December 31, 2021, the Group had complied with the applicable environment laws and regulations in the PRC in all material respects. Please refer to the Environmental, Social and Governance Report of the Company dated April 29, 2022 which was prepared in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group's for the last five financial years is set out in the section headed "Financial Summary" in this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the reporting period are set out in note 14 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2021, the percentage of the major customers and suppliers in the Group's total sales and purchase are as follow:

	Percentage in the Group's total	
	Sales	Purchases
Largest customer	**5.3%**	**–**
Total of the five largest customers	**15.0%**	**–**
Largest supplier	**–**	**2.6%**
Total of the five largest suppliers	**–**	**8.0%**

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the global offering of its H Shares (the "Global Offering"), the Company raised net proceeds of approximately RMB4,522.7 million. As at December 31, 2021, the balance of unutilized net proceeds amounted to approximately RMB521.7 million. The net proceeds from the Global Offering have been and will be utilized in accordance with the purposes set out in the prospectus of the Company dated November 14, 2019. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2021.

Use of proceeds		Allocation of net proceeds (RMB million)	Utilized amount as at December 31, 2021 (RMB million)	Unutilized net proceeds as at December 31, 2021 (RMB million)	Expected timeline for utilizing the net proceeds from the Global Offering [1]
Expand capacities and capabilities in laboratory and manufacturing facilities in the PRC	30.0%	1,356.8	1,356.8	–	Had been fully utilized by December 31, 2021
• upgrading and expanding our Ningbo facility	19.5%	881.9	881.9	–	Had been fully utilized by December 31, 2021
• upgrading and expanding our Tianjin facility	4.5%	203.5	203.5	–	Had been fully utilized by December 31, 2021
• upgrading and expanding other manufacturing facilities	6.0%	271.4	271.4	–	Had been fully utilized by December 31, 2021
Fund further expansion of businesses in the U.S. and U.K.	10.0%	452.3	259.9	192.4	Expected to be fully utilized by December 31, 2022
Establish pharmaceutical R&D services platform for discovery and development of biologics	20.0%	904.5	904.5	–	Had been fully utilized by December 31, 2021
Expand clinical development services	15.0%	678.4	349.1	329.3	Expected to be fully utilized by December 31, 2022
Expand our capacity and capabilities through acquisitions of CRO and CMO companies and businesses	15.0%	678.4	678.4	–	Had been fully utilized by December 31, 2021
General corporate and working capital	10.0%	452.3	452.3	–	Had been fully utilized by December 31, 2021
Total	100%	4,522.7	4,001.0	521.7	

Note: The Company intends to use the remaining unused net proceeds in the coming years in accordance with the purpose set out in the Prospectus. The Company will continue to evaluate the Group's business objectives and will change or modify the plans against the changing market conditions to suit the business growth of the Group. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

ISSUE OF AND USE OF PROCEEDS FROM CONVERTIBLE BONDS

On June 18, 2021, the Company issued the Series 1 Bonds and Series 2 Bonds in an aggregate principal amount of US$300 million and RMB1,916 million, respectively. The Convertible Bonds were offered to no less than six independent placees who were professional investors. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the places (and their respective ultimate beneficial owners) is a third party independent of the Company and is not a connected person of the Company. For details of the Convertible Bonds, please refer to the announcements of the Company dated June 8, 2021, June 9, 2021, June 11, 2021, June 18, 2021 and June 21, 2021, respectively.

The initial conversion price of the Series 1 Bonds and the Series 2 Bonds is HK$250.75 per H Share and HK$229.50 per H Share (subject to adjustments), respectively, while the closing price of the H Shares on June 8, 2021 (the date on which the terms of the Convertible Bonds were fixed) was HK$177.50 per H Share. Assuming full conversion of the Series 1 Bonds and Series 2 Bonds at such initial conversion price, the Series 1 Bonds and the Series 2 Bonds will be convertible into approximately 9,282,711 H Shares (with an aggregated nominal value of RMB9,282,711) and 10,137,685 H Shares (with an aggregated nominal value of RMB10,137,685), respectively.

There were no redemption or conversion of the Conversion Bonds during the Reporting Period.

The following table sets out the shareholding structure of the Company upon full conversion of the Convertible Bonds with reference to the shareholding structure of the Company as at December 31, 2021 and assuming no further issuance of Shares by the Company.

Shareholders	Class of Shares	As at December 31, 2021		Upon full conversion of the Series 1 Bonds only at the initial conversion price of HK$250.75 per H Share		Upon full conversion of the Series 2 Bonds only at the initial conversion price of HK$229.50 per H Share		Upon full conversion of the Convertible Bonds at the respective initial conversion prices	
		Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital
Founders [1]	A Shares	187,423,105	23.60%	187,423,105	23.33%	187,423,105	23.30%	187,423,105	23.04%
Pharmaron Holdings Limited [2][3]	A Shares	97,600,003	12.29%	97,600,003	12.15%	97,600,003	12.13%	97,600,003	12.00%
CITIC Securities Co. Ltd. (中信証券股份有限公司) [2]	A Shares	185,637,121	23.37%	185,637,121	23.10%	185,637,121	23.08%	185,637,121	22.82%
Beijing Junlian Tongdao Investment Management Partnership (Limited Partnership) (北京君聯同道投資管理合夥企業(有限合夥)[2]	A Shares	45,846,935	5.77%	45,846,935	5.71%	45,846,935	5.70%	45,846,935	5.64%
Other holders of A Shares	A Shares	143,653,434	18.89%	143,653,434	17.88%	143,653,434	17.86%	143,653,434	17.66%
Total number of A Shares		660,160,598	83.13%	660,160,598	82.16%	660,160,598	82.08%	660,160,598	81.14%

Shareholders	Class of Shares	As at December 31, 2021		Upon full conversion of the Series 1 Bonds only at the initial conversion price of HK$250.75 per H Share		Upon full conversion of the Series 2 Bonds only at the initial conversion price of HK$229.50 per H Share		Upon full conversion of the Convertible Bonds at the respective initial conversion prices	
		Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital	Number of Shares	Approximate of the total issued share capital
JPMorgan Chase & Co [2]	H Shares	25,780,712	3.25%	25,780,712	3.21%	25,780,712	3.21%	25,780,712	3.17%
The Capital Group Companies, Inc. [2]	H Shares	16,505,400	2.08%	16,505,400	2.05%	16,505,400	2.05%	16,505,400	2.03%
BlackRock, Inc. [2]	H Shares	9,443,140	1.19%	9,443,140	1.18%	9,443,140	1.17%	9,443,140	1.16%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) [2]	H Shares	7,931,600	1.00%	7,931,600	0.99%	7,931,600	0.99%	7,931,600	0.97%
FMR LLC [2]	H Shares	7,885,792	1.00%	7,885,792	0.98%	7,885,792	0.98%	7,885,792	0.97%
The Goldman Sachs Group, Inc. [2]	H Shares	6,708,765	0.84%	6,708,765	0.83%	6,708,765	0.83%	6,708,765	0.82
Other holders of H Shares	H Shares	59,761,091	7.52%	59,761,091	7.44%	59,761,091	7.43%	59,761,091	7.35%
Holders of Series 1 Bonds	H Shares	–	–	9,282,711	1.16%	–	–	9,282,711	1.14%
Holders of Series 2 Bonds	H Shares	–	–	–	–	10,137,685	1.26%	10,137,685	1.25%
Total number of H Shares		134,016,500	16.87%	143,299,211	17.84%	144,154,185	17.92%	153,436,896	18.86%
Total number of A Shares and H Shares		**794,177,098**	**100.00%**	**803,459,809**	**100.00%**	**804,314,783**	**100.00%**	**813,597,494**	**100.00%**

Notes:

(1) Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei are regarded as our Founders and they have entered into a voting rights agreement on October 19, 2018 (which formalizes their pre-existing voting arrangement), pursuant to which they have agreed to reach consensus on any proposal presented to the Board and the general meeting of the shareholders of the Company for voting (the "**Voting Agreement**"). Pursuant to the Voting Agreement, Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei are concert parties and they are deemed to be interested in each other's interests in the Company under the SFO. Mr. LOU Xiaoqiang and Ms. ZHENG Bei are also spouses.

(2) For further details in relation to the shareholdings of the respective substantial shareholders, please refer to the section headed "Interests of Substantial Shareholders" on page 85 to 93 of this annual report.

(3) Pharmaron Holdings Limited is held as to 67.19% by Dr. LOU Boliang.

(4) The approximate percentages of (i) the A Shares, (ii) the H Shares, and (iii) the total issued share capital are rounded to the nearest two decimal places and may not add up to 100% due to rounding.

The Board considers that the issue of the Convertible Bonds represents an opportunity to obtain a pool of readily available funds that can better support business expansion of the Company in the long run and facilitate the overall development and expansion of the Group.

The net proceeds, after deduction of fees, commissions and expenses payable, was approximately RMB3,776.0 million. As at December 31, 2021, the balance of unutilized net proceeds amounted to approximately RMB2,861.8 million. The net proceeds from the Convertible Bonds have been and will be utilized in accordance with the purposes set out in the announcement of the Company dated June 21, 2021. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2021.

Use of proceeds		Allocation of net proceeds (RMB million)	Utilized amount as at December 31, 2021 (RMB million)	Unutilized net proceeds as at December 31, 2021 (RMB million)	Expected timeline for utilizing the net proceeds from the Global Offering [1]
Expanding capacities and capabilities of the Group's pharmaceutical process development and manufacturing facilities (i.e. CMC services) for small molecule drugs	33.3%	1,258.7	150.6	1,108.1	Expected to be fully utilized by December 31, 2024
Expanding the Group's R&D and manufacturing service platform for biologics	33.3%	1,258.7	125.4	1,133.3	Expected to be fully utilized by December 31, 2024
Expanding capabilities of the Group's laboratory services in drug safety assessment	13.3%	503.4	92.4	411.0	Expected to be fully utilized by December 31, 2024
Expanding capacities and capabilities of the Group's laboratory and manufacturing facilities in U.K.	10.0%	377.6	168.2	209.4	Expected to be fully utilized by December 31, 2023
Replenishing working capital and other general corporate purposes	10.0%	377.6	377.6	–	Had been fully utilized by December 31, 2021
Total	100%	3,776.0	914.2	2,861.8	

Note: Any discrepancies in the table between the total and the sum of the amounts listed are due to rounding.

An analysis of the impact on the earnings per share if the Convertible Bonds were fully converted into H Shares as at December 31, 2021 is set out in Note 13 to the financial statements in this annual report.

RESULTS AND DIVIDEND

The consolidated results of the Group for the Reporting Period are set out on pages 108 to 221 of this annual report.

The Board proposed to declare a final dividend as follows (i) a cash dividend of RMB0.45 (inclusive of tax) per Share or an aggregate of approximately RMB357.4 million (inclusive of tax) for the year ended December 31, 2021; (ii) 5 new Shares for every 10 existing Shares to be issued out of reserve to all Shareholders. The aforesaid proposal is subject to the consideration and approval at the AGM. If the distribution proposal is approved at the AGM, it is expected that the final dividend for the year ended December 31, 2021 will be paid in 60 days after AGM to the shareholders whose names appear on the register of members of the Company on Monday, June 13, 2022 (the "Record Date").

The final dividend distribution shall be calculated based on the total number of Shares in issue as of the Record Date and the final cash dividend distribution shall be based on RMB0.45 per Share (inclusive of tax). In order to qualify for the final dividend, the holders of H Shares must lodge all share certificates accompanied by the transfer documents with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong) before 4:30 p.m. on Tuesday, June 7, 2022. For the purpose of ascertaining the holders of H Shares who qualify for the final dividend, the register of members for H Shares will be closed from Wednesday, June 8, 2022 to Monday, June 13, 2022, both days inclusive, during which period no transfer of H Shares will be effected.

The final dividend will be denominated and declared in RMB. The holders of A Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The actual amount declared in HK dollars is converted based on the average benchmark exchange rate of Renminbi against HK dollars as promulgated by the People's Bank of China for the five business days preceding the date of the AGM.

To the best of the Company's knowledge, no shareholder has waived or agreed to waive any dividends.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得税法) and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate on 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 40 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 42 and note 52 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's distributable reserves, calculated in accordance with PRC rules and regulations, were RMB2,564.1 million.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and as of the date of this annual report are as follows:

Executive Directors

Dr. LOU Boliang (樓柏良) *(Chairman)*
Mr. LOU Xiaoqiang (樓小強)
Ms. ZHENG Bei (鄭北)

Non-executive Directors

Mr. CHEN Pingjin (陳平進)
Mr. HU Baifeng (胡柏風)
Mr. LI Jiaqing (李家慶)
Mr. ZHOU Hongbin (周宏斌)

Independent Non-executive Directors

Mr. DAI Lixin (戴立信)
Ms. CHEN Guoqin (陳國琴)
Mr. TSANG Kwan Hung Benson (曾坤鴻)
Mr. Yu Jian (余堅)

Supervisors

Dr. YANG Kexin (楊珂新) *(Chairperson)*
Ms. Feng Shu (馮書)
Ms. ZHANG Lan (張嵐)

Biographical details of the Directors, the Supervisors and the senior management of the Group as of the date of this annual report are set out on pages 46 to 54 in the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

The Group has not entered into any transaction agreement or contract of significant in which the Group's Directors and Supervisors, or any entity connected with such Directors or Supervisors, have direct or indirect material interests during the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Controlling Shareholders, or any of its subsidiaries, has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

The remuneration committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 9 and note 10 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors and Supervisors which provides proper protection for the Directors and Supervisors.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY

As of December 31, 2021, the interests and short positions of the Directors, the Supervisors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as 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 he/she is keen to taken or deemed to have under such provisions of the SFO), or as recorded in the registered maintained by the Company under section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Position in Shares

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage of its class of Shares	Percentage in total number of Shares
Dr. LOU Boliang	A Shares	Interests held jointly with another person; interests of controlled corporation	187,423,105	28.39%	23.60%
Mr. LOU Xiaoqiang	A Shares	Beneficial owner; interests held jointly with another person; interests of controlled corporation; interests of spouse	187,423,105	28.39%	23.60%
Ms. ZHENG Bei	A Shares	Interests held jointly with another person; interests of controlled corporation; interests of spouse	187,423,105	28.39%	23.60%

Note:

1. Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei have entered into a voting rights agreement on October 19, 2018 (which formalizes their pre-existing voting arrangement), pursuant to which they have agreed to reach consensus on any proposal presented to the Board and the general meeting of the shareholders of the Company for voting (the "Voting Agreement"). Pursuant to the Voting Agreement, Dr. LOU Boliang, Mr. LOU Xiaoqiang and Ms. ZHENG Bei are concert parties and they are deemed to be interested in each other's interests in our Company under the SFO.

2. Mr. LOU Xiaoqiang and Ms. ZHENG Bei are spouses.

Save as disclosed above, as of December 31, 2021, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As of December 31, 2021, according to the register kept by the Company pursuant to Section 336 of the SFO and so far is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company:

Interests in the Shares of the Company

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in the respective class of share capital	Percentage in total number of Shares
Pharmaron Holdings Limited [2]	A Shares	Beneficial owner	97,600,003 (L)	14.78%	12.29%
CITIC Securities Co. Ltd. (中信証券股份有限公司) ("CITIC Securities") [3]	A Shares	Interest of controlled corporation	185,637,121 (L)	28.12%	23.37%
Beijing Junlian Tongdao Investment Management Partnership (Limited Partnership) (北京君聯同道投資管理合夥企業(有限合夥)) ("Junlian Tongdao")[4]	A Shares	Interest of controlled corporation	45,846,935 (L)	6.94%	5.77%
JPMorgan Chase & Co [5]	H Shares	Interest of controlled corporation, investment manager, person having a security interest in shares, approved lending agent	25,780,712 (L) 2,713,303 (S) 10,733,462 (P)	19.235% 2.02% 8.00%	3.25% 0.34% 1.35%
The Capital Group Companies, Inc. [6]	H Shares	Interest of controlled corporation	16,505,400 (L)	12.32%	2.08%
BlackRock, Inc. [7]	H Shares	Interest of controlled corporation	9,443,140 (L) 42,300 (S)	7.05% 0.03%	1.19% 0.01%
China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) ("China Structural Reform Fund") [9]	H Shares	Beneficial owner	7,931,600 (L)	5.92%	1.00%
FMR LLC [8]	H Shares	Interest of controlled corporation	7,885,792 (L)	5.88%	1.00%
The Goldman Sachs Group, Inc. [10]	H Shares	Beneficial owner	6,708,765 (L) 1,927,271 (S)	5.01% 1.44%	0.84% 0.24%

Notes:

1. The letter "L", "S" and "P" stand for long position, short position and lending pool, respectively.

2. Pharmaron Holdings Limited is held as to 67.19% by Dr. LOU Boliang.

3. Shenzhen Xinzhong Kangcheng Investment Partnership (Limited Partnership) (深圳市信中康成投資合夥企業(有限合夥)) ("Shenzhen Xinzhong Kangcheng") and Shenzhen Xinzhong Longcheng Investment Partnership (Limited Partnership) (深圳市信中龍成投資合夥企業(有限合夥)) ("Shenzhen Xinzhong Longcheng") directly held 157,142,855 A Shares and 28,494,266 A Shares, respectively. To the best knowledge of our Company, the general partner of Shenzhen Xinzhong Kangcheng is CITIC Buyout Fund Management Company Limited (中信併購基金管理有限公司) ("CITIC Fund"). Shenzhen Xinzhong Kangcheng is held as to 50.16% by CITIC Buyout Investment Fund (Shenzhen) (Limited Partnership) (中信併購投資基金(深圳)合夥企業(有限合夥)) ("CITIC Fund Shenzhen") as a limited partner, the general partner of which is CITIC Fund. CITIC Fund is wholly-owned by Gold Stone Investment Co., Ltd (金石投資有限公司), which is in turn wholly-owned by CITIC Securities, a company listed on the Hong Kong Stock Exchange (stock code: 6030). In addition, CITIC Securities is also considered as having control over CITIC Fund Shenzhen according to the investment contract.)

4. Tianjin Junlian Wenda Equity Investment Partnership (Limited Partnership) (天津君聯聞達股權投資合夥企業(有限合夥)) ("Junlian Wenda") directly held 42,609,392 A Shares. To the best knowledge of our Company, the general partner of Junlian Wenda is Junlian Tongdao, the general partner of which is Lasa Junqi Enterprise Management Co., Ltd. (拉薩君祺企業管理有限公司) ("Lasa Junqi"). Junlian Tongdao is held as to 76.41% by Beijing Junqi Tongdao Investment Consultancy Partnership (Limited Partnership) (北京君祺同道投資顧問中心(有限合夥)) ("Junqi Tongdao") as a limited partner, the general partner of which is Lasa Junqi. Junqi Tongdao is held as to 74.83% by Lasa Bodao Investment Management Partnership (Limited Partnership) (拉薩博道投資管理合夥企業(有限合夥)) ("Lasa Bodao") as a limited partner. Lasa Junqi is wholly-owned by Legend Capital, which is held as to 80% by Beijing Juncheng Hezhong Investment Management Partnership (Limited Partnership) (北京君誠合眾投資管理合夥企業(有限合夥)) ("Juncheng Hezhong"). The general partner of Juncheng Hezhong is Beijing Junqi Jiarui Enterprise Management Co., Ltd. (北京君祺嘉睿企業管理有限公司) ("Junqi Jiarui"), which is held as to 40%, 20%, 20% and 20% by Mr. CHEN Hao (陳浩), Mr. WANG Nengguang (王能光), Mr. ZHU Linan (朱立南) and Mr. LI Jiaqing (李家慶), respectively. Juncheng Hezhong is owned as to 58.12% and 41.87% by Tianjin Huizhi Yihao Enterprise Management Consultancy Partnership (Limited Partnership) (天津匯智壹號企業管理諮詢合夥企業(有限合夥)) ("Huizhi Yihao") and Tianjin Junlian Jieyou Enterprise Management Consultancy Partnership (Limited Partnership) (天津君聯傑佑企業管理諮詢合夥企業(有限合夥)) ("Junlian Jieyou") as limited partners, respectively. Huizhi Yihao is owned as to 34.92% by Mr. ZHU Linan (朱立南) as limited partner. Additionally, Junlian Wenda is held as to 39.48% by Beijing Junlian Xinhai Equity Investment Partnership (Limited Partnership) (北京君聯新海股權投資合夥企業(有限合夥)) ("Junlian Xinhai") as a limited partner, the general partner of which is Junlian Tongdao. Therefore, Junlian Xinhai is deemed to be interested in the same number of A Shares in which Junlian Wenda is interested under the SFO. In addition, Junlian Maolin directly held 3,237,543 A Shares. To the best knowledge of our Company, the general partner of Junlian Maolin is Junlian Tongdao. As such, Junlian Tongdao, Lasa Junqi, Junqi Tongdao, Lasa Bodao, Legend Capital, Juncheng Hezhong, Junqi Jiarui, Huizhi Yihao, Junlian Jieyou, Mr. CHEN Hao (陳浩) and Mr. ZHU Linan (朱立南) are deemed to be interested in our A Shares held by Junlian Wenda and Junlian Maolin under the SFO.

5. JPMorgan Chase & Co. has a total interest of 25,780,712 (long position), 2,713,303 (short position) and 10,733,462 (lending pool) Shares in our Company by virtue of its relationship with a number of corporation. According to the disclosure of interest notice filed by JPMorgan Chase & Co. with a relevant event date of December 23, 2021, the following interest in H Shares were held by JPMorgan Chase & Co.:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
China International Fund Management Co., Ltd.	JPMORGAN ASSET MANAGEMENT (UK) LIMITED	49.00	Y	245,000 (L)
JPMorgan Asset Management (Taiwan) Limited	JPMorgan Asset Management (Asia) Inc.	100.00	Y	313,200 (L)
J.P. Morgan Securities LLC	J.P. Morgan Broker-Dealer Holdings Inc.	100.00	Y	1,459,243 (L) 318,800(S)
JPMORGAN CHASE BANK, N.A. – LONDON BRANCH	JPMorgan Chase Bank, National Association	100.00	Y	10,733,462 (L)
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	100.00	Y	1,608,157 (L)
J.P. Morgan Investment Management Inc.	JPMorgan Asset Management Holdings Inc.	100.00	Y	809,600 (L)
J.P. Morgan Prime Inc.	JPMorgan Asset Management Holdings Inc.	100.00	Y	9,200 (L) 9,200 (S)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	Y	376,300 (L)
JPMorgan Asset Management (Asia Pacific) Limited	JPMorgan Asset Management (Asia) Inc.	99.99	Y	7,723,100 (L)
J.P. MORGAN SECURITIES PLC	J.P. MORGAN CAPITAL HOLDINGS LIMITED	100.00	Y	2,503,450 (L) 2,385,303 (S)
JPMORGAN ASSET MANAGEMENT (UK) LIMITED	JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	100.00	N	245,000 (L)
JPMORGAN ASSET MANAGEMENT INTERNATIONAL LIMITED	JPMorgan Asset Management Holdings Inc.	100.00	N	1,853,157 (L)
JPMorgan Asset Management Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	10,699,057 (L)
JPMorgan Chase Holdings LLC	JPMorgan Chase & Co.	100.00	N	12,167,500 (L) 328,000 (S)
JPMorgan Asset Management (Asia) Inc.	JPMorgan Asset Management Holdings Inc.	100.00	N	8,036,300 (L)
J.P. Morgan Broker-Dealer Holdings Inc.	JPMorgan Chase Holdings LLC	100.00	N	1,468,443 (L) 328,000 (S)
JPMorgan Chase Bank, National Association	JPMorgan Chase & Co.	100.00	N	13,236,912 (L) 2,385,303 (S)
J.P. Morgan Securities LLC	J.P. Morgan Broker-Dealer Holdings Inc.	100.00	N	9,200 (L) 9,200 (S)
J.P. MORGAN CAPITAL HOLDINGS LIMITED	J.P. Morgan International Finance Limited	100.00	N	2,503,450 (L) 2,385,303 (S)
J.P. Morgan International Finance Limited	JPMorgan Chase Bank, National Association	100.00	N	2,503,450 (L) 2,385,303 (S)

The capacity under which the interests are held are as follow:

Capacity in which interest is held	Number of H Shares
Interest of controlled corporation	2,729,050 (L)
	2,713,303 (S)
Invest manager	11,075,357 (L)
Person having security interest in the shares	1,242,843 (L)
Approved lending agent	10,733,462 (L)

Additionally, 14,000 (short position) H Shares were held through a physically settled unlisted derivative, and 265,000 (long position) H Shares and 2,189,446 (short position) H Shares were held through a cash settled unlisted derivative. 2,523,475 (long position) H Shares and 139,857 (short position) H Shares were held through listed derivative which are convertible instruments.

6. According to the disclosure of interest notice filed by The Capital Group Companies, Inc. with a relevant event date of August 13, 2021, it has a total interest of 16,505,400 (long position) Shares in our Company by virtue of its control over Capital Research and Management Company, Capital Group International, Inc. and Capital International, Inc.

7. According to the disclosure of interest notice filed by BlackRock Inc. with a relevant event date of December 23, 2021, the following interest in H Shares were held by BlackRock Inc.:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
Trident Merger, LLC	BlackRock, Inc.	100.00	N	125,700 (L)
BlackRock Investment Management, LLC	Trident Merger, LLC	100.00	Y	125,700 (L)
BlackRock Holdco 2, Inc.	BlackRock, Inc.	100.00	N	9,317,440 (L)
				42,300 (L)
BlackRock Financial Management, Inc.	BlackRock Holdco 2, Inc.	100.00	N	8,890,005 (L)
				33,800 (S)
BlackRock Financial Management, Inc.	BlackRock Holdco 2, Inc.	100.00	Y	427,435 (L)
				8,500 (S)
BlackRock Holdco 4, LLC	BlackRock Financial Management, Inc.	100.00	N	4,809,400 (L)
		100.00	N	33,800 (S)
BlackRock Holdco 6, LLC	BlackRock Holdco 4, LLC	90.00	N	4,809,400 (L)
		100.00	N	33,800 (S)
BlackRock Delaware Holdings Inc.	BlackRock Holdco 6, LLC	100.00	N	4,809,400 (L)
		100.00	N	33,800 (S)
BlackRock Institutional Trust Company, National Association	BlackRock Delaware Holdings Inc.	100.00	Y	2,298,100 (L)
			Y	33,800 (S)
BlackRock Fund Advisors	BlackRock Delaware Holdings Inc.	100.00	Y	2,511,300 (L)
BlackRock Capital Holdings, Inc.	BlackRock Financial Management, Inc.	100.00	N	48,700 (L)
BlackRock Advisors, LLC	BlackRock Capital Holdings, Inc.	100.00	N	48,700 (L)

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
BlackRock International Holdings, Inc.	BlackRock Financial Management, Inc.	100.00	N	4,031,905 (L)
BR Jersey International Holdings L.P.	BlackRock International Holdings, Inc.	86.00	N	4,031,905 (L)
BlackRock Lux Finco S.à r.l.	BlackRock HK Holdco Limited	100.00	N	661,442 (L)
BlackRock Japan Holdings GK	BlackRock Lux Finco S.à r.l.	100.00	N	661,442 (L)
BlackRock Japan Co., Ltd.	BlackRock Japan Holdings GK	100.00	Y	661,442 (L)
BlackRock Holdco 3, LLC	BR Jersey International Holdings L.P.	100.00	N	3,134,202 (L)
BlackRock Canada Holdings LP	BlackRock Holdco 3, LLC	99.90	N	13,100 (L)
BlackRock Canada Holdings ULC	BlackRock Canada Holdings LP	100.00	N	13,100 (L)
BlackRock Asset Management Canada Limited	BlackRock Canada Holdings ULC	100.00	Y	13,100 (L)
BlackRock Australia Holdco Pty. Ltd.	BR Jersey International Holdings L.P.	100.00	N	102,600 (L)
BlackRock Investment Management (Australia) Limited	BlackRock Australia Holdco Pty. Ltd.	100.00	Y	102,600 (L)
BlackRock (Singapore) Holdco Pte. Ltd.	BR Jersey International Holdings L.P.	100.00	N	795,103 (L)
BlackRock HK Holdco Limited	BlackRock (Singapore) Holdco Pte. Ltd.	100.00	N	767,803 (L)
BlackRock Asset Management North Asia Limited	BlackRock HK Holdco Limited	100.00	Y	106,361 (L)
BlackRock Cayman 1 LP	BlackRock Holdco 3, LLC	100.00	N	3,121,102 (L)
BlackRock Cayman West Bay Finco Limited	BlackRock Cayman 1 LP	100.00	N	3,121,102 (L)
BlackRock Cayman West Bay IV Limited	BlackRock Cayman West Bay Finco Limited	100.00	N	3,121,102 (L)
BlackRock Group Limited	BlackRock Cayman West Bay IV Limited	90.00	N	3,121,102 (L)
BlackRock Finance Europe Limited	BlackRock Group Limited	100.00	N	962,439 (L)
BlackRock (Netherlands) B.V.	BlackRock Finance Europe Limited	100.00	Y	429,641 (L)
BlackRock Advisors (UK) Limited	BlackRock Finance Europe Limited	100.00	Y	18,200 (L)
BlackRock International Limited	BlackRock Group Limited	100.00	N	241,335 (L)
BlackRock Group Limited-Luxembourg Branch	BlackRock Group Limited	100.00	N	1,917,328 (L)
BlackRock Luxembourg Holdco S.à r.l.	BlackRock Group Limited – Luxembourg Branch	100.00	N	1,917,328 (L)
BlackRock Investment Management Ireland Holdings Limited	BlackRock Luxembourg Holdco S.à r.l.	100.00	N	1,046,596 (L)
BlackRock Asset Management Ireland Limited	BlackRock Investment Management Ireland Holdings Limited	100.00	Y	1,046,596 (L)
BLACKROCK (Luxembourg) S.A.	BlackRock Luxembourg Holdco S.à r.l.	100.00	Y	870,132 (L)
BlackRock Investment Management (UK) Limited	BlackRock Finance Europe Limited	100.00	N	223,698 (L)

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
BlackRock Investment Management (UK) Limited	BlackRock Finance Europe Limited	100.00	Y	290,900 (L)
BlackRock Fund Managers Limited	BlackRock Investment Management (UK) Limited	100.00	Y	223,698 (L)
BlackRock Life Limited	BlackRock International Limited	100.00	Y	241,335 (L)
BlackRock (Singapore) Limited	BlackRock (Singapore) Holdco Pte. Ltd.	100.00	Y	27,300 (L)
BlackRock UK Holdco Limited	BlackRock Luxembourg Holdco S.à r.l.	100.00	N	600 (L)
BlackRock Asset Management Schweiz AG	BlackRock UK Holdco Limited	100.00	Y	600 (L)

8. According to the disclosure of interest notice filed by FMR LLC. with a relevant event date of December 7, 2021, the following interest in H Shares were held by FMR LCC:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
Fidelity Management & Research Company LLC	FMR LLC	100.00	Y	4,952,542 (L)
Fidelity Management & Research Company LLC	FMR LLC	100.00	N	5,751,997 (L)
Fidelity Management & Research (Hong Kong) Limited	Fidelity Management & Research Company LLC	100.00	Y	376,766 (L)
Fidelity Management & Research (Japan) Limited	Fidelity Management & Research Company LLC	100.00	N	4,951,131 (L)
FIAM Holdings LLC	FMR LLC	100.00	N	2,132,384 (L)
Fidelity Institutional Asset Management Trust Company	FIAM Holdings LLC	100.00	N	1,098,169 (L)
FIAM Institutional Funds Manager, LLC	FIAM Holdings LLC	100.00	N	60,107 (L)
FIAM LLC	FIAM Holdings LLC	100.00	Y	1,029,315 (L)
FIAM LLC	FIAM Holdings LLC		N	12,100 (L)
Fidelity Advisory Holdings LLC	FMR LLC	100.00	N	393,427 (L)
Strategic Advisers LLC	Fidelity Advisory Holdings LLC	100.00	N	393,427 (L)
Fidelity Canada Investors LLC	Owned by certain employees and shareholders of FMR LLC	100.00	N	200,169 (L)
Bay Street Holdings LLC	Fidelity Canada Investors LLC	100.00	N	200,169 (L)
483A Bay Street Holdings LP	Bay Street Holdings LLC	18.00	N	200,169 (L)
Bluejay Lux 1 S.A.R.L.	483A Bay Street Holdings LP	100.00	N	200,169 (L)
Fidelity Investments Canada ULC	Bluejay Lux 1 S.A.R.L.	100.00	N	200,169 (L)

9. According to the disclosure of interest notice filed by China Structural Reform Fund, CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB Beijing"), CCB Trust Co., Ltd. (建信信託有限責任公司) ("CCB Trust") and China Post Savings Bank Co., Ltd. (中國郵政儲蓄銀行股份有限公司) ("China Post Savings Bank"), each with a relevant event date of December 27. 2019, China Structural Reform Fund has a beneficial interest of 7,931,600 (long position) Shares in our Company and the interest of CCB Beijing, CCB Trust and China Post Savings Banks is as follow:

as filed by CCB Trust

Name of controlled corporation	Name of controlling person	% Control	Direct interest (Y/N)	Number of H Shares
CCB Beijing	CCB Trust	100.00	N	7,931,600 (L)
China Structural Reform Fund	CCB Beijing	38.20	Y	7,931,600 (L)

as filed by China Post Savings Bank Co., Ltd.

Names of trust	Capacity	Number of H Shares
CCB Trust-Wutong Tree Fund Trust Plan (asset allocation class 26 investment unit) (建信信託－梧桐樹資金信託計劃(資產配置類26號投資單元))	Beneficiary of a trust (other than a discretionary interest)	7,931,600 (L)

10. According to the disclosure of interest notice filed by The Goldman Sachs Group, Inc. with a relevant event date of December 10, 2021, the following interest in H Shares were held by The Goldman Sachs Group, Inc.:

Name of controlled corporation	Name of controlling person	% control	Direct interest (Y/N)	Number of shares
Goldman Sachs & Co. LLC	The Goldman Sachs Group, Inc.	100.00	Y	178 (L)
Goldman Sachs (UK) L.L.C.	The Goldman Sachs Group, Inc.	100.00	N	4,067,488 (L) 1,927,271 (S)
Goldman Sachs Group UK Limited	Goldman Sachs (UK) L.L.C.	100.00	N	4,067,488 (L) 1,927,271 (S)
Goldman Sachs International	Goldman Sachs Group UK Limited	100.00	Y	4,067,488 (L) 1,927,271 (S)
GSAM Holdings L.L.C.	The Goldman Sachs Group, Inc.	100.00	N	925,424 (L)
Goldman Sachs Asset Management, L.P.	GSAM Holdings L.L.C.	99.00	Y	925,424 (L)
GSAM Holdings L.L.C.	The Goldman Sachs Group, Inc.	100.00	N	1,080,700 (L)
GSAMI Holdings III LTD	GSAM Holdings L.L.C.	100.00	N	1,080,700 (L)
GSAMI Holdings I LTD	GSAM Holdings L.L.C.	100.00	N	1,080,700 (L)
GSAMI Holdings II LTD	GSAMI Holdings III LTD	100.00	N	1,080,700 (L)
GSAMI Holdings II LTD	GSAMI Holdings I LTD	100.00	N	1,080,700 (L)
Goldman Sachs Asset Management International Holdings LTD	GSAMI Holdings III LTD	100.00	N	1,080,700 (L)
Goldman Sachs Asset Management International Holdings LTD	GSAMI Holdings II LTD	100.00	N	1,080,700 (L)
Goldman Sachs Asset Management International	Goldman Sachs Asset Management International Holdings LTD	100.00	Y	1,080,700 (L)
GSAM Holdings L.L.C.	The Goldman Sachs Group, Inc.	100.00	N	9,600 (L)
Goldman Sachs Asset Management, L.P.	GSAM Holdings L.L.C.	99.00	N	9,600 (L)
Goldman Sachs Asset Management International Holdings L.L.C	Goldman Sachs Asset Management, L.P.	75.00	N	9,600 (L)
Goldman Sachs Asset Management Co., Ltd.	Goldman Sachs Asset Management International Holdings L.L.C	100.00	Y	9,600 (L)
GSAM Holdings L.L.C.	The Goldman Sachs Group, Inc.	100.00	N	32,600 (L)
Goldman Sachs Asset Management, L.P.	GSAM Holdings L.L.C.	99.00	N	32,600 (L)
Goldman Sachs Asset Management International Holdings L.L.C	Goldman Sachs Asset Management, L.P.	75.00	N	32,600 (L)
Goldman Sachs Asset Management (Singapore) Pte. Ltd.	Goldman Sachs Asset Management International Holdings L.L.C	100.00	Y	32,600 (L)
Goldman Sachs Bank USA	The Goldman Sachs Group, Inc.	100.00	N	592,775 (L)
Goldman Sachs Bank Europe SE	Goldman Sachs Bank USA	100.00	Y	592,775 (L)

Substantial shareholders of other members of the Group

Name	Member of the Group	Approximate percentage held by the substantial shareholder
WU Yu	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司)	14.86%
Xiamen Longtaikanglin Enterprise Management Partnership (Limited Partnership) (廈門龍泰康臨企業管理合夥企業(有限合夥))	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司)	11.08%
LI Xianghao (李祥豪)	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司)	7.55%
LIU Yang (劉洋)	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司)	6.20%
LI Huijun (李惠軍)	Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. (恩遠醫藥科技(北京)有限公司)	26.37%
SU Xia (蘇霞)	Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. (恩遠醫藥科技(北京)有限公司)	15.03%
Shin Nippon Biomedical Laboratories, Ltd.	Pharmaron CPC, Inc	20.00%
Shin Nippon Biomedical Laboratories (Asia), Limited	Biomedical Research (GZ), Ltd. (肇慶創藥生物科技有限公司)	49.99%
Ningbo Kangzhi Zhongsheng Enterprise Management Consulting Partnership (Limited Partnership) (寧波康智眾盛企業管理諮詢合夥企業(有限合夥))	Pharmaron (Ningbo) Biologics Co., Ltd. (康龍化成(寧波)生物醫藥有限公司)	15.00%
Hainan Shenzhou Deshu No.1 Enterprise Management Center (Limited Partnership) (海南神州德數一號企業管理中心(有限合夥))	Hainan Shenzhou Deshu Medical Technology Co., Ltd. (海南神州德數醫療科技有限公司)	15.00%

Save as disclosed above, as of December 31, 2021, to the knowledge of the Directors, no other person had, or were deemed or taken to have interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the registry kept by the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended December 31, 2021, details of the Group's connected transactions subject to the reporting, annual review, announcement requirements are set out as follows:

Connected transactions

Connected transaction	Date	Connected person	Description and purpose of the transaction	Actual transaction value for the year ended December 31, 2021
Subscription agreement in relation to the issue of the Series 1 bonds and the Series 2 bonds ("Subscription Agreement")	June 8, 2021	CLSA Limited is an indirect wholly-owned subsidiary of CITIC Securities Co. Ltd. (中信証券股份有限公司). CITIC Securities Co Ltd. is the sole shareholder of Gold Stone Investment Co., Ltd. (金石投資有限公司), which is in turn the sole shareholder of CITIC M&A Fund Management Co., Ltd. (中信併購基金管理有限公司), the general partner of the Company's shareholders Shenzhen Xinzhong Kangcheng Investment Partnership (Limited Liability Partnership) (深圳市信中康成投資合夥企業(有限合夥)) and Shenzhen Xinzhong Longcheng Investment Partnership (Limited Liability Partnership) (深圳市信中龍成投資合夥企業(有限合夥)) holding in total approximately 23.37% equity interests in the Company. Therefore, CLSA Limited is a connected person of the Company.	Our Company has entered into a subscription agreement with Goldman Sachs (Asia) L.L.C., CLSA Limited and J.P. Morgan Securities plc ("Joint Lead Managers"), pursuant to which the Company has agreed to issue, and the Joint Lead Managers have severally agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Series 1 bonds and the Series 2 bonds.	US$4.0 million

Connected transaction	Date	Connected person	Description and purpose of the transaction	Actual transaction value for the year ended December 31, 2021
Limited Partnership Agreement in relation to the investment in Beijing Legend Huikang Equity Investment Partnership (Limited Partnership) (北京君聯惠康股權投資合夥企業(有限合夥)) ("Legend Huikang Fund")	July 27, 2021 (as amended by the supplemental agreement dated October 27, 2021)	Lasa Junqi Enterprise Management Co., Ltd. (拉薩君祺企業管理有限公司) ("Lasa Junqi"), as the general partner of Legend Huikang Fund, is also the general partner of Beijing Junlian Tongdao Investment Management Partnership (Limited Partnership) (北京君聯同道投資管理合夥企業(有限合夥)), which is in turn the general partner of Tianjin Junlian Wenda Equity Investment Partnership (Limited Partnership) (天津君聯聞達股權投資合夥企業(有限合夥)), a substantial shareholder of the Company. Legend Capital Co., Ltd. (君聯資本管理股份有限公司) has been appointed as the fund manager of the Legend Huikang Fund. In addition, amongst the 48 other limited partners of the Legend Huikang Fund, each of the following limited partners is a connected person of the Company: (i) Shanghai Junqi Equity Investment Management Co., Ltd. (上海君祺股權投資管理有限公司), a wholly-owned subsidiary of Legend Capital Co., Ltd. (君聯資本管理股份有限公司), a substantial shareholder of the Company; (ii) Zhuhai Legend Xincheng Equity Investment Fund (Limited Partnership) (珠海君聯信誠股權投資基金(有限合夥)), for which Lasa Junqi is the executive partner; (iii) Ningbo Longtaikang Investment Management Co., Ltd. (寧波龍泰康投資管理有限公司), a company wholly-owned by Mr. LOU Xiaoqiang, our executive Director and a substantial shareholder; and (iv) Zhuhai Legend Jianning Equity Investment Enterprise (Limited Partnership) (珠海君聯健寧股權投資企業(有限合夥)), for which Lasa Junqi is the executive partner.	Our Company (as a limited partner) has entered into a limited partnership agreement with Lasa Junqi (as the general partner) and 48 other limited partners in relation to the investment in the Legend Huikang Fund, which is aimed to achieve and realize capital increment for its limited partners by investing in the healthcare industry.	RMB68.0 million

Connected transaction	Date	Connected person	Description and purpose of the transaction	Actual transaction value for the year ended December 31, 2021
Limited Partnership Agreement in relation to the investment in Ningbo Kangjun Zhongyuan Equity Investment Partnership (Limited Partnership) (寧波康君仲元股權投資合夥企業（有限合夥）) ("Kangjun Zhongyuan Fund")	August 12, 2021 and August 17, 2021	Kangjun Investment Management (Beijing) Co., Ltd.* (康君投資管理（北京）有限公司) ("Kangjun Investment"), the general partner of the Kangjun Zhongyuan Fund. is owned by Ningbo Kangwan Enterprise Management Consulting Partnership (L.P.) (寧波康灣企業管理諮詢合夥企業（有限合夥）) ("Ningbo Kangwan"), the Company, Legend Capital Co., Ltd. (君聯資本管理股份有限公司) and Xiamen Kangwan Enterprise Management Consulting Partnership (L. P.)(廈門康灣企業管理諮詢合夥企業（有限合夥）), as to 40%, 30%, 20% and 10%, respectively. Ningbo Kangwan Enterprise Management Consulting Partnership (L.P.) (寧波康灣企業管理諮詢合夥企業（有限合夥）) ("Ningbo Kangwan") is owned by Ningbo Hongwan Investment Management Partnership (L.P.) (寧波泓灣投資管理合夥企業（有限合夥）) as to 75%, which is in turn owned jointly by Mr. Lou Xiaoqiang and Ms. Zheng Bei, the Directors of the Company. Therefore, Ningbo Kangwan is a subsidiary of Ningbo Hongwan and each of Ningbo Kangwan and Ningbo Hongwan is an associate of the Directors. Legend Capital is a substantial shareholder of the Company and holds 20% equity interest in Kangjun Investment and 100% equity interest in Hainan Junqi Venture Investment Co., Ltd. (海南君祺創業投資有限公司) ("Hainan Junqi"); Each of Kangjun Investment and Hainan Junqi is an associate of the substantial shareholder. Beijing Zhongkangzhiyuan Management Consulting Services Limited Partnership (L.P.)* (北京仲康致遠管理諮詢服務有限合夥企業（有限合夥）)is owned as to 0.06% by Ningbo Kangwan as its general partner and 60.57% by Mr. Lou Xiaoqiang, a Director of the Company, as its limited partner and therefore is an associate of the Directors.	Our Company (as a limited partner) has entered into a limited partnership agreement with Kangjun Investment (as the general partner) and 10 other limited partners in relation to the investment in the Kangjun Zhongyuan Fund, which engages in equity investment or convertible bond investment for the purposes of equity investment in companies with innovative technologies or innovative service platforms in the biomedical industry.	RMB260.0 million

The detailed terms of the connected transaction mentioned above are as follows:

Subscription Agreement

On June 8, 2021, the Company and Goldman Sachs (Asia) L.L.C., CLSA Limited and J.P. Morgan Securities plc ("Joint Lead Managers") entered into a subscription agreement, pursuant to which the Company has agreed to issue, and the Joint Lead Managers have severally and not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Series 1 bonds (which are US$300.0 million zero coupon convertible bonds due 2026 convertible at the option of the holder thereof into fully paid ordinary H Shares at the initial conversion price of HK$250.75 per H Share) in a principal amount of US$300.0 million, and Series 2 bonds (which are RMB1,916.0 million US$ settled zero coupon convertible bonds due 2026 convertible at the option of the holder thereof into fully paid ordinary H Shares at the initial conversion price of HK$229.50 per H Share) in a principal amount of RMB1,916.0 million.

Further, pursuant to the fee letter entered into by the Company and CLSA Limited (a connected person of the Company) dated June 18, 2021, as a closing condition to the subscription agreement, CLSA Limited is entitled to a commission of approximately US$4.0 million.

All the conditions precedent under the Subscription Agreement have been fulfilled and the issue of the Series 1 bonds and Series 2 bonds in an aggregate principal amount of US$300.0 million and RMB1,916.0 million, respectively were completed on June 18, 2021.

For details, please refer to the announcements of the Company dated June 8, 2021, June 9, 2021, June 11, 2021 and June 18, 2021.

Limited Partnership Agreement in relation to the Legend Huikang Fund

On July 27, 2021, the Company (as a limited partner), Lasa Junqi (as a general partner) and 37 other limited partners entered into the limited partnership agreement in relation to the investment in the Legend Huikang Fund. The aim of the Legend Huikang Fund is to achieve and realize capital increment for the Limited Partners by investing in the healthcare industry. As of the date of the limited partnership agreement, the total initial capital contribution of Lasa Junqi (as a general partner) and other limited partners of the Legend Huikang Fund was RMB2,207.3 million. The Company contributed RMB68.0 million in the Legend Huikang Fund, representing 3.1% of the equity interest in the Legend Huikang Fund. Lasa Junqi, the general partner of the Legend Huikang Fund, is the general partner of Beijing Junlian Tongdao Investment Management Partnership (Limited Partnership) (北京君聯同道投資管理合夥企業(有限合夥)), which is the general partner of Tianjin Junlian Wenda Equity Investment Partnership (Limited Partnership) (天津君聯聞達股權投資合夥企業(有限合夥)), a substantial shareholder of the Company. Four other limited partners are also connected persons of the Company.

On October 27, 2021, the Company, Lasa Junqi and other limited partners to the Legend Huikang Fund entered into an amended and restated limited partnership agreement in relation to the Legend Huikang Fund for the purposes of, amongst others, increasing the size of the Legend Huikang Fund, and amending certain terms of the limited partnership to facilitate the actual operations of the Legend Huikang Fund.

For details, please refer to the announcements of the Company dated July 27, 2021, October 27, 2021 and January 26, 2022.

Limited Partnership Agreement in relation to the Kangjun Zhongyuan Fund

On August 12, 2021, the Company (as a limited partner), Kangjun Investment (as a general partner) and 10 other limited partners entered into the limited partnership agreement in relation to the investment in the Kangjun Zhongyuan Fund. The primary investment objective of the Kangjun Zhongyuan Fund is the equity investment or convertible bond investment for the purposes of equity investment in companies with innovative technologies or innovative service platforms in the biomedical industry. As of the date of the limited partnership agreement, the total initial capital contribution of Kangjun Investment (as a general partner) and other limited partners of the Kangjun Zhongyuan Fund was RMB1,400.0 million. The Company contributed RMB260.0 million in the Kangjun Zhongyuan Fund, representing 18.6% of the equity interest in the Kangjun Zhongyuan Fund. Kangjun Investment, the general partner of the Kangjun Zhongyuan Fund, is an associate of Legend Capital, a substantial shareholder of the Company.

For details, please refer to the announcements of the Company dated August 12, 2021 and August 17, 2021.

Continuing connected transactions

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2021	Actual transaction value for the year ended December 31, 2021
Study Animals Procurement Framework Agreement	October 28, 2020	Beijing Anikeeper Biotech Co., Ltd (北京安凱毅博生物技術有限公司) ("Anikeeper"), a company held as to 75% and 25% by Ms. Chen and Mr. Chen, respectively. Ms. Chen is the spouse of Mr. Lou Guoqiang, a brother of Dr. Lou Boliang and Mr. Lou Xiaoqiang, our executive Directors. Therefore, Ms. Chen is an associate of Dr. Lou Boliang and Mr. Lou Xiaoqiang and thereby a connected person of the Company.	Our Company has entered into the agreement to procure study animals that are necessary for our pharmacology services	RMB15.0 million	RMB8.2 million
Commissioned Experiments and Research Framework Agreement	May 28, 2021	Ningbo Newbay Technology Development Co., Ltd. (寧波新灣科技發展有限公司) ("Newbay Technology"), a company in which Mr. LOU Xiaoqiang acts as its director and is voluntarily treated as a connected person of the Company	Our Group shall provide certain pharmaceutical research and development, manufacturing, clinical research and other technical services to Newbay Technology and its subsidiaries.	RMB40.0 million	RMB17.5 million

The detailed terms of the non-exempt continuing connected transaction mentioned above are as follows:

Study Animals Procurement Framework Agreement

On October 28, 2020, the Company and Anikeeper entered into the new study animal procurement framework agreement for a term of 3 years from October 28, 2020 to December 31, 2022, pursuant to which the Company would purchase study animal from Anikeeper to be used for scientific experiments. The Company and Anikeeper will enter into separate purchase order which will set out the specific terms and conditions according to the principles in the new study animals procurement framework agreement.

Pricing

As a general principle, the prices for the laboratory animals will be on normal commercial terms, negotiated on arm's length basis, on similar basis as the Group conducts businesses with other independent third party suppliers and shall be on terms no less favourable to the Group than those offered by independent third party suppliers.

Unless agreed by both parties after arm's length negotiations, the prices for the transactions contemplated under the new study animals procurement framework agreement shall be calculated and determined based on the unit price list as set out in the new study animals procurement framework agreement. In addition to the general principle disclosed above, the Group has taken into account the following factors when determining the unit price list: (i) market prices of similar laboratory animals offered by other independent third party suppliers; (ii) breeds, quantities, weight and size of laboratory animals; (iii) feeding conditions of the laboratories animals; and (iv) delivery method. Any deviation from the unit price list shall be subject to further negotiations between the Company and Anikeeper, and the execution of supplemental agreement to reflect the same.

The unit price list is applicable to similar transactions conducted by the Company with other independent third party suppliers. Hence, the terms of the purchases by the Group from Anikeeper will be no less favourable to the Group than those offered by independent third party suppliers.

Annual caps

For the years ending December 31, 2020, 2021 and 2022, the maximum aggregate annual amount of rentals under the study animals procurement framework agreement shall not exceed RMB10 million, RMB15 million and RMB20 million, respectively.

Commissioned Experiments and Research Framework Agreement

On May 28, 2021, the Company and Newbay Technology entered into the commissioned experiments and research framework agreement for a term from May 28, 2021 to December 31, 2023, pursuant to which the Group would provide certain pharmaceutical research and development, manufacturing, clinical research and other technical services to Newbay Technology and its subsidiaries (the "Newbay Group"). For details of the commissioned experiments and research framework agreement, please refer to the announcement of the Company dated May 28, 2021.

Pricing

Services fees will be charged at rates no less favorable than rates at which our Group charges independent third parties for comparable transactions and will be determined by the relevant parties through arm's length negotiations based on a number of factors applicable to all customers, including but not limited to the nature, complexity, and value of tasks completed by the Group at each stage under each work order, the materials required to complete the tasks, the fees charged for historical transactions of similar nature and the then prevailing market rates.

Annual caps

For the year ended December 31, 2021, the total service fees receivable by the Group from the Newbay Group for the services under the commissioned experiments and research framework agreement were RMB17.5 million.

For the years ending December 31, 2022 and 2023, the total service fees receivable by the Group from the Newbay Group for the services under the commissioned experiments and research framework agreement are expected not to exceed RMB50 million and RMB60 million, respectively.

Review by and confirmation of independent non-executive Directors of the Company

The independent non-executive Directors have reviewed the above continuing connected transaction, and after due and careful enquiry with the management of the Group, confirmed that such transactions were:

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

(ii) made on normal commercial terms or better; and

(iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Shareholders as a whole.

The independent non-executive Directors are satisfied that they have received and reviewed sufficient information to give the confirmations above.

Confirmation of the auditor

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 "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 an unqualified letter containing the findings and conclusions in respect of the above mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditors of the Group had informed the Board and confirmed nothing has come to their attention that cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) are not carried out in accordance with the related transaction agreement in any material respects; and

(iii) exceed the annual cap.

In respect of the above mentioned non-exempt connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed above, there was no connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with the Listing Rules during the Report Period. For details, please refer to the abovementioned announcements of the Company.

RELATED PARTY TRANSACTIONS

Details on related party transactions for the Reporting Period are set out in note 48 to the consolidated financial statements. Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions as set out in note 48 to the consolidated financial statements are not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the Articles of Association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

PURCHASE, SALE, REDEMPTION OR CANCELLATION OF LISTED SECURITIES

During the extraordinary general meetings held on May 28, 2021 and July 12, 2021, the Shareholders have approved the special resolution to repurchase (at the repurchase price of RMB17.85 per Share) and cancel a total of 210,364 Restricted A Shares due to the resignation of six participants. The Company completed the repurchase and cancellation of the 210,364 restricted A shares on October 27, 2021.

EQUITY-LINKED AGREEMENT

During the Reporting Period, other than the share incentive arrangements as set out in the section under "Share Incentive Scheme" set out on page 102 of this annual report and note 41 to the consolidated financial statements on pages 194 to 198 of this annual report, the Company has not entered into any equity-linked agreement.

DONATIONS

During the Reporting Period, the Company made donations of RMB5.4 million.

SUBSIDIARIES

Details of the Company's principal subsidiaries as of December 31, 2021 are set out in note 1 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2021.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. The Board is of the opinion that the Company has complied with the applicable code provisions under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the section headed "Corporate Governance Report" on pages 55 to 74 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

SHARE INCENTIVE SCHEME

2019 A Share Incentive Scheme

In order to establish and improve long-term corporate incentive systems of our Group, attract and retain talent, motivate the employees of our Group, effectively align the interests of our Shareholders, our Group and the employees of our Group and enabling the respective parties to become aware of our Group's long-term development, and to promote the realization of the development strategies of our Group, the 2019 A Share Incentive Scheme was approved by Shareholders' meeting of the Company and became effective on August 15, 2019 to issue up to a total of 5,651,359 A Shares of the Company, representing approximately 0.86% of the Company's total number of issued Shares at the time of the adoption of the scheme, amongst which 4,521,087 A Shares would be granted by way of Restricted A Shares and the remaining 1,130,272 A Shares were reserved for option grants.

As of the date of this annual report, the total number of grantees who have been granted and who have taken up the relevant Restricted A Shares under the 2019 A Share Incentive Scheme is 227, including core management of the Company, mid-level managements and core technical personnel and basic-level management and technical personnel.

As of the date of this annual report, no share options have been granted under the 2019 A Share Incentive Scheme and the 1,130,272 reserved A Shares have lapsed on August 15, 2020. As of the date of this annual report, a total of 4,077,387 Restricted A shares have been subscribed by eligible employees. These granted Restricted A Shares have a contractual term of no more than four years and unlock over a three year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary date of the A Shares registration date upon meeting certain unlocking conditions. As of the date of this annual report, the conditions for unlocking a total of 2,622,171 Restricted A Shares have been fulfilled (of which 1,509,337 Shares have been listed for trading and 1,112,834 Shares are expected to be listed for trading on May 13, 2022).

During the Reporting Period, 210,364 Restricted A Shares completed the repurchase and cancellation since granted.

2021 A Share Incentive Scheme

The Shareholders have resolved to adopt the 2021 A Share Incentive Scheme during the extraordinary general meeting of the Shareholders on July 12, 2021. Pursuant to the 2021 A Share Incentive Scheme, the maximum number of Restricted A Shares to be issued by the Company is 774,200 A Shares, representing approximately 0.10% of the Company's total number of issued Shares at the time of the adoption of the scheme. The granted Restricted A Shares shall be vested over a four-year period, with 25%, 25%, 25% and 25% of total shares vesting on each anniversary date after the vesting commencement date upon meeting certain performance conditions. For details of the terms of the 2021 A Share Incentive Scheme, please refer to the circular of the Company dated June 24, 2021.

On July 27, 2021, the Company has granted a total of 774,200 restricted A shares of the Company to eligible employees for them to subscribe at the price of RMB70.17 per A share. None of the grantees is a director or connected person of the Company.

As of the date of this annual report, the total number of grantees who have been granted and who have taken up the relevant Restricted A Shares under the 2021 A Share Incentive Scheme is 204, including core management of the Company, mid-level managements and core technical personnel and basic-level management and technical personnel.

During the Reporting Period, no Restricted A Shares were forfeited since granted.

OTHER EMPLOYEE INCENTIVES

First H Share Award and Trust Scheme

The Shareholders have resolved to adopt the First H Share Award and Trust Scheme during the extraordinary general meeting of the Shareholders on December 11, 2020. Pursuant to the First H Share Award and Trust Scheme, the maximum number of H Shares that can be purchased on the market by the trustee appointed by the Company for the purpose of servicing the First H Share Award and Trust Scheme shall not exceed 7,940,000 H Shares, representing approximately 6% of the Company's total number of issued H Shares. Awards under the Employee Share Award Plan shall be vested in four equal tranches and awards under the Share Bonus Plan shall be vested in two equal tranches, both subject to vesting conditions specified in the applicable award letters. For details of the terms of the First H Share Award and Trust Scheme, please refer to the circular of the Company dated November 25, 2020.

On December 14, 2020, the management committee of the First H Share Award and Trust Scheme has resolved to grant awards of a total of 776,100 H Shares to 81 eligible employees under the First H Share Award and Trust Scheme. None of the grantees is a director or connected person of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM and the Second H Shares Class Meeting of 2022, the register of members of the Company will be closed from Thursday, May 26, 2022 to Tuesday, May 31, 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM and the Second H Shares Class Meeting of 2022, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Wednesday, May 25, 2022.

For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, June 8, 2022 to Monday, June 13, 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the proposed final divided (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Tuesday, June 7, 2022.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

There was no incident of non-compliance with relevant laws and regulations that had a significant impact on the Group during the Reporting Period.

AUDITOR

There has been no change in auditors during the Reporting Period. The consolidated financial statements for the Reporting Period have been audited by Ernst & Young, who are proposed for reappointment at the forthcoming AGM.

By order of the Board
Pharmaron Beijing Co., Ltd.
Dr. Lou Boliang
Chairman

Beijing, the PRC
March 25, 2022

Independent Auditor's Report

To the shareholders of Pharmaron Beijing Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Pharmaron Beijing Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 108 to 221, which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables and contract assets	
At December 31, 2021, the net carrying amounts of trade receivables and contract assets were RMB1,228,849,000 and RMB194,981,000 respectively, net of accumulated impairment losses of RMB38,491,000 and RMB3,242,000 respectively. The management of the Group calculated the expected credit loss for trade receivables and contract assets by applying simplified approach under IFRS 9. The provision matrix considered migration rate, historical loss ratio and forward-looking adjustments. The assumptions applied in determining the expected credit loss required significant management judgement and estimates. Therefore, we identified the impairment of trade receivables as a key audit matter. The related disclosures are included in notes 26 and 27 to the consolidated financial statements.	Our procedures in relation to the impairment of trade receivables and contract assets included: (1) Evaluating and testing the internal controls over impairment test of trade receivables and contract assets ; (2) Assessing the appropriateness of the credit loss provision methodology ; (3) Evaluating the appropriateness of the inputs that management used in the provision matrix, such as migration rate, historical loss ratio and forward-looking adjustments, and then recalculating the expected loss; (4) Testing the accuracy of ageing on a sample basis over the billing and collection cycle; (5) Performing confirmation procedure and inspecting cash receipts from customers subsequent to the financial year end on a sample basis; and (6) Evaluating the adequacy of the disclosures.
Impairment of goodwill acquired in business combinations	
At December 31, 2021 the carrying amount of goodwill was RMB2,096,265,000. The management of the Group performed impairment test at least on an annual basis and adjusted the carrying amount of based on the test result. The assumptions applied in the impairment test required significant management estimates, including revenue growth rate, gross profit margin and discount rate. There are significant uncertainties in these estimates, which are affected by management's judgement on the future market and economic environment, and the recoverable amount of goodwill can be affected by the adoption of different estimates and assumptions. Therefore, we identified the impairment of goodwill as a key audit matter. The related disclosure is included in note 17 to the consolidated financial statements.	Our procedures in relation to the impairment of goodwill acquired in business combinations included: (1) Evaluating the key internal controls over impairment test of goodwill; (2) Evaluating the basis of goodwill allocation to cash-generating units ("CGU") and evaluating the rationality; (3) Evaluating the reasonableness of the valuation model with the assistance of our internal valuation specialists; (4) Evaluating the appropriateness of key assumptions and estimates including revenue growth rate and gross margin rate with historical data and supporting evidence; (5) Evaluating the appropriateness of discount rate by comparing to the similar companies in the same industry; and (6) Evaluating the adequacy of the disclosure.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

The directors of the Company 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. Our 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.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Cheong Ming Yik.

Ernst & Young
Certified Public Accountants
Hong Kong

March 25, 2022

Consolidated Statement of Profit or Loss

Year ended December 31, 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**7,443,770**	5,133,597
Cost of sales		**(4,771,726)**	(3,217,484)
Gross profit		**2,672,044**	1,916,113
Other income and gains	6	**489,843**	493,006
Other expenses	6	**(13,792)**	(143,814)
Selling and distribution expenses		**(155,617)**	(92,643)
Administrative expenses		**(908,210)**	(684,705)
Research and development costs		**(151,775)**	(105,345)
Impairment losses on financial and contract assets, net of reversal	8	**(10,269)**	(14,823)
Finance costs	7	**(83,073)**	(23,854)
Share of profit/(loss) of associates	19	**71,845**	(24,565)
Profit before tax	8	**1,910,996**	1,319,370
Income tax expense	11	**(290,919)**	(172,378)
Profit for the year		**1,620,077**	1,146,992
Attributable to:			
Owners of the parent		**1,661,029**	1,172,383
Non-controlling interests		**(40,952)**	(25,391)
		1,620,077	1,146,992
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
For profit for the year	13	**RMB2.0982**	RMB1.4825
Diluted			
For profit for the year	13	**RMB2.0537**	RMB1.4781

Consolidated Statement of Comprehensive Income

Year ended December 31, 2021

	2021 RMB'000	2020 RMB'000
Profit for the year	**1,620,077**	1,146,992
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(99,140)**	(40,578)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	**55,585**	–
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(40,493)**	–
Income tax effect	**(2,264)**	–
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(86,312)**	(40,578)
Other comprehensive loss for the year, net of tax	**(86,312)**	(40,578)
Total comprehensive income for the year	**1,533,765**	1,106,414
Attributable to:		
Owners of the parent	**1,574,853**	1,131,835
Non-controlling interests	**(41,088)**	(25,421)
	1,533,765	1,106,414

Consolidated Statement of Financial Position

December 31, 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5,577,904**	3,841,445
Right-of-use assets	15	**726,800**	567,630
Investment properties	16	**–**	43,889
Goodwill	17	**2,096,265**	1,166,172
Other intangible assets	18	**227,163**	189,976
Investments in associates	19	**452,606**	280,474
Equity investments at fair value through profit or loss	20	**310,063**	121,230
Biological assets	21	**143,233**	–
Deferred tax assets	22	**15,595**	8,436
Other non-current assets	23	**195,993**	149,162
Total non-current assets		**9,745,622**	6,368,414
CURRENT ASSETS			
Inventories	24	**181,700**	128,757
Contract costs	25	**165,625**	152,860
Trade receivables	26	**1,228,849**	1,076,614
Contract assets	27	**194,981**	133,764
Biological assets	21	**332,715**	–
Prepayments, other receivables, and other assets	28	**1,441,191**	196,020
Financial assets at fair value through profit or loss	29	**1,537,947**	825,312
Derivative financial instruments	30	**16,674**	84,698
Pledged deposits	31	**17,243**	7,263
Cash and cash equivalents	31	**3,526,577**	2,935,090
Total current assets		**8,643,502**	5,540,378
CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**482,302**	386,146
Trade payables	34	**315,534**	191,497
Other payables and accruals	35	**1,327,910**	819,313
Contract liabilities	36	**679,621**	473,289
Lease liabilities	37	**95,292**	83,925
Tax payable		**81,337**	27,620
Total current liabilities		**2,981,996**	1,981,790
NET CURRENT ASSETS		**5,661,506**	3,558,588
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,407,128**	9,927,002

continued/···

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	32	**956,095**	394,811
Deferred tax liabilities	22	**173,300**	106,906
Financial liabilities at fair value through profit or loss	38	**81,559**	146,810
Deferred income	39	**149,439**	158,128
Convertible bonds-debt component	33	**3,467,090**	–
Lease liabilities	37	**284,338**	186,608
Total non-current liabilities		**5,111,821**	993,263
NET ASSETS		**10,295,307**	8,933,739
EQUITY			
Share capital	40	**794,177**	794,387
Treasury shares		**(301,825)**	(45,475)
Equity component of convertible bonds	33	**198,554**	–
Reserves	42	**9,438,335**	8,121,407
Equity attributable to owners of the parent		**10,129,241**	8,870,319
Non-controlling interests		**166,066**	63,420
Total equity		**10,295,307**	8,933,739

Boliang Lou
Director

Xiaoqiang Lou
Director

Consolidated Statement of Changes in Equity

Year ended December 31, 2021

	Attributable to owners of the parent												
	Share capital (note 40) RMB'000	Treasury shares RMB'000	Equity component of convertible bonds (note 33) RMB'000	Share premium* (note 42) RMB'000	Share-based payment reserve* (note 41) RMB'000	Capital reserve* (note 42) RMB'000	Statutory reserve* (note 42) RMB'000	Cash flow hedge reserve* (note 30) RMB'000	Exchange fluctuation reserve* (note 42) RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at January 1, 2020	794,387	(72,781)	–	5,872,090	33,198	59,602	116,024	–	2,324	962,219	7,767,063	70,955	7,838,018
Profit for the year	–	–	–	–	–	–	–	–	–	1,172,383	1,172,383	(25,391)	1,146,992
Other comprehensive loss for the year:													
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(40,548)	–	(40,548)	(30)	(40,578)
Total comprehensive income/ (loss) for the year	–	–	–	–	–	–	–	–	(40,548)	1,172,383	1,131,835	(25,421)	1,106,414
Transferred from retained profits	–	–	–	–	–	–	86,441	–	–	(86,441)	–	–	–
Capital injection from non-controlling shareholders	–	–	–	3,263	–	–	–	–	–	–	3,263	2,610	5,873
Restricted A shares Tranche one vested	–	26,715	–	38,147	(38,147)	–	–	–	–	–	26,715	–	26,715
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	12,808	12,808
Dividends declared (note 12)	–	591	–	–	–	–	–	–	–	(119,138)	(118,547)	–	(118,547)
Recognition of share-based payments	–	–	–	–	59,990	–	–	–	–	–	59,990	2,468	62,458
As at December 31, 2020	794,387	(45,475)	–	5,913,500	55,041	59,602	202,465	–	(38,224)	1,929,023	8,870,319	63,420	8,933,739

	Attributable to owners of the parent												
	Share capital (note 40) RMB'000	Treasury shares RMB'000	Equity component of convertible bonds (note 33) RMB'000	Share premium* (note 42) RMB'000	Share-based payment reserve* (note 41) RMB'000	Capital reserve* (note 42) RMB'000	Statutory reserve* (note 42) RMB'000	Cash flow hedge reserve* (note 30) RMB'000	Exchange fluctuation reserve* (note 42) RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Profit for the year	–	–	–	–	–	–	–	–	–	1,661,029	1,661,029	(40,952)	1,620,077
Other comprehensive loss for the year:													
Cash flow hedges, net of tax	–	–	–	–	–	–	–	12,828	–	–	12,828	–	12,828
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(99,004)	–	(99,004)	(136)	(99,140)
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	–	12,828	(99,004)	1,661,029	1,574,853	(41,088)	1,533,765
Transferred from retained profits	–	–	–	–	–	–	130,154	–	–	(130,154)	–	–	–
Transaction with non-controlling interests	–	–	–	(106,609)	–	–	–	–	–	–	(106,609)	26,692	(79,917)
Issue of convertible bonds	–	–	198,554	–	–	–	–	–	–	–	198,554	–	198,554
Repurchase and cancellation of restricted A shares	(210)	3,755	–	(3,545)	–	–	–	–	–	–	–	–	–
Repurchase of H Shares	–	(280,303)	–	–	–	–	–	–	–	–	(280,303)	–	(280,303)
Restricted A shares vested	–	19,838	–	54,212	(28,221)	–	–	–	–	–	45,829	–	45,829
Acquisition of subsidiaries (note 43)	–	–	–	–	–	–	–	–	–	–	–	113,873	113,873
Dividends declared (note 12)	–	360	–	–	–	–	–	–	–	(238,122)	(237,762)	–	(237,762)
Recognition of share-based payments	–	–	–	–	64,360	–	–	–	–	–	64,360	3,169	67,529
As at December 31, 2021	794,177	(301,825)	198,554	5,857,558	91,180	59,602	332,619	12,828	(137,228)	3,221,776	10,129,241	166,066	10,295,307

* These reserve accounts comprise the consolidated reserves of RMB9,438,335,000 (2020: RMB8,121,407,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended December 31, 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Profit before tax		**1,910,996**	1,319,370
Adjustments for:			
Depreciation of property, plant and equipment	8	**451,229**	348,662
Depreciation of right-of-use assets	8	**101,484**	77,566
Depreciation of investment properties	8	**344**	817
Amortisation of other intangible assets	8	**24,616**	10,971
Impairment losses on inventories, net of reversal	8	**2,842**	4,622
Impairment losses on financial and contract assets, net of reversal	8	**10,269**	14,823
Interest income from time deposits with original maturity of more than three months when acquired		**(27,256)**	(21,337)
Gains on derivative financial instruments	6	**(7,500)**	(140,797)
Gains on financial assets at fair value through profit or loss	6	**(52,522)**	(55,496)
Gains on disposal of an equity investment at fair value through profit or loss	6	**(59,455)**	(78,039)
Gains on fair value change of equity investments at fair value through profit or loss	6	**(68,517)**	(75,460)
Gains on fair value change of biological assets	6	**(69,026)**	–
Losses on disposal of property, plant and equipment	6	**1,590**	7,326
Gains on fair value change of financial liabilities at fair value through profit or loss	6	**(72,854)**	–
Gains on termination of lease contracts	6	**(219)**	(46)
Finance costs	7	**83,073**	23,854
Foreign exchange loss		**19,595**	85,666
Share of (profit)/loss of associates	19	**(71,845)**	24,565
Gains on fair value re-measurement of existing equity in business combination not under common control	6	**–**	(23,123)
Gains resulting from transfer of an investment in associates to equity investments at fair value through profit or loss	6	**(25,452)**	–
Share-based compensation expenses	8	**67,529**	62,458
		2,218,921	1,586,402
Increase in inventories		**(49,041)**	(27,534)
Increase in biological assets		**(114,381)**	–
Increase in contract costs		**(12,765)**	(92,513)
Increase in trade receivables		**(157,459)**	(136,383)
(Increase)/decrease in prepayments, other receivables and other assets		**(76,333)**	32,719
(Increase)/decrease in contract assets		**(58,849)**	6,478
Decrease/(increase) in other non-current assets		**13,021**	(3,702)
Increase in trade payables		**114,703**	61,718
Increase in other payables and accruals		**212,213**	209,995
(Decrease)/increase in deferred income		**(8,689)**	46,552
Increase in contract liabilities		**201,300**	113,110
Cash flows generated from operations		**2,282,641**	1,796,842
Income tax paid		**(224,597)**	(148,232)
Net cash flows generated from operating activities		**2,058,044**	1,648,610

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,082,539)**	(1,308,441)
Proceeds from disposal of property, plant and equipment		**1,444**	412
Proceeds from disposal of financial assets at fair value through profit or loss		**2,254,893**	1,188,588
Proceeds from disposal of an equity investments at fair value through profit or loss		**68,659**	96,843
Additions of other intangible assets		**(10,283)**	(7,397)
Proceeds from disposal of right-of-use assets		**167**	2,800
Purchase of equity investments at fair value through profit or loss		**(100,367)**	(17,323)
Settlement of derivative financial instruments		**90,616**	69,788
Purchase of financial assets at fair value through profit or loss and financial assets at amortised cost		**(3,996,808)**	(1,754,022)
Acquisition of subsidiaries	43	**(1,046,177)**	(791,521)
Payment for acquisitions in prior periods		**(179,400)**	–
Capital injection in associates		**(111,000)**	(291,375)
Purchase of time deposits with original maturity of more than three months when acquired		**(720,000)**	(953,000)
Proceeds from disposal of time deposits with original maturity of more than three months when acquired		**572,648**	393,597
Net cash flows used in investing activities		**(5,258,147)**	(3,371,051)
Cash flows from financing activities			
Interest on bank loans and other borrowings paid		**(47,169)**	(16,799)
Proceeds from bank loans and other borrowings		**845,383**	732,503
Repayments of bank loans and other borrowings		**(158,555)**	(779,278)
Payments of lease liabilities and other non-current assets		**(141,445)**	(90,725)
Payments of issue expenses		**–**	(13,149)
Repurchase of H shares under ESAP		**(280,303)**	–
Repurchase and cancellation of restricted A shares		**(3,755)**	–
Transaction with non-controlling shareholders		**(79,768)**	5,873
Proceeds from issuance of convertible bonds		**3,776,041**	–
Payments for issuance expense of convertible bonds		**(11,488)**	–
Payment of dividends		**(237,546)**	(118,603)
Net cash generated from/(used in) financing activities		**3,661,395**	(280,178)
Net increase/(decrease) in cash and cash equivalents		**461,292**	(2,002,619)
Cash and cash equivalents at beginning of year		**2,353,933**	4,442,218
Effect of foreign exchange rate changes, net		**(45,516)**	(85,666)
Cash and cash equivalents at end of year	31	**2,769,709**	2,353,933
Analysis of balance of cash and cash equivalents			
Cash and cash equivalents		**3,526,577**	2,935,090
Less: Time deposits with original maturity of more than three months		**(756,868)**	(581,157)
Cash and cash equivalents as stated in the statements of cash flows		**2,769,709**	2,353,933

1. CORPORATE INFORMATION

Pharmaron Beijing Co., Ltd. was incorporated and registered in the People's Republic of China ("PRC") on July 1, 2004. With the approval of the China Securities Regulatory Commission, the Company completed its initial public offering and was listed on the Shenzhen Stock Exchange (stock code: 300759.SZ) on January 28, 2019. On November 28, 2019, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKSE") (stock code: 3759.HK). The address of the registered office is 8th Floor, Block 1, 6 Taihe Road, Beijing Economic Technological Development Area, Beijing, China.

The Company is a leading fully integrated pharmaceutical R&D services platform with global operations to accelerate drug innovation for our customers. The principal activity of the Company and its subsidiaries (together, the "Group") is to provide contract research, development, and manufacturing services for innovative pharmaceutical products throughout the research and development cycle and the services are organised in four major categories: laboratory services, chemistry, manufacturing and controls ("CMC") (small molecule CDMO) services, clinical development services and biologics and CGT services.

Information about subsidiaries

As at December 31, 2021, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron (Beijing) TSP Services Co., Ltd. ("康龍化成(北京)生物技術有限公司")	PRC/Mainland China* January 11, 2006	RMB138,514,186	100%	N/A	Laboratory services
Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. ("康龍化成(天津)藥物製備技術有限公司")	PRC/Mainland China* July 16, 2008	RMB620,000,000	100%	N/A	CMC (small molecule CDMO) services
Pharmaron Xi'an Co., Ltd. ("康龍化成(西安)新藥技術有限公司")	PRC/Mainland* China May 11, 2010	USD10,000,000	100%	N/A	Laboratory services
Pharmaron Ningbo Co., Ltd. ("康龍化成(寧波)新藥技術有限公司")	PRC/Mainland China* January 9, 2015	RMB100,000,000	100%	N/A	Investment holding
Pharmaron CRI (Ningbo) Co., Ltd. ("康龍化成手性醫藥技術(寧波)有限公司")	PRC/Mainland China* August 18, 2016	RMB1,000,000	N/A	100%	Laboratory services
Pharmaron Shaoxing Co., Ltd. ("康龍化成(紹興)藥業有限公司")	PRC/Mainland China* January 3, 2017	RMB400,000,000	100%	N/A	Under construction
Pharmaron (Ningbo) Technology Development Co., Ltd. (formerly known as Ningbo KTB Technology Development Co., Ltd.) ("康龍化成(寧波)科技發展有限公司")	PRC/Mainland China* January 12, 2015	RMB1,100,000,000	88.64%	11.36%	Laboratory services and CMC (small molecule CDMO) services
Pharmaron Shanghai Co., Ltd. ("康龍化成(上海)新藥技術有限公司")	PRC/Mainland China* February 11, 2018	RMB20,000,000	100%	N/A	Laboratory services
Pharmaron (Ningbo) TSP Services Co., Ltd. (formerly known as Ningbo Pharmaron Biologics Co., Ltd.) ("康龍化成(寧波)藥物開發有限公司")	PRC/Mainland China* August 31, 2018	RMB500,000,000	90%	10%	Under construction

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2021, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Pharmaron (Ningbo) Biologics Co., Ltd. ("康龍化成(寧波)生物醫藥有限公司")	PRC/Mainland China* October 9, 2020	RMB700,000,000	85%	N/A	Under construction
Pharmaron (Chengdu) Clinical Services Co., Ltd. ("康龍化成(成都)臨床研究服務有限公司")	PRC/Mainland China* May 27, 2021	RMB519,550,000	57.74%	N/A	Clinical development services
Pharmaron Qingdao Co., Ltd. ("康龍化成(青島)新藥技術有限公司")	PRC/Mainland China* November 25, 2021	RMB50,000,000	100%	N/A	Under construction
Pharmaron (Beijing) Technology Development Co., Ltd. ("康龍化成(北京)科技發展有限公司")	PRC/Mainland China* September 29, 2021	RMB100,000,000	100%	N/A	Under construction
Pharmaron (Beijing) Medical Technology Co., Ltd. ("康龍化成(北京)醫藥科技有限公司")	PRC/Mainland China* October 21, 2021	RMB100,000,000	100%	N/A	Under construction
Pharmaron Chongqing Co., Ltd. ("康龍化成(重慶)新藥技術有限公司")	PRC/Mainland China* December 16, 2021	RMB100,000,000	100%	N/A	Under construction
Pharmaron (Beijing) Technology Development Co., Ltd. ("康龍化成(西安)科技發展有限公司")	PRC/Mainland China* September 28, 2021	RMB100,000,000	100%	N/A	Laboratory services
Beijing LinkStart Biotechnology Co., Ltd. ("北京聯斯達醫藥科技發展有限公司")	PRC/Mainland China* July 19, 2012	RMB20,000,000	N/A	57.74%	Clinical development services
Beijing Kangsida Health Management Co., Ltd. ("北京康斯達健康管理有限公司")	PRC/Mainland China* April 15, 2014	RMB5,000,000	N/A	57.74%	Clinical development services
Hainan Shenzhou Deshu Medical Technology Co., Ltd. ("海南神州德數醫療科技有限公司")	PRC/Mainland China* March 19, 2020	RMB5,000,000	N/A	49.08%	Clinical development services
RAMED (Beijing) Medical Technology Co., Ltd. ("法蒼(北京)醫療科技有限公司")	PRC/Mainland China* June 4, 2010	RMB1,307,190	N/A	57.74%	Clinical development services
Shanghai RAMED Medical Technology Co., Ltd. ("上海法蒼醫療科技有限公司")	PRC/Mainland China* July 21, 2015	RMB500,000	N/A	57.74%	Clinical development services
Nanjing Sirui Biotechnology Co., Ltd. ("Nanjing Sirui") ("南京思睿生物科技有限公司")	PRC/Mainland China* February 7, 2018	USD13,500,000	N/A	57.74%	Investment holding
Nanjing Ximaidi Medical Technology Co., Ltd. ("南京希麥迪醫藥科技有限公司")	PRC/Mainland China* January 20, 2017	RMB80,000,000	N/A	57.74%	Clinical development services
Beijing Xirui Biotechnology Co., Ltd. ("北京希睿醫藥科技有限公司")	PRC/Mainland China* September 30, 2018	RMB5,000,000	N/A	57.74%	Clinical development services
Shanghai Ruixi Biotechnology Co., Ltd. ("上海睿希醫藥科技有限公司")	PRC/Mainland China* October 13, 2020	RMB5,000,000	N/A	57.74%	Clinical development services
Biomedical Research (GZ), Ltd. ("肇慶創藥生物科技有限公司")	PRC/Mainland China* August 12, 2003	USD9,731,586	50.01%	N/A	Animal Breeding
Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. ("恩遠醫藥科技(北京)有限公司")	PRC/Mainland China* September 21, 2015	RMB10,000,000	55%	N/A	Clinical development services

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2021, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kangruitai (Zhanjiang) Biotechnology Co., Ltd. ("康瑞泰(湛江)生物技術有限公司")	PRC/Mainland China* September 6, 2017	RMB20,000,000	100%	N/A	Animal Breeding
DeltaMed (Hangzhou) Co., Ltd. ("德泰邁(杭州)醫藥科技有限公司")	PRC/Mainland China* September 13, 2018	RMB5,000,000	N/A	57.74%	Clinical development services
CR Medicon Research, Inc.	the United States of America ("USA") February 9, 2019	10,000 shares	N/A	57.74%	Clinical development services
Pharmaron US, Inc.	USA August 12, 2015	100 shares	100%	N/A	Investment holding
Pharmaron, Inc.	USA December 22, 2006	100 shares	N/A	100%	Business development
Pharmaron (Hong Kong) International Limited	PRC/Hong Kong December 31, 2015	10,000 shares	100%	N/A	Investment holding
Pharmaron (Hong Kong) Investments Limited	PRC/Hong Kong February 11, 2016	10,000 shares	N/A	100%	Investment holding
Pharmaron Biologics (Hong Kong) Limited	PRC/Hong Kong June 11, 2018	50,000 shares	N/A	100%	Investment holding
Pharmaron UK Limited (formerly known as Quotient Bioresearch Group Limited)	United Kingdom October 30, 2013	54,136,364 shares	N/A	100%	Laboratory services, CMC (small molecule CDMO) services and clinical development services
Quotient Bioresearch (Radiochemicals) Limited	United Kingdom April 9, 2009	1 share	N/A	100%	Clinical development services
Pharmaron ABS, Inc.	USA October 31, 2001	1,500 shares	N/A	100%	Clinical development services
Pharmaron CPC, Inc.	USA October 7, 2004	100,000 shares	N/A	80%	Clinical development services
Pharmaron Japan LLC	Japan November 2, 2020	JPY10,000,000	N/A	100%	Laboratory services
Pharmaron (UK) Investments Limited	United Kingdom October 1, 2020	10,000 shares	N/A	100%	Investment holding
Pharmaron Biologics (UK) Holdings Limited	United Kingdom December 2, 2020	10,000 shares	N/A	100%	Investment holding
Pharmaron (US) Lab Testing, Inc.	USA October 2, 2020	10,000 shares	N/A	100%	Investment holding
Absorption Systems LLC	USA July 31, 2017	N/A	N/A	100%	Biologics and CGT services

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

As at December 31, 2021, the Company had direct and indirect interests in its subsidiaries, the particulars of which are set out below: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Absorption Systems California, LLC	USA November 29, 1999	N/A	N/A	100%	Laboratory services and Biologics and CGT services
Absorption Systems Boston, LLC	USA September 20, 2017	N/A	N/A	100%	Biologics and CGT services
Pharmaron Biologics (UK) Ltd (formerly known as Allergan Biologics Limited)	United Kingdom September, 24, 2002	1 share	N/A	100%	Laboratory services and Biologics and CGT services
CR Medicon Japan Co., Ltd	Japan April 1, 2021	JPY1,000,000	N/A	57.74%	Clinical development services
德泰邁(上海)醫藥科技有限公司 ("DeltaMed (Shanghai) Co., Ltd.")	PRC/Mainland China* August 21, 2020	RMB1,000,000	N/A	57.74%	Clinical development services
德泰邁(武漢)醫藥科技有限公司 ("DeltaMed (Wuhan) Co., Ltd.")	PRC/Mainland China* June 27, 2019	RMB1,000,000	N/A	57.74%	Clinical development services
北京德泰邁醫藥科技有限公司 ("DeltaMed (Beijing) Co., Ltd.")	PRC/Mainland China* March 21, 2018	RMB1,000,000	N/A	57.74%	Clinical development services

* These subsidiaries were registered as limited liability companies under PRC law.

The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for biological assets which are measured at fair value less costs to sell, equity investments at fair value through profit or loss, derivative financial instruments, financial assets and financial liabilities at fair value through profit or loss which have been measured at fair value. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended December 31, 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;

b. rights arising from other contractual arrangements; and

c. the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All inter-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond June 30, 2021* (early adopted)

The nature and the impact of the revised IFRSs are described below:

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group had no material rent concessions granted by the lessors and this amendment to IFRS 16 has had no material impact on the disclosures set out in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not adopted the following standards that have been issued but are not yet effective in the consolidated financial statements:

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRSs 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41*[1]

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

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

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to IAS 1, International Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that, these new and revised IFRSs are unlikely to have significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its derivative financial instruments, equity investments at fair value through profit or loss, financial assets and liabilities at fair value through profit or loss and biological assets at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group 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); and

  (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 parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20-39 years	0-5%
Laboratory equipment	3-10 years	0-3%
Transportation equipment	5-10 years	0-5%
Furniture, fixtures and equipment	3-8 years	0-5%
Leasehold improvements	3-30 years	0%
Land	Indefinite useful life	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use assets which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any).

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its cost less accumulated depreciation and accumulated impairment losses (if any) at the date of change in use.

The principal estimated useful lives of investment properties are as follows:

Category	Estimated useful life	Estimated residual value
Building	25 years	0%
Land	Indefinite useful life	0%

Other intangible assets (other than goodwill)

Other intangible assets acquired separately are measured on initial recognition at cost. The cost of other intangible assets acquired in a business combination is the fair value at the date of the acquisition. The useful lives of other intangible assets are assessed to be finite. Other intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the other intangible asset may be impaired. The amortisation period and the amortisation method for another intangible asset with a finite useful life are reviewed at least at each reporting period.

The principal estimated useful lives of other intangible assets are as follows:

Category	Estimated useful life	Estimated residual value
Software (i)	3-10 years	0%
Patents (ii)	10-20 years	0%
Client relationship (iii)	9-10 years	0%

(i) Software has an amortisation period of three to ten years based on the estimated useful lives.

(ii) Patents have an amortisation period of ten to twenty years based on the period covered by their licenses.

(iii) Client relationship has an amortisation period of nine to ten years based on estimated beneficial period considering industry experience, customer retention rate and others.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Biological assets

Biological assets mainly include monkeys for experiment, which are classified as current assets and monkeys for breeding, which are classified as non-current assets of the Group. Biological assets are measured on initial recognition and at the end of the reporting period at their fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of profit or loss for the period in which it arises. The fair value of monkeys is determined by using the market method through direct comparison or analysis of the recent trading prices of the same or similar assets, and is determined independently by a professional valuer.

Leases

The Group assesses at contract inception whether a 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2 to 24 years
Laboratory equipment	3 to 8 years
Transportation equipment	3 years
Furniture, fixtures and equipment	3 to 5 years
Land use rights	42 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessor (continued)

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instrument)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank borrowings, convertible bonds and financial liabilities at fair value through profit and loss.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, financial liabilities as contingent consideration of an acquirer in a business combination to which IFRS 3 applies and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value.

Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss.

Revenue recognition

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates 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 customer obtains control of the distinct good or service.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The Group has different contractual arrangements with different customers under two different charge models: full-time-equivalents ("FTE") or fee-for-services ("FFS") model.

Certain laboratory and CMC (small molecule CDMO) services are under the FTE model. For services under the FTE model, a dedicated team of employees are provided to a customer's project for a specific time and charge the customer at fixed rate per employee. The customer simultaneously receives and consumes benefits provided by the Group's performance. Therefore, the revenue is recognised over time at the amount to which the Group has the right to invoice for the performance completed to date (i.e. FTE billable amounts, which are calculated based on the number of employees assigned to the project and the time employees worked), usually in the form of a monthly or quarterly statement. Under the FTE model, the Group measures its progress by using units produced/services transferred to the customer to date (output method).

Certain laboratory, CMC (small molecule CDMO), clinical development services and biologics and CGT services are under the FFS model, and the revenue is recognised at a point in time when the Group transfers the control for services/deliverable units at a point in time and has right to payment from the customers for the services performed upon finalisation, delivery and acceptance of the deliverable units.

Certain of the revenue from laboratory and clinical development services are under the FFS model, and the revenue is recognised over time, as the Group's performance has created an asset with no alternative use and the Group has an enforceable right for payments for performance completed to date. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using either cost-to-cost (input method) or units produced/services transferred to the customer to date (output method).

Under the input method, the Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred. Under the output method, the units produced/services transferred to the customer to date are measured to the extent of progress towards completion, based on discrete services or time-based increments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from other sources

Rental income arising from leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue.

Other income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued for each period, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

The Group operate several share incentive schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is computed based on their most recent post-money valuations. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Retirement benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Employee benefits to all eligible employees of the overseas subsidiaries are made in accordance with the rules set forth in the collective labour agreement, and recorded as an expense in the period they are due as a charge to profit or loss.

Pursuant to the relevant laws and regulations, the Group is not in a position to forfeit contributions to the scheme's rules and thus there is no forfeited contributions

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the timing of satisfaction of performance obligations

The Group has different contractual arrangements with different customers. In determining the timing of satisfaction of performance obligations, management reviews the contract terms of each individual contract.

For certain types of revenue under the FFS model, the directors of the Company have determined that performance obligations are satisfied over time. Significant judgement is required in determining whether the terms of the Group's contracts with customers in relation to certain types of revenue under the FFS model create an enforceable right to payment for the Group.

Determining the method for measuring the progress towards complete satisfaction of performance obligations

Depending on which better depicts the transfer of value to the customer, the directors of the Company make judgement to measure the progress of the projects using either the input method or the output method.

Determining significant influence over entities in which the Group holds less than 20% of the equity interests

The Group's certain investments in associates are accounted for under the equity method of accounting if the Group has significant influence over these entities by way of participation in the policy-making process, despite the fact that the Group's direct or indirect equity interests in these associates were lower than 20%.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at December 31, 2021 was RMB16,403,000 (2020: RMB5,818,000). The amounts of unrecognised tax losses and unrecognised temporary differences at December 31, 2021 were RMB908,902,000 (2020: RMB746,709,00). Further details are contained in note 22 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2021 was RMB2,096,265,000 (2020: RMB1,166,172,000). Further details are given in note 17.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Details of share-based payments are contained in notes 41.

The share-based compensation expense is measured based on the fair value of the share incentives as calculated under the Black-Scholes pricing model. The Group is responsible for determining the fair value of the restricted shares granted to employees. The key assumptions used to determine the fair value of the share unit incentives at the grant date and the re-measurement dates include share price on the measurement date, expected volatility and risk-free interest rate. Changes in these assumptions could significantly affect the fair value of share incentives and hence the amount of compensation expenses the Group recognises in our consolidated financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimates of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Fair value of biological assets

The Group's biological assets are valued at fair value less costs to sell. The fair value of biological assets is determined based on the market-determined prices as at each year end adjusted with reference to the species, age, and growing condition to reflect the differences in stages of growth of biological. Any changes in the estimates may affect the fair value of the biological assets significantly. The management reviews the assumptions and estimates periodically to identify any significant change in fair value of biological assets. Further details are given in note 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 26 and 27.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates the fair value by using a valuation technique. Valuation techniques include using recent prices in an arm's length market transactions between knowledgeable and willing parties, if available, with reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicability, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other intangible assets with indefinite life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Valuation of the embedded derivatives in convertible bonds

The fair value for the embedded derivatives in convertible bonds is established by using valuation techniques. The valuation model is sensitive to changes in certain key inputs including volatility of share prices and risk-free rate that require significant management estimates. Any changes in the estimates and assumptions will affect the fair values of the embedded derivatives in convertible bonds. The carrying amount of embedded derivatives is disclosed in Note 33 and Note 38.

Inventories and contract costs

The Group assesses periodically if cost of inventories and contract cost may not be recoverable based on an assessment of the net realisable value of inventories and contract cost. Allowances are applied to inventories and contract cost where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories or contract cost. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories and in the case of contract cost, the net realisable value has been determined based on the contracted selling price to be recognised upon the completion of the contract cost less all estimated remaining costs to completion and costs necessary to provide the service. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and contract cost in the year in which such estimate changes.

Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Useful lives and residual values of other intangible assets

The Group's management determines the useful lives, residual values and related amortisation charges for its other intangible assets. This estimate is based on the historical experience of the actual useful lives of other intangible assets of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher amortisation charge and/or write-off or write-down of technically obsolete assets when useful lives are less than previously estimated. The Group will increase the amortisation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. BUSINESS SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has five reportable business segments as follows:

- The laboratory services segment includes laboratory chemistry (including medicinal chemistry, synthetic chemistry, analytical and purification chemistry, and computer-aided drug design (CADD)) and bioscience services (including in vitro and in vivo DMPK/ADME, in vitro biology and in vivo pharmacology, safety assessment and U.S. laboratory services)
- The CMC (small molecule CDMO) services segment includes process development and manufacturing, materials science/pre-formulation, formulation development and manufacturing, and analytical development services
- The clinical development services segment includes overseas clinical development services (including radiolabelled science services and early stage clinical trial services) and domestic clinical development services (including clinical research services and site management services)
- The Biologics and CGT services segment includes biologics discovery, development and manufacturing services (CDMO), CGT lab and Gene therapy CDMO services
- The "Others" segment

Segment revenue and results

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

Year ended December 31, 2021	Laboratory services RMB'000	CMC (small molecule CDMO) services RMB'000	Clinical development services RMB'000	Biologics and CGT services RMB'000	Others RMB'000	Total RMB'000
Segment revenue	4,565,801	1,746,168	956,358	150,966	24,477	7,443,770
Segment results	1,979,967	607,952	98,567	(20,905)	6,463	2,672,044
Unallocated amounts:						
Other income and gains						489,843
Other expenses						(13,792)
Selling and distribution expenses						(155,617)
Administrative expenses						(908,210)
Research and development costs						(151,775)
Impairment losses on financial and contract assets, net of reversal						(10,269)
Finance costs						(83,073)
Share of profits of associates						71,845
Group's profit before tax						1,910,996

4. BUSINESS SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

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

Year ended December 31, 2020	Laboratory services RMB'000	CMC (small molecule CDMO) services RMB'000	Clinical development services RMB'000	Biologics and CGT services RMB'000	Others RMB'000	Total RMB'000
Segment revenue	3,236,069	1,221,985	629,350	26,645	19,548	5,133,597
Segment results	1,378,619	397,979	118,209	10,460	10,846	1,916,113
Unallocated amounts:						
Other income and gains						493,006
Other expenses						(143,814)
Selling and distribution expenses						(92,643)
Administrative expenses						(684,705)
Research and development costs						(105,345)
Impairment losses on financial and contract assets, net of reversal						(14,823)
Finance costs						(23,854)
Share of losses of associates						(24,565)
Group's profit before tax						1,319,370

Management monitors the results of the Group's business segments separately for the purpose of making decisions about resource allocation and performance assessment. No analysis of segment assets and liabilities is presented as management does not regularly review such information for the purposes of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

4. BUSINESS SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue

	2021 RMB'000	2020 RMB'000
North America	**4,778,853**	3,271,385
Mainland China	**1,274,974**	700,218
Europe	**1,163,111**	979,762
Asia (except Mainland China)	**192,874**	142,924
Others	**33,958**	39,308
	7,443,770	5,133,597

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
Mainland China	**6,680,284**	4,529,104
Europe	**1,386,584**	430,988
North America	**1,318,092**	1,278,656
Asia (except Mainland China)	**35,004**	–
	9,419,964	6,238,748

The non-current asset information above is based on the locations of the assets and excludes equity investments at fair value through profit or loss and deferred tax assets.

Information about major customers

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during each reporting period.

5. REVENUE

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	**7,442,167**	5,114,049
Revenue from other sources		
Revenue from investment property operating lease:	**1,603**	19,548
	7,443,770	5,133,597

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments	2021 RMB'000	2020 RMB'000
Types of services		
Laboratory services	**4,565,801**	3,236,069
CMC (small molecule CDMO) services	**1,746,168**	1,221,985
Clinical development services	**956,358**	629,350
Biologics and CGT services	**150,966**	26,645
Others	**22,874**	–
Total revenue from contracts with customers	**7,442,167**	5,114,049
Timing of revenue recognition		
Services transferred at a point of time	**4,047,238**	2,778,159
Services transferred over time	**3,394,929**	2,335,890
Total revenue from contracts with customers	**7,442,167**	5,114,049

(b) Performance obligations

The Group has different contractual arrangements with different customers under two different charge methods: Full-Time-Equivalent ("FTE") or Fee-For-Service ("FFS") model.

All services under the FTE model, revenue is recognised over time at the amount to which the Group has the right to invoice for services performed. Therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under the FTE model.

Similarly, for certain services under the FFS model, revenue is recognised over time and contracts are generally within an original expected length of one year or less. Therefore, the practical expedients are also applied.

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2021 RMB'000	2020 RMB'000
Other income		
Interest income	**64,407**	74,064
Government grants and subsidies related to		
– Assets (i)	**11,912**	11,232
– Income (ii)	**54,689**	34,303
	131,008	119,599
Other gains		
Gains on fair value change of equity investment at fair value through profit or loss	**68,517**	75,460
Gains on fair value change of biological assets	**69,026**	–
Gains on disposal of an equity investment at fair value through profit or loss	**59,455**	78,039
Gains on termination of lease contracts	**219**	46
Gains on financial assets at fair value through profit or loss	**52,522**	55,496
Gains on derivative financial instruments	**7,500**	140,797
Gains on fair value re-measurement of existing equity in business combination not under common control	**–**	23,123
Gains resulting from transfer of an investment in associates to equity investments at fair value through profit or loss	**25,452**	–
Gains on fair value change of financial liabilities at fair value through profit or loss	**72,854**	–
Others	**3,290**	446
	358,835	373,407
	489,843	493,006
Other expenses		
Foreign exchange loss, net	**(3,155)**	(131,226)
Losses on disposal of property, plant and equipment	**(1,590)**	(7,326)
Others	**(9,047)**	(5,262)
	(13,792)	(143,814)

6. OTHER INCOME AND GAINS AND OTHER EXPENSES (CONTINUED)

(i) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognised in profit and loss over the useful lives of relevant assets. Details of these grants related to assets are set out in note 39.

(ii) The government grants and subsidies related to income have been received to compensate for the Group's research and development expenditures. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognised in the statement of profit or loss on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

7. FINANCE COSTS

	2021 **RMB'000**	2020 RMB'000
Interest expenses on bank and other borrowings	**46,589**	17,024
Interest expenses on convertible bond – debt component	**57,120**	–
Interest expenses on lease liabilities	**14,030**	11,486
Total interest expense on financial liabilities not at fair value through profit or loss	**117,739**	28,510
Less: Interest capitalised	**(34,666)**	(4,656)
	83,073	23,854

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2021 RMB'000	2020 RMB'000
Depreciation of property, plant and equipment	14	**451,229**	348,662
Depreciation of right-of-use assets	15	**101,484**	77,566
Depreciation of investment property	14	**344**	817
Amortisation of other intangible assets	18	**24,616**	10,971
Staff costs* (including directors' and chief executive's remuneration):			
Salaries and other benefits		**2,506,164**	1,796,881
Pension scheme contributions, social welfare and other welfare**		**686,739**	391,658
Share-based compensation expenses		**67,529**	62,458
Gains resulting from transfer of an investment in associates to equity investments at fair value through profit or loss		**(25,452)**	–
Gains on fair value re-measurement of existing equity in business combination not under common control		**–**	(23,123)
Gains on financial assets at fair value through profit or loss		**(52,522)**	(55,496)
Gains on fair value change of equity investments at fair value through profit or loss		**(68,517)**	(75,460)
Gains on fair value change of biological assets	21	**(69,026)**	–
Gains on fair value change of financial liabilities at fair value through profit or loss	33	**(72,854)**	–
Gains on disposal of an equity investment at fair value through profit or loss		**(59,455)**	(78,039)
Impairment losses on inventories, net of reversal		**2,842**	4,622
Impairment losses on financial and contract assets, net of reversal		**10,269**	14,823
Foreign exchange loss, net		**3,155**	131,226
Gains on derivative financial instruments		**(7,500)**	(140,797)
Auditor's remuneration		**4,760**	4,300

* The staff costs for the year are included in "Cost of sales", "Administrative expenses", "Selling and distribution expenses" and "Research and development costs" in the consolidated statement of profit or loss.

** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the services provided to the Group during each reporting period are as follows:

2021	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	2,100	6,000	91	8,191
Executive directors:					
Mr. Xiaoqiang LOU	–	1,800	5,000	91	6,891
Ms. Bei ZHENG	–	1,600	4,000	91	5,691
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors:					
Mr. Lixin DAI	220	–	–	–	220
Ms. Guoqin CHEN	220	–	–	–	220
Mr. Jian YU	220	–	–	–	220
Mr. TSANG Kwan Hung Benson	220	–	–	–	220
	880	5,500	15,000	273	21,653

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the services provided to the Group during each reporting period are as follows: (continued)

2020	Fees RMB'000	Salaries RMB'000	Performance related bonuses RMB'000	Social welfare benefits RMB'000	Total RMB'000
Chief executive and executive director:					
Dr. Boliang LOU	–	2,100	2,000	72	4,172
Executive directors:					
Mr. Xiaoqiang LOU	–	1,800	3,000	72	4,872
Ms. Bei ZHENG	–	1,600	2,000	72	3,672
Non-executive directors:					
Mr. Pingjin CHEN	–	–	–	–	–
Mr. Baifeng HU	–	–	–	–	–
Mr. Jiaqing LI	–	–	–	–	–
Mr. Hongbin ZHOU	–	–	–	–	–
Independent non-executive directors:					
Mr. Lixin DAI	200	–	–	–	200
Ms. Guoqin CHEN	200	–	–	–	200
Mr. Jian YU (i)	85	–	–	–	85
Ms. Lihua LI (ii)	118	–	–	–	118
Ms. Rong SHEN (ii)	118	–	–	–	118
Mr. TSANG Kwan Hung Benson	200	–	–	–	200
	921	5,500	7,000	216	13,637

(i) Mr. Jian YU was appointed as a director of the Company on July 23, 2020.

(ii) Ms. Lihua LI and Ms Rong SHEN resigned on July 23, 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during each reporting period.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group during the year included three (2020: three) directors disclosed above, details of whose remuneration are set out as above in note 9. Details of the remuneration of the remaining highest paid employees who are neither a director nor chief executive of the Company for the reporting periods are as follows:

	2021 RMB'000	2020 RMB'000
Salaries	**3,600**	3,600
Performance related bonuses	**8,000**	5,000
Social welfare benefits	**182**	144
	11,782	8,744

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
HKD4,500,001 to HKD5,000,000	**–**	1
HKD5,500,001 to HKD6,000,000	**1**	1
HKD8,000,001 to HKD8,500,000	**1**	–
	2	2

11. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current tax	**282,098**	143,934
Deferred tax	**8,821**	28,444
	290,919	172,378

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25% unless subject to tax exemption set out below.

The Company was accredited as a "High and New Technology Enterprise" in 2017 which was subsequently renewed in 2020 and as an "Advanced Technology Enterprise" in 2015 which was subsequently renewed in 2020, and therefore the Company was entitled to a preferential EIT rate of 15% for each reporting period. These qualifications are subject to review by the relevant tax authority in the PRC for every three years.

11. INCOME TAX EXPENSE (CONTINUED)

Pharmaron Xi'an Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2018 and the qualification was subsequently renewed in 2020, and therefore Pharmaron Xi'an Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Beijing) TSP Service Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2015 and the qualification was renewed in 2020 and as an "High and New Technology Enterprise" in 2020, and therefore Pharmaron (Beijing) TSP Service Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. These qualifications are subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Ningbo) Technology Development Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2020 and the qualification was renewed in 2021, and therefore Pharmaron (Ningbo) Technology Development Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC annually.

Pharmaron Shanghai Co., Ltd. was accredited as an "Advanced Technology Enterprise" in 2019, and therefore Pharmaron Shanghai Co., Ltd. was entitled to a preferential EIT rate of 15% for each reporting period. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore Pharmaron (Tianjin) Process Development and Manufacturing Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2021. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Beijing LinkStart Biotechnology Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore Beijing LinkStart Biotechnology Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2021. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

RAMED (Beijing) Medical Technology Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore RAMED (Beijing) Medical Technology Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2021. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. was accredited as an "High and New Technology Enterprise" in 2020, and therefore Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. was entitled to a preferential EIT rate of 15% for the year ended December 31, 2021. This qualification is subject to review by the relevant tax authority in the PRC for every three years.

The group entities incorporated in U.S. were subject to the federal corporate tax at a rate of 21% and the state income tax at a rate ranging from 0% to 10 % as at December 31, 2020 and 2021.

The group entities incorporated in U.K. were subject to tax at a rate of 19% for the years ended December 31, 2020 and 2021.

The group entities incorporated in Japan were subject to the national corporate tax at a rate of 23.2% and the local corporate tax at a rate of 2.4% as at December 31, 2020 and 2021.

11. INCOME TAX EXPENSE (CONTINUED)

The group entities incorporated in Hong Kong were subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits for the years ended December 31, 2020 and 2021.

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

The tax charge for the reporting period can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	**1,910,996**	1,319,370
Tax at tax rates of 15%	**286,649**	197,906
Effect of different tax rate of subsidiaries	**(1,389)**	3,628
Overprovision in respect of prior years	**(988)**	(670)
Profit attributable to associates	**(10,656)**	3,781
Income not subject to tax	**(29,728)**	(28,795)
Non-deductible expenses	**8,326**	180
Additional deductible allowance for research and development ("R&D") expenses	**(9,023)**	(5,120)
Effect of tax rate changes	**–**	1
Utilisation of tax losses and other deductible temporary differences previously not recognised as deferred tax assets	**(16,994)**	(17,498)
Unrecognised deductible temporary differences and tax losses	**64,722**	18,965
	290,919	172,378

12. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Proposed final – RMB0.45 (2020: RMB0.30) per ordinary share	**357,380**	238,316

On May 28, 2021, the Company's shareholders approved the 2020 Profit Distribution Plan at annual general meeting, pursuant to which a final dividend of RMB0.30 (inclusive of tax) per share in respect of the year ended December 31, 2020 was declared to both holders of A shares and H shares and aggregate dividend amounted to RMB238,316,000 (inclusive of tax). Except for the dividend declared to the holders of restricted A shares that would be paid no earlier than the unlocking date, the rest of the dividend was paid in 2021.

The Board proposed to declare a final dividend as follows (i) a cash dividend of RMB0.45 (inclusive of tax) per share or an aggregate of approximately RMB357,380,000 (inclusive of tax) for the year ended December 31, 2021; (ii) 5 new Shares for every 10 existing Shares to be issued out of reserve to all Shareholders.

The proposed final dividend for the year ended December 31, 2021 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 791,488,773 (2020: 790,435,853) in issue during the year, as adjusted to reflect the rights issue during the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is based on the number of ordinary shares used in the basic earnings per share calculation adjusted for the dilutive effect of share options and restricted A shares issued by the Company. For the year ended December 31, 2021, the calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the dilutive impact of the share options and restricted A shares and the convertible bonds issued by the Company.

The calculations of basic and diluted earnings per share are based on:

	2021 RMB'000	2020 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**1,661,029**	1,172,383
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**(334)**	(591)
Earnings for the purpose of calculating basic earnings per share	**1,660,695**	1,171,792
Effective of diluted potential ordinary shares:		
Add: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**334**	591
Interest on convertible bonds	**57,120**	–
Issuance expenses of convertible bonds	**2,882**	–
Less: Fair value gain on convertible bonds-embedded derivative component	**(72,854)**	–
Earnings for the purpose of calculating diluted earnings per share	**1,648,177**	1,172,383

	2021	2020
Number of shares:		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**791,488,773**	790,435,853
Effect of diluted potential ordinary shares:		
Effective of restricted shares units and share awards issued by the Company	**11,048,150**	2,752,261
Weighted average number of ordinary shares in issue during the year, used in the diluted earnings per share calculation	**802,536,923**	793,188,114

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2021								
At December 31, 2020 and at January 1, 2021:								
Cost	1,672,639	2,019,596	15,311	160,989	550,800	63,910	820,575	5,303,820
Accumulated depreciation and impairment	(206,173)	(845,520)	(6,215)	(87,939)	(316,528)	–	–	(1,462,375)
Net carrying amount	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445
At January 1, 2021, net of accumulated depreciation	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445
Additions	9,515	449,332	3,475	38,817	17,608	–	1,432,033	1,950,780
Transfer from investment properties (note 16)	17,957	–	–	–	–	25,526	–	43,483
Acquisition of subsidiaries (note 43)	72,223	98,336	703	11,556	837	24,535	7,810	216,000
Disposals	–	(3,360)	(157)	(179)	–	–	–	(3,696)
Depreciation provided during the year	(79,186)	(257,373)	(1,809)	(33,106)	(79,755)	–	–	(451,229)
Transfer to fixed assets	705,348	143,913	164	41,719	–	–	(891,144)	–
Exchange realignment	(6,822)	(10,052)	(5)	(1,124)	(1,361)	(3,944)	4,429	(18,879)
At December 31, 2021, net of accumulated depreciation	2,185,501	1,594,872	11,467	130,733	171,601	110,027	1,373,703	5,577,904
At December 31, 2021:								
Cost	2,473,458	2,655,640	19,048	245,925	491,481	110,027	1,373,703	7,369,282
Accumulated depreciation and impairment	(287,957)	(1,060,768)	(7,581)	(115,192)	(319,880)	–	–	(1,791,378)
Net carrying amount	2,185,501	1,594,872	11,467	130,733	171,601	110,027	1,373,703	5,577,904

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Land RMB'000	Construction in progress RMB'000	Total RMB'000
December 31, 2020								
At December 31, 2019 and at January 1, 2020:								
Cost	1,602,789	1,622,331	14,590	129,063	458,392	65,778	217,273	4,110,216
Accumulated depreciation and impairment	(142,145)	(670,744)	(4,848)	(65,568)	(253,557)	–	–	(1,136,862)
Net carrying amount	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
At January 1, 2020, net of accumulated depreciation	1,460,644	951,587	9,742	63,495	204,835	65,778	217,273	2,973,354
Additions	6,423	318,553	198	29,759	84,644	–	755,769	1,195,346
Acquisition of subsidiaries	–	28,909	194	2,479	9,792	–	160	41,534
Disposals	–	(1,143)	(51)	(64)	–	–	–	(1,258)
Depreciation provided during the year	(64,857)	(194,379)	(1,569)	(25,002)	(62,855)	–	–	(348,662)
Transfer to fixed assets	71,286	75,004	587	5,157	–	–	(152,034)	–
Exchange realignment	(7,030)	(4,455)	(5)	(2,774)	(2,144)	(1,868)	(593)	(18,869)
At December 31, 2020, net of accumulated depreciation	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445
At December 31, 2020:								
Cost	1,672,639	2,019,596	15,311	160,989	550,800	63,910	820,575	5,303,820
Accumulated depreciation and impairment	(206,173)	(845,520)	(6,215)	(87,939)	(316,528)	–	–	(1,462,375)
Net carrying amount	1,466,466	1,174,076	9,096	73,050	234,272	63,910	820,575	3,841,445

At December 31, 2021, certain of the Group's buildings, land and equipment with a net carrying amount of approximately RMB422,519,000 (2020: RMB405,629,000) were pledged to secure general banking facilities and other borrowings granted to the Group (note 32).

15. RIGHT-OF-USE ASSETS

	Office premises RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2021						
At December 31, 2020 and at January 1, 2021:						
Cost	418,514	26,628	130	3,284	336,475	785,031
Accumulated depreciation and impairment	(169,833)	(22,436)	(90)	(757)	(24,285)	(217,401)
Net carrying amount	248,681	4,192	40	2,527	312,190	567,630
At January 1, 2021, net of accumulated depreciation	248,681	4,192	40	2,527	312,190	567,630
Additions	208,382	472	–	331	51,757	260,942
Disposal	(2,151)	(1,765)	–	–	–	(3,916)
Acquisition of subsidiaries (note 43)	7,945	–	–	–	–	7,945
Depreciation provided during the year	(90,210)	(2,030)	(40)	(1,002)	(8,202)	(101,484)
Exchange realignment	(4,193)	(68)	–	(56)	–	(4,317)
At December 31, 2021, net of accumulated depreciation	368,454	801	–	1,800	355,745	726,800
At December 31, 2021:						
Cost	547,636	20,099	126	3,515	388,232	959,608
Accumulated depreciation and impairment	(179,182)	(19,298)	(126)	(1,715)	(32,487)	(232,808)
Net carrying amount	368,454	801	–	1,800	355,745	726,800

15. RIGHT-OF-USE ASSETS (CONTINUED)

	Office premises RMB'000	Laboratory equipment RMB'000	Transportation equipment RMB'000	Furniture, fixtures and equipment RMB'000	Land use rights RMB'000	Total RMB'000
December 31, 2020						
At December 31, 2019 and at January 1, 2020:						
Cost	274,834	26,627	123	2,973	336,475	641,032
Accumulated depreciation and impairment	(103,521)	(21,104)	(43)	(343)	(17,032)	(142,043)
Net carrying amount	171,313	5,523	80	2,630	319,443	498,989
At January 1, 2020, net of accumulated depreciation	171,313	5,523	80	2,630	319,443	498,989
Additions	109,081	306	10	434	–	109,831
Disposal	(476)	–	–	–	–	(476)
Acquisition of subsidiaries	41,935	–	–	–	–	41,935
Depreciation provided during the year	(68,354)	(1,471)	(48)	(440)	(7,253)	(77,566)
Exchange realignment	(4,818)	(166)	(2)	(97)	–	(5,083)
At December 31, 2020, net of accumulated depreciation	248,681	4,192	40	2,527	312,190	567,630
At December 31, 2020:						
Cost	418,514	26,628	130	3,284	336,475	785,031
Accumulated depreciation and impairment	(169,833)	(22,436)	(90)	(757)	(24,285)	(217,401)
Net carrying amount	248,681	4,192	40	2,527	312,190	567,630

As at December 31, 2021, certain of the Group's land use rights with a net carrying amount of approximately RMB135,256,000 (2020: RMB180,531,000) were pledged to secure general banking facilities granted to the Group (note 32).

16. INVESTMENT PROPERTIES

	2021 RMB'000	2020 RMB'000
Cost	–	47,092
Accumulated depreciation and impairment	–	(3,203)
Net carrying amount	–	43,889
Opening carrying amount, net of accumulated depreciation	43,889	46,013
Depreciation provided during the year	(344)	(817)
Exchange realignment	(62)	(1,307)
Transfer to fixed assets (note 14)	(43,483)	–
	–	43,889

17. GOODWILL

	2021 RMB'000	2020 RMB'000
Cost	2,096,265	1,166,172
Accumulated impairment	–	–
Net carrying amount	2,096,265	1,166,172
Opening carrying amount, net of accumulated impairment	1,166,172	203,286
Acquisition of subsidiaries (note 43)	980,521	984,040
Exchange realignment	(50,428)	(21,154)
	2,096,265	1,166,172

17. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- CPC business cash-generating unit
- Pharmaron ABS business cash-generating unit
- Pharmaron (Ningbo) Technology Development business cash-generating unit
- Nanjing Sirui business cash-generating unit
- Beijing LinkStart business cash-generating unit
- Absorption business cash-generating unit
- RAMED (Beijing) Medical Technology business cash-generating unit
- Pharmaron Biologics (UK) Ltd business cash-generating unit
- Biomedical Research (GZ), Ltd. business cash-generating unit
- Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. business cash-generating unit
- Kangruitai (Zhanjiang) Biotechnology Co., Ltd. business cash-generating unit
- DeltaMed (Hangzhou) Co., Ltd. business cash-generating unit

CPC business cash-generating unit

The recoverable amount of the CPC business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15% (2020: 15%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Pharmaron ABS business cash-generating unit

The recoverable amount of the Pharmaron ABS business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15% (2020: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Pharmaron (Ningbo) Technology Development business cash-generating unit

The recoverable amount of the Pharmaron (Ningbo) Technology Development business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18% (2020: 18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Nanjing Sirui business cash-generating unit

The recoverable amount of the Nanjing Sirui business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18% (2020: 18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Beijing LinkStart business cash-generating unit

The recoverable amount of the Beijing LinkStart business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering an eight-year period approved by senior management. The discount rate applied to the cash flow projections was 19% (2020: 19%) and cash flows beyond the eight-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Absorption business cash-generating unit

The recoverable amount of the Absorption business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 17% (2020: 17%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

RAMED (Beijing) Medical Technology business cash-generating unit

The recoverable amount of the RAMED (Beijing) Medical Technology business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 18% (2020: 18%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Pharmaron Biologics (UK) Ltd

The recoverable amount of the Pharmaron Biologics (UK) Ltd business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a ten-year period approved by senior management. The discount rate applied to the cash flow projections was 16% and cash flows beyond the ten-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Biomedical Research (GZ), Ltd.

The recoverable amount of the Biomedical Research (GZ), Ltd. business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 14% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Enyuan Pharmaceutical Technology (Beijing) Co., Ltd.

The recoverable amount of the Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a eight-year period approved by senior management. The discount rate applied to the cash flow projections was 21% and cash flows beyond the eight-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

Kangruitai (Zhanjiang) Biotechnology Co., Ltd.

The recoverable amount of the Kangruitai (Zhanjiang) Biotechnology Co., Ltd. business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 14% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

DeltaMed (Hangzhou) Co., Ltd.

The recoverable amount of the DeltaMed (Hangzhou) Co., Ltd. business cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a eight-year period approved by senior management. The discount rate applied to the cash flow projections was 21% and cash flows beyond the eight-year period were extrapolated using a growth rate of 3%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. These calculations use pre-tax cash flow projections based on financial budgets approved by management.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2021 RMB'000	2020 RMB'000
CPC business	**98,485**	100,789
Pharmaron ABS business	**25,417**	26,012
Pharmaron (Ningbo) Technology Development business	**6,542**	6,542
Nanjing Sirui business	**61,172**	61,172
Beijing LinkStart business	**158,931**	158,931
Absorption business	**758,546**	776,297
RAMED (Beijing) Medical Technology business	**36,429**	36,429
Pharmaron Biologics (UK) Ltd business	**619,474**	–
Biomedical Research (GZ), Ltd. business	**23,631**	–
Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. business	**21,365**	–
Kangruitai (Zhanjiang) Biotechnology Co., Ltd. business	**69,852**	–
DeltaMed (Hangzhou) Co., Ltd. business	**216,421**	–
	2,096,265	1,166,172

Assumptions were used in the value in use calculation of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business, Nanjing Sirui business, Beijing LinkStart business, Absorption business, RAMED (Beijing) Medical Technology business, Pharmaron Biologics (UK) business, Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. business, Biomedical Research (GZ), Ltd. business, Kangruitai (Zhanjiang) Biotechnology Co., Ltd. business, DeltaMed (Hangzhou) Co., Ltd. business for December 31, 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on the market development of the CPC business, Pharmaron ABS business, Pharmaron (Ningbo) Technology Development business, Nanjing Sirui business, Beijing LinkStart business, Absorption business, RAMED (Beijing) Medical Technology business, Pharmaron Biologics (UK) business, Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. business, Biomedical Research (GZ), Ltd. business, Kangruitai (Zhanjiang) Biotechnology Co., Ltd. business, DeltaMed (Hangzhou) Co., Ltd. business and discount rates are consistent with external information sources.

The management of the Group assessed that any reasonably possible change in any of these assumptions would not cause the carrying amounts of these cash-generating units to exceed their respective recoverable amounts as at December 31, 2021.

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2021				
Cost at January 1, 2021, net of accumulated amortisation	**22,428**	**6,022**	**161,526**	**189,976**
Additions	**10,283**	**–**	**–**	**10,283**
Acquisition of subsidiaries (note 43)	**5**	**–**	**53,800**	**53,805**
Amortisation provided during the year	**(6,050)**	**(808)**	**(17,758)**	**(24,616)**
Exchange realignment	**(158)**	**(112)**	**(2,015)**	**(2,285)**
At December 31, 2021	**26,508**	**5,102**	**195,553**	**227,163**

	Software RMB'000	Patents RMB'000	Client relationship RMB'000	Total RMB'000
December 31, 2020				
Cost at January 1, 2020, net of accumulated amortisation	19,614	483	15,255	35,352
Additions	7,086	311	–	7,397
Acquisition of subsidiaries	1,020	5,493	153,683	160,196
Amortisation provided during the year	(4,885)	(180)	(5,906)	(10,971)
Exchange realignment	(407)	(85)	(1,506)	(1,998)
At December 31, 2020	22,428	6,022	161,526	189,976

19. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	**452,606**	273,905
Goodwill on acquisition	**–**	6,569
	452,606	280,474

19. INVESTMENTS IN ASSOCIATES (CONTINUED)

As of December 31, 2021, details of each of the Group's associates are as follows:

Name of entity	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Kangjun Investment Management (Beijing) Co., Ltd.	Ordinary shares	PRC/Mainland China	30.00%	Investment management
Beijing Kangjun Ningyuan Equity Investment Partnership Enterprise (Limited Partnership)	Ordinary shares	PRC/Mainland China	21.28%	Investment management
Ningbo Kangjun Zhongyuan Equity Investment Partnership Enterprise (Limited Partnership)	Ordinary shares	PRC/Mainland China	18.57%	Investment management
AccuGen Group	Ordinary shares	Cayman Islands	50.00%	Genetic and cell research

In August 2021, the Company (as the limited partner) and Kangjun Investment Management (Beijing) Co., Ltd. (as the general partner, also a connected person of the Group under Chapter 14A of the Listing Rules) entered into a limited partnership agreement in relation to the establishment of and investment in Kangjun Zhongyuan. Kangjun Zhongyuan is a limited partnership incorporated under the laws of the PRC and is accounted for using the equity method.

The following table illustrates the aggregate financial information of the Group's associates that is not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' total comprehensive income/(loss) for the year	**71,845**	(24,565)
Aggregate carrying amount of the Group's investments in the associates	**452,606**	280,474

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Listed equity investments, at fair value	**165,725**	96,609
Unlisted equity investments, at fair value	**31,817**	23,621
Unlisted fund investments, at fair value	**112,521**	1,000
	310,063	121,230

The above listed equity investments represent investments in Zentalis Pharmaceuticals, LLC ("Zentalis") (formerly known as Zeno Pharmaceuticals, Inc.) and Imago BioSciences ("Imago"). Zentalis was listed on Nasdaq on April 3, 2020, and its fair value measurement was based on the quoted prices as of December 31, 2021. Imago was listed on Nasdaq on July 16, 2021, and its fair value measurement was based on the quoted prices considering the liquidity discount as of December 31, 2021

21. BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

The biological assets of the Group mainly include cynomolgous and macaque non-human primates for experiment, which are classified as current assets, and cynomolgous and macaque non-human primates for breeding, which are classified as non-current assets of the Group.

The Group is exposed to the following operational risks:

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates breeding. The Group has established environmental policies and procedures aiming at complying with local environmental regulations and legislations. The management performs regular reviews to identify environmental risks to ensure that the systems in place are adequate to manage these risks.

(ii) Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aiming at monitoring and mitigating those risks, including regular inspections, disease controls, surveys and insurance.

21. BIOLOGICAL ASSETS (CONTINUED)

(b) Fair value of biological assets

The values of the Group's biological assets at the year end were as follows:

	Non-human primates for breeding RMB'000	Non-human primates for experiment RMB'000	Total RMB'000
January 1, 2021	–	–	–
Acquisition of subsidiaries (note 43)	124,234	169,646	293,880
Breeding costs	–	3,204	3,204
Purchases	–	137,003	137,003
Gain arising from changes in fair value less costs to sell of biological assets	13,094	55,932	69,026
Transfer among group of primates	7,243	(7,243)	–
Decrease due to disposal	(1,338)	(1,544)	(2,882)
Decrease due to sales	–	(12,665)	(12,665)
Decrease due to experiments	–	(11,618)	(11,618)
December 31, 2021	143,233	332,715	475,948

At December 31, 2021, no biological assets of the Group were pledged for the entrusted loans of the Group.

Analysed for reporting purposes as:

	2021 RMB'000
Current	332,715
Non-current	143,233
Total	475,948

21. BIOLOGICAL ASSETS (CONTINUED)

(c) Fair value measurement

The Group's biological assets as at December 31, 2021 were valued by an independent and qualified professional valuer unrelated to the Group.

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

Level 3 – based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

	Level 3 RMB'000
As at December 31, 2021	475,948

(d) Description of valuation techniques used and key inputs to valuation on biological assets

The following table shows the valuation techniques used in the determination of fair values within Level 3 of the hierarchy, as well as the key unobservable inputs used in the valuation.

Type	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Cynomolgous and macaque non-human primates for experiment	Comparable market method	Recent transaction prices and adjustment coefficients based on biological asset characteristics (including age, variety, health status, etc.)	The higher the change in the adjustment coefficient, the higher the fair value.
Cynomolgous and macaque non-human primates for breeding	Comparable market method	Recent transaction prices and adjustment coefficients based on biological asset characteristics (including age, variety, health status, etc.)	The higher the change in the adjustment coefficient, the higher the fair value.

22. DEFERRED TAX

The movements in deferred tax assets are as follows:

	2021				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	5,818	5,303	16,165	13,385	40,671
Deferred tax credited to profit or loss during the year	10,585	655	992	2,069	14,301
Deferred tax assets at December 31, 2021	16,403	5,958	17,157	15,454	54,972

	2020				
	Losses available for offsetting against future taxable profits RMB'000	Impairment provision for assets RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	4,762	3,007	17,213	5,412	30,394
Deferred tax credited/(charged) to profit or loss during the year	1,056	2,296	(1,048)	7,973	10,277
Deferred tax assets at December 31, 2020	5,818	5,303	16,165	13,385	40,671

22. DEFERRED TAX (CONTINUED)

The movements in deferred tax liabilities are as follows:

	2021				
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Fair value gain arising from financial instruments RMB'000	Fair value arising from biological assets RMB'000	Total RMB'000
At January 1, 2021	44,292	75,485	19,364	–	139,141
Deferred tax charged/(credited) to profit or loss during the year	(7,861)	30,358	(5,274)	5,899	23,122
Acquisition of subsidiaries (note 43)	14,375	–	–	33,680	48,055
Credit to other comprehensive income	2,264	–	–	–	2,264
Exchange realignment	95	–	–	–	95
Deferred tax liabilities at December 31, 2021	53,165	105,843	14,090	39,579	212,677

	2020			
	Fair value gain arising from acquisition of subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Fair value gain arising from financial instruments RMB'000	Total RMB'000
At January 1, 2020	10,647	52,103	2,054	64,804
Deferred tax charged/(credited) to profit or loss during the year	(1,971)	23,382	17,310	38,721
Acquisition of subsidiaries	36,154	–	–	36,154
Exchange realignment	(538)	–	–	(538)
Deferred tax liabilities at December 31, 2020	44,292	75,485	19,364	139,141

22. DEFERRED TAX (CONTINUED)

For presentation purposes, as at December 31, 2021, certain deferred tax assets and liabilities with an amount of RMB39,377,000 (2020: RMB32,235,000) have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**15,595**	8,436
Net deferred tax liabilities recognised in the consolidated statement of financial position	**173,300**	106,906

In accordance with the PRC laws and regulations, tax losses could be carried forward for five years to offset against future taxable profits. According to the Notice 2018 No.76 of the Ministry of Finance, from January 1, 2018, the enterprises that have the qualifications of High and New Technology Enterprise will be able to make up for the losses that have not been completed in the previous five years before the qualification year. Therefore, certain PRC companies' longest tax loss carried-over period is extended from 5 years to 10 years. For the Group's subsidiaries in the United States of America ("U.S.") and United Kingdom ("U.K."), losses can be carried over indefinitely. Deferred tax assets relating to unutilised tax losses are recognised to the extent that it is probable that sufficient taxable profit will be available to allow such deferred tax assets to be utilised.

The Group had unrecognised temporary differences and unused tax losses available for offsetting against future profits in respect of certain subsidiaries in U.S. and U.K. of RMB908,902,000 and RMB746,709,000 as at December 31, 2021 and 2020, respectively, and the deferred tax assets have not been recognised. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

23. OTHER NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Prepayment for purchase of property, plant and equipment	**171,511**	128,682
Deposits	**24,482**	20,372
Others	**–**	108
	195,993	149,162

As at December 31, 2021 and 2020, the financial assets included in other non-current assets of the Group were considered to be of low credit risk and thus the Group has assessed that the ECLs for deposits are immaterial under the 12-month expected credit loss method.

24. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials and consumables	**181,700**	128,757

As at December 31, 2021, the inventories were net of a write-down of approximately RMB13,442,000 (2020: RMB10,600,000).

25. CONTRACT COSTS

	2021 RMB'000	2020 RMB'000
Costs to fulfill contracts	**165,625**	152,860

26. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables – third parties	**1,267,340**	1,110,720
Allowance for impairment	**(38,491)**	(34,106)
	1,228,849	1,076,614

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The balances of trade receivables are non-interest-bearing.

Included in the trade receivables was an amount due from related parties of RMB7,366,000 as at December 31, 2021 (2020: RMB7,412,000), which was repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of gross carrying amount of the trade receivables as at the end of each reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	**1,218,971**	1,072,221
1 year to 2 years	**27,892**	22,216
More than 2 years	**20,477**	16,283
	1,267,340	1,110,720

26. TRADE RECEIVABLES (CONTINUED)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	34,106	19,275
Impairment losses, net	9,478	15,056
Write-offs	(4,773)	–
Exchange realignment	(320)	(225)
	38,491	34,106

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

An impairment analysis is performed at the end of each reporting period using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions, and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	2021		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	0.79%	1,218,971	9,596
1 to 2 years	30.18%	27,892	8,418
Over 2 years	100.00%	20,477	20,477
		1,267,340	38,491

	2020		
	Expected credit loss rate	Gross carrying amount RMB'000	Expected credit losses RMB'000
Within 1 year	0.65%	1,072,221	7,018
1 to 2 years	48.64%	22,216	10,805
Over 2 years	100.00%	16,283	16,283
		1,110,720	34,106

27. CONTRACT ASSETS

	2021 RMB'000	2020 RMB'000
Contract assets	**198,223**	136,234
Allowance for impairment	**(3,242)**	(2,470)
	194,981	133,764

The contract assets primarily relate to the Group's right to consideration for the work completed and not billed. The contract assets are transferred to trade receivables when the rights become unconditional.

Included in the trade receivables was an amount due from related parties of RMB2,077,000 as at December 31, 2021 (2020: RMB62,000), which was repayable on credit terms similar to those offered to the major customers of the Group.

The expected timing of recovery or settlement is generally within one year.

The movements in the loss allowance for impairment of contract assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**2,470**	2,752
Impairment losses, net	**791**	(233)
Exchange realignment	**(19)**	(49)
	3,242	2,470

The Group has applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all contract assets. To measure the ECLs, contract assets have been grouped based on shared credit risk characteristics and the days past due. The ECLs below also incorporate forward-looking information. The impairment as of the end of each reporting period was determined as follows:

	2021	2020
Expected credit loss	**1.64%**	1.81%
Gross carrying amount (RMB'000)	**198,223**	136,234
Impairment (RMB'000)	**(3,242)**	(2,470)

28. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Financial assets at amortised cost (i)	**1,079,712**	–
Prepayments	**24,952**	9,991
Deposits and other receivables	**29,774**	17,414
Prepaid expenses	**62,498**	36,162
Tax recoverable	**235,673**	128,963
Others	**8,582**	3,490
	1,441,191	196,020

(i) Financial assets at amortised cost of the Group mainly include the reverse-repurchase products of the Chinese government bonds, and interests is charged at a fixed interest rate.

As at the end of the reporting period, other receivables of the Group were considered to be of low credit risk and thus the Group has assessed that the ECLs for other receivables were immaterial under the 12-month expected loss method.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into a series of wealth management products with banks and other financial institutions. The investments are principal-guaranteed by the relevant financial institutions. The expected rates of return ranged from 2.33%-4.66% per annum for the year, which were determined by reference to the returns of the underlying investment portfolio.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2021 RMB'000	2020 RMB'000
Current assets		
Derivatives under hedge accounting		
Cash flow hedges – Foreign currency forward contracts	**15,092**	–
Other derivative		
Foreign currency forward contracts	**1,582**	84,698
	16,674	84,698

30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges – Foreign currency risk

Foreign currency forward contracts are designated as hedging instruments in cash flow hedges of foreign exchange rate risk arising from forecast sales in USD. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange forward contracts are identical to the hedged risk components. The cash flow hedges were assessed to be highly effective.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the forecasted sales and purchases and the hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

The Group holds the following foreign exchange forward contracts:

	Less than 6 months USD'000	6 to 12 months USD'000	1 to 2 years USD'000	Total USD'000
As at December 31, 2021				
Foreign currency risk				
– Foreign currency forward contracts	77,000	265,000	30,000	372,000
Average forward rates (USD/RMB)	6.5128	6.8221	6.6960	6.7479

The impacts of the hedging instruments on the consolidated statement of financial position are as follows:

	Notional amount USD'000	Carrying amount RMB'000	Line item in the statement of financial position
As at December 31, 2021			
Foreign currency risk			
– Foreign currency forward contracts	372,000	15,092	Derivative financial instruments (assets)

30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedges – Foreign currency risk (continued)

The impacts of the hedged items on the consolidated statement of financial position are as follows:

	Cash flow hedge reserve RMB'000
As at December 31, 2021	
Foreign currency risk	
– Foreign currency forward contracts	12,828

The effects of the cash flow hedge on the consolidated statement of profit or loss and the consolidated statement of comprehensive income are as follows:

	Total hedging gain/(loss) recognised in other comprehensive income			Line item in the statement of profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
As at December 31, 2021				
Foreign currency risk				
– Foreign currency forward contracts	55,585	(8,338)	47,247	Revenue Other expenses

	Amount reclassified from other comprehensive income to profit or loss			Line item in the statement of profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
As at December 31, 2021				
Foreign currency risk				
– Foreign currency forward contracts	24,054	(3,608)	20,446	Revenue
Foreign currency risk				
– Foreign currency forward contracts	16,439	(2,466)	13,973	Other expenses

31. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents	**3,526,577**	2,935,090
Pledged deposits	**17,243**	7,263
	3,543,820	2,942,353

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents and pledged deposits Denominated in		
– RMB	**2,269,746**	1,792,495
– USD	**1,108,901**	1,101,031
– GBP	**73,743**	33,719
– HKD	**80,217**	7,877
– Others	**11,213**	7,231
	3,543,820	2,942,353

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Pledged deposits earn interest at interest rates stipulated by the respective financial institutions. Pledged deposits represent the amounts pledged to issue letters of credit and deposits for environmental protection.

32. INTEREST-BEARING BANK BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured (a)	3.970~4.650	2022	56,446	3.970~4.650	2021	4,703
Bank loans – unsecured	1.080~4.275	2022	425,856	1.000~4.275	2021	381,443
			482,302			386,146
Non-current						
Bank loans – secured (a)	3.970~4.650	2026~2030	876,095	3.970~4.650	2027~2030	300,703
Bank loans – unsecured	4.275	2024	80,000	1.000~4.275	2022~2024	94,108
			956,095			394,811
			1,438,397			780,957

Analysis into:

	2021 RMB'000	2020 RMB'000
Bank loans and other borrowings repayable:		
Within one year	482,302	386,146
In the second year	128,723	27,149
In the third to fifth years, inclusive	644,193	192,759
Beyond five years	183,179	174,903
	1,438,397	780,957

(a) As at December 31, 2021, the bank loans with an amount of RMB932,541,000 (2020: RMB305,406,000) were secured by the mortgage of the Group's long-term assets (property, plant and equipment, right-of-use assets) owned by the Group.

As at December 31, 2021, the mortgaged property, plant and equipment had a net carrying amount of approximately RMB422,519,000 (2020: RMB405,629,000). The mortgaged right-of-use assets had a net carrying amount of approximately RMB135,256,000 (2020: RMB180,531,000).

33. CONVERTIBLE BONDS

On June 18, 2021 (the "Issue Date"), the Company issued two series of five-year zero coupon convertible bonds due 2026 in an aggregate principal amount of USD300,000,000 (the "Series 1 Bonds") and RMB1,916,000,000 (the "Series 2 Bonds"), respectively (together, the "Convertible Bonds"). The conversion right attaching to any bond may be exercised, at the option of the bondholder, at any time on or after the 41st day after the Issue Date up to the close of business on the date falling 10 working days prior to June 18, 2026 (the "Maturity Date") of each respective series (both days inclusive) into fully paid ordinary H shares with a nominal value of RMB1.00 each at an initial conversion price of HKD250.75 per share for Series 1 Bonds and HKD229.50 per share for Series 2 Bonds, respectively, with a fixed exchange rate of HKD7.7588 to USD1.00 and a fixed exchange rate of HKD1.2143 to RMB1.00, respectively, but could be subject to certain adjustments, as applicable.

On the Maturity Date, unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Series 1 Bonds at 100% of its principal amount and each Series 2 Bonds at the USD equivalent of 107.76% of its principal amount, respectively.

The Company will, at the option of the holder of any bond, redeem all or some only of that holder's bonds on June 18, 2024 at, in respect of the Series 1 Bonds, 100%, and in respect of the Series 2 Bonds, the USD equivalent of 104.59% of their outstanding principal amount.

On giving not less than 30 nor more than 60 days' notice to the bondholders, the trustee and the principal agent (which notice will be irrevocable), the bonds may be redeemed by the Company in whole, but not in part, on the date specified in the optional redemption notice at, in respect of the Series 1 Bonds, the principal amount, and in respect of the Series 2 Bonds, the USD equivalent of the early redemption amount, (i) in respect of the Series 1 Bonds only at any time after June 18, 2024 but prior to the Maturity Date, subject to certain conditions as specified in the terms and conditions, or (ii) in respect of both Series at any time if, the aggregate principal amount of the bonds outstanding is less than 10% of the aggregate principal amount originally issued.

The Series 1 Bonds comprise two components:

(a) Debt component was initially measured at fair value. It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs.

(b) Embedded derivative component comprises conversion options and early redemption options (not closely related to the debt component), which was initially and subsequently measured at fair value.

The Series 2 Bonds comprise two components:

(a) Debt component was initially measured at fair value. It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs.

(b) Equity component comprises conversion options. It was initially measured at fair value and subsequently kept unchanged.

The total transaction costs that are related to the issue of the Convertible Bonds were allocated to the debt component, derivative component and equity component in proportion to their respective fair values.

33. CONVERTIBLE BONDS (CONTINUED)

The convertible bonds issued during the year have been split into the liability and equity components as follows:

	Debt component RMB'000	Embedded derivative component RMB'000	Equity component RMB'000	Total RMB'000
Issue of convertible bonds	3,490,689	154,413	201,728	3,846,830
Transaction cost	(64,225)	(3,390)	(3,174)	(70,789)
Transaction cost charged into profit or loss immediately	–	3,390	–	3,390
Exchange adjustments	(16,494)	–	–	(16,494)
Interest charge	57,120	–	–	57,120
Gains arising on changes of fair value	–	(72,854)	–	(72,854)
As at December 31, 2021	3,467,090	81,559	198,554	3,747,203

No conversion or redemption of the Convertible Bonds has occurred up to December 31, 2021.

As at December 31, 2021, the embedded derivative component was measured at fair value with reference to valuation report issued by an independent qualified professional valuer unrelated to the Group. The changes in fair value are recognised in profit or loss during the year.

34. TRADE PAYABLES

Trade payables are non-interest-bearing and normally settled on terms of one to three months.

An ageing analysis of the trade payables as at the end of each reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 year	309,449	187,369
Over 1 year	6,085	4,128
	315,534	191,497

Included in the trade payables was an amount due to a related party of RMB4,000 as at December 31, 2021 (2020: RMB804,000), which was repayable within 30 days, which represents credit terms similar to those offered by the related party to their major customers.

35. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Staff payroll and welfare payables	**548,082**	402,325
Payables for acquisition of plant and equipment	**343,598**	212,436
Payables for acquisition of equity interests in subsidiaries	**271,336**	34,063
Accrued expenses	**80,843**	72,969
Other tax payable	**32,854**	24,214
Obligations of purchasing the restricted shares under 2019 Pharmaron A share incentive scheme	**21,419**	45,454
Others	**19,778**	27,852
	1,327,910	819,313

36. CONTRACT LIABILITIES

	2021 RMB'000	2020 RMB'000
Short-term advances of delivery of services	**679,621**	473,289

Included in the contract liabilities was an amount due to related parties of RMB2,267,000 as at December 31, 2021 (2020: RMB4,889,000), which was repayable on credit terms similar to those offered by the related party to their major customers.

37. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Current		
Lease liabilities	**95,292**	83,925
Non-current		
Lease liabilities	**284,338**	186,608
	379,630	270,533

The movements of the lease liabilities during each reporting period are as follows:

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**270,533**	195,310
Addition	**209,185**	109,831
Acquisition of subsidiaries (note 43)	**9,129**	47,017
Interest expense	**14,030**	11,486
Payments (including value added tax)	**(124,553)**	(90,725)
Termination of lease contracts	**(2,271)**	(522)
Charges on value added tax	**3,824**	4,320
Exchange realignment	**(247)**	(6,184)
Ending balance	**379,630**	270,533

38. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Convertible bonds – Embedded derivative component (note 33)	**81,559**	–
Contingent consideration – non current	**–**	146,810
	81,559	146,810

39. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants	**149,439**	158,128

	2021 RMB'000	2020 RMB'000
At the beginning of the year	**158,128**	111,606
Government grants received	**3,223**	57,784
Credited to profit or loss	**(11,912)**	(11,232)
Exchange realignment	**–**	(30)
At the end of the year	**149,439**	158,128

The Group received government grants for capital expenditure incurred for the acquisition of plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

40. SHARE CAPITAL

	2021 RMB'000	2020 RMB'000
Issued and fully paid:		
794,177,098 (2020: 794,387,462) ordinary shares	**794,177**	794,387

A summary of movements in the Company's share capital is as follows:

	Number of Shares in issue	Share capital RMB'000
At January 1, 2020, December 31, 2020 and January 1, 2021	794,387,462	794,387
Repurchase and cancellation of restricted A shares	(210,364)	(210)
At December 31, 2021	794,177,098	794,177

41. SHARE OPTION SCHEME

2019 Pharmaron A Share Incentive Scheme

On August 15, 2019, the shareholders' meeting of the Company passed a resolution to issue up to 5,651,359 A Shares of the Company under the 2019 Pharmaron A Share Incentive Scheme consisting of Restricted A shares and share options. On October 24, 2019, 4,077,387 restricted A shares of the Company were approved for eligible employees to subscribe at the price of RMB17.85 per A Share and the grant date was October 30, 2019. As of November 5, 2019, 4,077,387 A Shares were subscribed by eligible employees and a consideration of RMB72,781,000 was received by the Company. These granted restricted A Shares have a contractual term of no more than four years and will be unlocked over a three-year period, with 40%, 30% and 30% of the awards unlocking on the first, second and third anniversary dates of the A Share registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2019 Pharmaron A Share Incentive Scheme, employees shall not transfer the A Shares which fulfil the unlocking conditions to any third party in any form within six months from each unlocking anniversary date.

The following share units were outstanding under the Scheme during the year:

	2021		2020	
	Subscription price RMB per share	**Number of restricted A shares '000**	Subscription price RMB per share	Number of restricted A shares '000
At 1 January	**17.85**	**2,432**	17.85	4,077
Forfeited during the year	**17.85**	**(206)**	17.85	(136)
Exercised during the year	**17.85**	**(1,113)**	17.85	(1,509)
At 31 December	**17.85**	**1,113**	17.85	2,432

The fair value of the award shares under the A Share Incentive Scheme as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	A Share Incentive Scheme
Grant date A Share price (RMB)	53.43
Expected volatility in the black-out period	64.89%
Expected life (years)	0.83
Risk-free interest rate	1.30%

For the year ended December 31, 2021, the Group has recorded share-based compensation expenses of RMB19,344,000 (the year ended December 31, 2020: RMB58,696,000) in relation to the 2019 Pharmaron A Share Incentive Scheme.

41. SHARE OPTION SCHEME (CONTINUED)

The First H Share Award and Trust Scheme

The Company adopted a H share award and trust scheme (the "H Share Scheme"), comprised of the Employee Share Award Plan (the "ESAP") and the Share Bonus Plan, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the H Share Scheme include any individual, being a Director, senior management, key operating team member, employee, or consultant, who is a full-time PRC or non-PRC employee of any members of the Group. The awards under the ESAP shall be vested over a four-year period, with 25%, 25%, 25% and 25% of total options vesting on each anniversary date after the vesting commencement date upon meeting certain sales performance conditions. Awards under the Share Bonus Plan shall be vested in two equal tranches (i.e., 50% and 50% on each anniversary date after the vesting commence date upon meeting certain profit performance conditions). The H Share Scheme was approved in the 2020 third extraordinary general meeting ("EGM") of the Company on December 11, 2020 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Further details of the H Share Scheme are also set out in an announcement of the Company.

In order to operate the H Share Scheme, a trust was established pursuant to the trust deed between the Company and Kastle Limited (the "Trustee"), an independent third party. The source of the Award Shares under the H Share Scheme shall be H Shares to be acquired by the Trustee through on-market transactions at the prevailing market price. The maximum number of shares may be issued under the H Share Scheme in any case is 7,940,000 H Shares, representing approximately 0.99% of the Company's total share capital as at the approval date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a connected person (as defined in the Listing Rules) of the Company are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of the Company, or to any of their associates (as defined in the Listing Rules), in excess of 0.1% of the shares of the Company in issue or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Neither the eligible participants nor the Trustee may exercise any voting rights attached to any H Shares held by the Trustee under the trust (including any Award Shares that have not yet vested). Any dividend underlying the non-vested Award Shares shall be retained by the Trustee, and transferred to the Selected Participant together with the Award Shares upon vesting. In the event that the Award Shares are to be forfeited, such underlying dividend shall be transferred back to the Company. Any Award Shares vested shall not be assignable or transferable for six months beginning the vesting date of that part of the Award Shares.

41. SHARE OPTION SCHEME (CONTINUED)

The First H Share Award and Trust Scheme (continued)

The following Award Shares were granted under the H Share Scheme-ESAP during the year:

	2021 Number of Award shares '000	2020 Number of Award shares '000
At 1 January	776	–
Granted during the year	–	776
Forfeited during the year	(11)	–
At 31 December	765	776

The fair value of the award shares under the ESAP as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	ESAP
Grant date H Share price (HKD)	105.70
Expected volatility in the black-out period	53.00%
Expected life (years)	0.17-3.17
Risk-free interest rate	0.06%

For the year ended December 31, 2021, the Group has recorded share-based compensation expenses of RMB26,269,000 (the year ended December 31, 2020: RMB1,853,000) in relation to the H Share Scheme-ESAP.

During the year ended December 31, 2021, the Group had purchased 2,448,500 of its own shares with market price of RMB280,303,000 through the trustee from the open market and had been deducted from equity as treasure shares (the year ended December 31, 2020: Nil).

41. SHARE OPTION SCHEME (CONTINUED)

2021 Pharmaron A Share Incentive Scheme

On July 12, 2021, the shareholders' meeting of the Company passed a resolution to issue up to 774,200 A Shares of the Company under the 2021 Pharmaron A Share Incentive Scheme consisting of Restricted A shares and share options. On June 9, 2021, the shareholders' meeting of the Company passed a resolution to grant 774,200 A Shares of the Company under the 2021 Pharmaron A Share Incentive Scheme consisting of Restricted A shares and share options. On July 27, 2021, 774,200 restricted A shares of the Company were approved to grant eligible employees at the price of RMB70.17 per A Share and the grant date was July 27, 2021. These granted restricted A Shares have a contractual term of no more than five years and will be unlocked over a four-year period, with 25%, 25%, 25% and 25% of the awards unlocking on the first, second, third and fourth anniversary dates of the A Share registration date upon meeting certain annual performance conditions. Pursuant to the black-out period provisions of the 2021 Pharmaron A Share Incentive Scheme, employees shall not transfer the A Shares which fulfil the unlocking conditions to any third party in any form within six months from each unlocking anniversary date.

The following share units were outstanding under the Scheme during the year:

	2021	
	Subscription price RMB per share	Number of restricted A shares '000
At 1 January	–	–
Granted during the year	70.17	774
At 31 December	70.17	774

The fair value of the award shares under the A Share Incentive Scheme as at the grant date was determined using the Black-Scholes model by factoring the black-out period into the option pricing model. The fair value and corresponding inputs into the model were as follows:

	A Share Incentive Scheme
Grant date A Share price (RMB)	186.50
Expected volatility in the black-out period	19.80%
Expected life (years)	0.57-4.57
Risk-free interest rate	1.50%

For the year ended December 31, 2021, the Group has recorded share-based compensation expenses of RMB18,273,000 in relation to the 2021 Pharmaron A Share Incentive Scheme.

41. SHARE OPTION SCHEME (CONTINUED)

Share Option Plan of Subsidiaries

Certain subsidiaries of the Group granted 857,000 share options (2020: 969,000) to eligible employees to attract and motivate personnel and promote the success of the subsidiaries.

The Group recognised share-based compensation expenses of RMB3,643,000 (the year ended December 31, 2020: RMB1,909,000) during the year ended December 31, 2021.

42. RESERVES

(i) Statutory reserve

In accordance with the Company Law of the People's Republic of China, the companies in the PRC are required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the companies registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the companies. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(ii) Capital reserve

The capital reserve of the Group represents the reserve arisen pursuant to the reorganisation of subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

43. BUSINESS COMBINATIONS

On April 30, 2021, the Group acquired 100% equity interest of Pharmaron Biologics (UK) Ltd (formerly known as Allergan Biologics Limited), for a cash consideration of USD154,458,000 (equivalent to RMB998,911,000) and Pharmaron Biologics (UK) Ltd became a subsidiary of the Group. Pharmaron Biologics (UK) Ltd mainly provides CDMO services of CGT products.

The fair values of the identifiable assets and liabilities of Pharmaron Biologics (UK) Ltd as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	169,026
Right-of-use assets	15	7,350
Inventories		5,620
Prepayments, other receivables and other assets		36,297
Cash and cash equivalents		213,610
Trade payables		(5,827)
Other payables and accruals		(62,944)
Lease liabilities	37	(8,559)
Tax payables		(3,990)
Deferred tax liabilities	22	(924)
Total identifiable net assets at fair value		349,659
Goodwill on acquisition	17	649,252
Satisfied by cash		998,911

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	RMB'000
Cash consideration	(998,911)
Cash and cash equivalents acquired	213,610
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(785,301)

Since the acquisition, Pharmaron Biologics (UK) Ltd contributed RMB749,000 to the Group's revenue and caused a loss of RMB115,409,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB7,527,069,000 and RMB1,573,615,000, respectively.

43. BUSINESS COMBINATIONS (CONTINUED)

In April 2021, the Company entered into an acquisition agreement with Shin Nippon Biomedical Laboratories (Asia) Limited to acquire 38.42% equity interests of Biomedical Research (GZ), Ltd., with a cash consideration of RMB68,620,000 ("Equity Purchase") and then subscribed for the increased registered capital of Zhaoqing for another cash consideration of RMB41,400,000 ("Capital Contribution"). On June 29, 2021, after the Equity Purchase and Capital Contribution, the Company owned 50.01% equity interests of Zhaoqing and obtained the control of Zhaoqing. Therefore, Zhaoqing became a subsidiary of the Group. Zhaoqing mainly engages in humanized management and scientific husbandry of monkeys for experiment.

The fair values of the identifiable assets and liabilities of Biomedical Research (GZ), Ltd. as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	27,397
Biological assets – non-current	21	35,549
Other non-current assets		130
Inventories		688
Biological assets – current	21	103,588
Prepayments, other receivables and other assets		632
Pledged deposits		420
Cash and cash equivalents		23,405
Trade payables		(120)
Other payables and accruals		(3,009)
Deferred tax liabilities	22	(15,937)
Total identifiable net assets at fair value		172,743
Non-controlling interests		(86,354)
Goodwill on acquisition	17	23,631
Satisfied by cash		110,020

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(110,020)
Cash and cash equivalents acquired	23,405
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(86,615)

43. BUSINESS COMBINATIONS (CONTINUED)

Since the acquisition, Biomedical Research (GZ), Ltd. contributed RMB31,194,000 to the Group's revenue and a profit of RMB25,940,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB7,436,725,000 and RMB1,608,214,000, respectively.

On July 6, 2021, the Company acquired 55% equity interest of Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. with a cash consideration of RMB55,000 and Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. became a subsidiary of the Group. It mainly provides clinical development services.

The fair values of the identifiable assets and liabilities of Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	49
Right-of-use assets	15	595
Other intangible assets	18	3,405
Contract assets		3,651
Prepayments, other receivables and other assets		661
Financial assets at fair value through profit or loss		200
Cash and cash equivalents		59,952
Contract liabilities		(3,622)
Other payables and accruals		(2,663)
Lease liabilities	37	(570)
Deferred tax liabilities	22	(504)
Total identifiable net assets at fair value		61,154
Non-controlling interests		(27,519)
Goodwill on acquisition	17	21,365
Satisfied by cash		55,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(55,000)
Cash and cash equivalents acquired	59,952
Net inflow of cash and cash equivalents included in cash flows generated in investing activities	4,952

43. BUSINESS COMBINATIONS (CONTINUED)

Since the acquisition, Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. contributed RMB5,882,000 to the Group's revenue and caused a loss of RMB2,726,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB7,448,151,000 and RMB1,614,177,000, respectively.

On October 1, 2021, the Group acquired 100% equity interest of Kangruitai (Zhanjiang) Biotechnology Co., Ltd. (formerly known as Zhongke Lingrui (Zhanjiang) Biotechnology Co., Ltd.), at a cash consideration of RMB205,700,000 and Kangruitai (Zhanjiang) Biotechnology Co., Ltd. became a subsidiary of the Group. Kangruitai (Zhanjiang) Biotechnology Co., Ltd. is mainly engaged in experimental animal breeding.

The fair values of the identifiable assets and liabilities of Kangruitai (Zhanjiang) Biotechnology Co., Ltd. as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	19,201
Biological assets – non-current	21	88,685
Inventories		435
Biological assets – current	21	66,058
Cash and cash equivalents		15,404
Trade payables		(66)
Other payables and accruals		(22,661)
Tax payables		(13,118)
Deferred tax liabilities	22	(18,090)
Total identifiable net assets at fair value		135,848
Goodwill on acquisition	17	69,852
Satisfied by cash		205,700

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(205,700)
Unpaid cash consideration included in other payables and accruals	40,580
Cash and cash equivalents acquired	15,404
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(149,716)

43. BUSINESS COMBINATIONS (CONTINUED)

Since the acquisition, Kangruitai (Zhanjiang) Biotechnology Co., Ltd. contributed RMB3,779,000 to the Group's revenue and caused a profit of RMB3,537,000 to the consolidated profit of the Group for the year.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB7,579,990,000 and RMB1,710,150,000, respectively.

On December 31, 2021, the Group acquired 100% equity interest of DeltaMed (Hangzhou) Co., Ltd., at a cash consideration of RMB275,000,000 and DeltaMed (Hangzhou) Co., Ltd. became a subsidiary of the Group. DeltaMed (Hangzhou) Co., Ltd. mainly provides clinical development services.

The fair values of the identifiable assets and liabilities of DeltaMed (Hangzhou) Co., Ltd. as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	327
Other intangible assets	18	50,400
Trade receivables		11,527
Prepayments, other receivables and other assets		1,525
Cash and cash equivalents		14,747
Trade payables		(3,321)
Other payables and accruals		(2,541)
Contract liabilities		(1,410)
Tax payables		(75)
Deferred tax liabilities	22	(12,600)
Total identifiable net assets at fair value		58,579
Goodwill on acquisition	17	216,421
Satisfied by cash		275,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(275,000)
Unpaid cash consideration included in other payables and accruals	230,756
Cash and cash equivalents acquired	14,747
Net outflow of cash and cash equivalents included in cash flows generated in investing activities	(29,497)

43. BUSINESS COMBINATIONS (CONTINUED)

Since the acquisition, no revenue and profit has been contributed to the Group's consolidated revenue and profit for the year.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period would have been RMB7,464,927,000 and RMB1,618,823,000 respectively.

44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into lease arrangements with a total capital value at the inception of the leases of RMB209,185,000 (2020: RMB85,759,000) as at December 31, 2021.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2021	**780,957**	**270,533**
Changes from financing cash flows	**639,660**	**(124,553)**
Addition	**–**	**209,185**
Acquisition of subsidiaries (note 43)	**–**	**9,129**
Decrease due to termination of lease contracts	**–**	**(2,271)**
Interest expense	**46,589**	**14,030**
Charges on value added tax	**–**	**3,824**
Foreign exchange movements	**(28,809)**	**(247)**
At December 31, 2021	**1,438,397**	**379,630**

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
At January 1, 2020	844,445	195,310
Changes from financing cash flows	(63,574)	(90,725)
Addition	–	109,831
Acquisition of subsidiaries	–	47,017
Decrease due to termination of lease contracts	–	(522)
Interest expense	17,024	11,486
Charges on value added tax	–	4,320
Foreign exchange movements	(16,938)	(6,184)
At December 31, 2020	780,957	270,533

45. CONTINGENT LIABILITIES

As at the end of each reporting period, neither the Group nor the Company had any significant contingent liabilities.

46. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank loans and other borrowings, which are secured by the assets of the Group, are included in note 32 to the consolidated financial statements.

47. COMMITMENTS

(a) Capital commitments

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**1,019,139**	897,759
Capital contributions payable to associates	**854,675**	132,000
	1,873,814	1,029,759

48. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) Transactions with related parties:

	2021 RMB'000	2020 RMB'000
Entities controlled by the close family members of the directors		
Purchases of raw materials (i)	**8,249**	8,488
Entities in which the directors act as key management personnel		
Provision of pharmaceutical R&D service (ii)	**26,043**	16,829
Rental income (iii)	**117**	
Associate		
Provision of pharmaceutical R&D service (ii)	**282**	94

(i) The purchases from related parties were made according to the published prices and conditions similar to those offered to the major customers of the suppliers.

(ii) The R&D service fees were made according to the price list for similar nature and quantity of services provided to other clients.

(iii) The rental income from related parties was an office rent to Kangjun Investment Management (Beijing) Co., Ltd.

(b) Other transactions with related parties

(i) During the year, the Company and Kangjun Investment Management (Beijing) Co., Ltd. entered into a limited partnership agreement in relation to the establishment of and investment in Ningbo Kangjun Zhongyuan Equity Investment Partnership Enterprise(Limited Partnership). Further details of the transaction are included in note 19 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	**12,245**	12,089
Performance-related bonus	**23,750**	12,550
	35,995	24,639

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

(d) Outstanding balances with related parties

Details of the Group's trade balances with its related parties as at the end of each reporting period are disclosed in notes 26, 27, 34 and 36 to the financial statements.

49. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

As at December 31, 2021		Financial assets at fair value through profit or loss		
Financial assets	Financial assets at amortised cost RMB'000	Equity investments at fair value through profit or loss RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	–	310,063	–	310,063
Financial assets at fair value through profit or loss	–	–	1,537,947	1,537,947
Trade receivables	1,228,849	–	–	1,228,849
Derivative financial instruments	–	–	16,674	16,674
Financial assets included in other non-current assets	24,482	–	–	24,482
Financial assets included in prepayments, other receivables and other assets	1,109,486	–	–	1,109,486
Pledged deposits	17,243	–	–	17,243
Cash and cash equivalents	3,526,577	–	–	3,526,577
	5,906,637	310,063	1,554,621	7,771,321

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	315,534	315,534
Financial liabilities included in other payables and accruals	–	731,832	731,832
Interest-bearing bank borrowings	–	1,438,397	1,438,397
Convertible bonds – debt component	–	3,467,090	3,467,090
Financial liabilities at fair value through profit or loss	81,559	–	81,559
	81,559	5,952,853	6,034,412

49. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows: (continued)

As at December 31, 2020		Financial assets at fair value through profit or loss		
Financial assets	Financial assets at amortised cost RMB'000	Equity investments at fair value through profit or loss RMB'000	Mandatorily designated as such RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	–	121,230	–	121,230
Financial assets at fair value through profit or loss	–	–	825,312	825,312
Trade receivables	1,076,614	–	–	1,076,614
Derivative financial instruments	–	–	84,698	84,698
Financial assets included in other non-current assets	20,480	–	–	20,480
Financial assets included in prepayments, other receivables and other assets	17,414	–	–	17,414
Pledged deposits	7,263	–	–	7,263
Cash and cash equivalents	2,935,090	–	–	2,935,090
	4,056,861	121,230	910,010	5,088,101

Financial liabilities	**Financial liabilities at fair value through profit or loss RMB'000**	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Trade payables	–	191,497	191,497
Financial liabilities included in other payables and accruals	–	392,162	392,162
Interest-bearing bank and other borrowings	–	780,957	780,957
Financial liabilities at fair value through profit or loss	146,810	–	146,810
	146,810	1,364,616	1,511,426

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets, current interest-bearing bank and other borrowings, trade payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at the end of each reporting period were assessed to be insignificant.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value management of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

For the fair value of the unlisted equity investments at fair value through profit or loss, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The Group invests in some wealth management products issued by banks. The Group has estimated the fair values of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments including forward currency contracts which are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market unobservable inputs.

The fair value of the derivative component of the convertible bonds was measured with reference to valuation report issued by a third-party professional valuer.

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a relationship of unobservable inputs to fair value as at December 31, 2021 and 2020:

	Valuation technique	Significant unobservable inputs (Level 3)	Range	Relationship of unobservable inputs to fair value
Equity investments at fair value through profit or loss – unlisted	Valuation multiples	Average EV/R&D multiple of peers	2.0 – 5.9	The higher the multiple, the higher the fair value
Fund investments at fair value through profit or loss – unlisted	Net asset value of underlying investments	Net asset value		The higher net asset value, the higher the fair value
Financial liabilities at fair value through profit or loss	Binominal option pricing with the volatilities and risk-free rates as key inputs	Expected volatility/ Risk-free rate		The higher the expected volatility, the higher the fair value. The lower risk-free rate, the higher the fair value.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Significant Observable inputs (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at December 31, 2021				
Equity investments at fair value through profit or loss	83,946	81,779	144,338	310,063
Derivative financial instruments (assets)	–	16,674	–	16,674
Financial assets at fair value through profit or loss	–	1,537,947	–	1,537,947
	83,946	1,636,400	144,338	1,864,684
As at December 31, 2020				
Equity investments at fair value through profit or loss	96,609	–	24,621	121,230
Financial assets at fair value through profit or loss	–	825,312	–	825,312
Derivative financial instruments	–	84,698	–	84,698
	96,609	910,010	24,621	1,031,240

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

Equity investments at fair value through profit or loss – unlisted	2021 RMB'000	2020 RMB'000
At 1 January	**23,621**	59,054
Purchase	**–**	16,323
Transferred from an investment in associates to equity investments at fair value through profit or loss	**31,817**	–
Transfer out	**(38,489)**	(50,159)
Fair value gain	**15,043**	–
Exchange realignment	**(175)**	(1,597)
	31,817	23,621

Fund investments at fair value through profit or loss – unlisted	2021 RMB'000	2020 RMB'000
At 1 January	**1,000**	–
Purchase	**95,191**	1,000
Fair value gain	**16,330**	–
	112,521	1,000

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value

	Significant Observable inputs (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at December 31, 2021				
Convertible bonds – Embedded derivative component	–	–	81,559	81,559

	Significant Observable inputs (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at December 31, 2020				
Contingent consideration of an acquirer in a business combination	–	–	146,810	146,810

Transfer within hierarchy

Since Imago BioSciences, a joint-stock company of the Group, was listed on Nasdaq on July 16, 2021, relevant quotations can be obtained from the open active market, however, its shares can only be traded after a 6-month lock-up period. During the lock-up period, its fair value still needs to consider the liquidity discount. Therefore, the fair value measurement of the shares of the Group is transferred from Level 3 to Level 2.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise lease liabilities, interest-bearing bank and other borrowings, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Group's accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank loans and other borrowings with a floating interest rate.

The following table demonstrates the sensitivity to reasonably possible changes in interest rate, with all other variables held constant, of the Group's profit before tax (mainly the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease)/ increase in equity RMB'000
Year ended December 31, 2021	100/(100)	(13,340)/13,340	(11,340)/11,340
Year ended December 31, 2020	100/(100)	(7,193)/7,193	(6,563)/6,563

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and financing activities in currencies other than the units' functional currencies.

In addition, the Group has currency exposures from its interest-bearing bank borrowings.

The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against the functional currency, of the Group's profit before tax and the Group's equity excluding the impact of retained earnings due to the changes of exchange fluctuation reserve. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

	Increase/(decrease) in profit before tax RMB'000	**Increase/(decrease) in equity RMB'000**
Year ended December 31, 2021		
if RMB weakens against USD	**3,337**	**2,836**
if RMB strengthens against USD	**(3,337)**	**(2,836)**

	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity RMB'000
Year ended December 31, 2020		
if RMB weakens against USD	88,486	75,213
if RMB strengthens against USD	(88,486)	(75,213)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the end of each reporting period. The amounts presented are gross carrying amounts for financial assets.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at December 31, 2021	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	198,223	198,223
Trade receivables*	–	–	–	1,267,340	1,267,340
Financial assets included in prepayments, other receivables and other assets – Not yet past due	1,109,486	–	–	–	1,109,486
Financial assets included in other non-current assets – Not yet past due	24,482	–	–	–	24,482
Pledged deposits – Not yet past due	17,243	–	–	–	17,243
Cash and cash equivalents – Not yet past due	3,526,577	–	–	–	3,526,577
	4,677,788	–	–	1,465,563	6,143,351

As at December 31, 2020	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	136,234	136,234
Trade receivables*	–	–	–	1,110,720	1,110,720
Financial assets included in prepayments, other receivables and other assets – Not yet past due	17,414	–	–	–	17,414
Financial assets included in other non-current assets – Not yet past due	20,480	–	–	–	20,480
Pledged deposits – Not yet past due	7,263	–	–	–	7,263
Cash and cash equivalents – Not yet past due	2,935,090	–	–	–	2,935,090
	2,980,247	–	–	1,246,954	4,227,201

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 26 and 27 to the financial statements, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

2021	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	533,915	880,706	189,856	1,604,477
Trade payables	315,534	–	–	315,534
Convertible bonds – debt component	–	3,977,392	–	3,977,392
Financial liabilities included in other payables and accruals	731,832	–	–	731,832
Lease liabilities	110,132	214,465	102,309	426,906
	1,691,413	5,072,563	292,165	7,056,141

2020	Less than 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	411,926	276,287	180,327	868,540
Trade payables	191,497	–	–	191,497
Financial liabilities included in other payables and accruals	392,162	–	–	392,162
Financial liabilities at fair value through profit or loss	–	146,810	–	146,810
Lease liabilities	93,924	140,585	74,482	308,991
	1,089,509	563,682	254,809	1,908,000

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments included equity investments at fair value through profit of loss (note 20) as at December 31, 2021. The Group's listed investments are listed on Nasdaq and are valued at quoted market prices at the end of the reporting period.

If the prices of the respective equity investments had been changed based on the 10% higher/lower, the profit for the year ended December 31, 2021 would have increased/decreased by RMB16,573,000 (2020: RMB9,660,000), as a result of the changes in fair value of financial assets at FVTPL.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2021 and 2020.

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Total assets	**18,389,124**	11,908,792
Total liabilities	**8,093,817**	2,975,053
Gearing ratio	**44.01%**	24.98%

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at December 31, 2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,412,566**	1,405,470
Right-of-use assets	**181,001**	177,495
Other intangible assets	**12,588**	8,585
Investments in associates	**272,849**	88,336
Investments in subsidiaries	**6,826,963**	4,346,822
Equity investments at fair value through profit or loss	**144,338**	1,000
Other non-current assets	**21,602**	22,424
Total non-current assets	**8,871,907**	6,050,132
CURRENT ASSETS		
Inventories	**50,722**	37,015
Contract costs	**16,447**	16,447
Trade receivables	**1,017,494**	866,340
Prepayments, other receivables and other assets	**2,109,337**	491,675
Derivative financial instruments	**16,674**	84,698
Financial assets at fair value through profit or loss	**576,760**	440,564
Pledged deposits	**47**	–
Cash and cash equivalents	**2,034,488**	1,857,342
Total current assets	**5,821,969**	3,794,081
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**65,443**	42,738
Trade payables	**281,482**	125,514
Other payables and accruals	**769,614**	806,884
Contract liabilities	**138,283**	111,358
Lease liabilities	**20,844**	16,381
Tax payable	**23,480**	–
Total current liabilities	**1,299,146**	1,102,875
NET CURRENT ASSETS	**4,522,823**	2,691,206
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,394,730**	8,741,338

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	As at December 31, 2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**72,026**	58,238
Interest-bearing bank and other borrowings	**80,000**	84,000
Deferred income	**4,603**	6,793
Lease liabilities	**46,856**	43,903
Financial liabilities at fair value through profit or loss	**81,559**	–
Convertible bonds-debt component	**3,467,090**	–
Total non-current liabilities	**3,752,134**	192,934
NET ASSETS	**9,642,596**	8,548,404
EQUITY (Note)		
Share capital	**794,177**	794,387
Treasury shares	**(301,825)**	(45,475)
Reserves	**8,951,690**	7,799,492
Equity component of convertible bonds	**198,554**	–
Total equity	**9,642,596**	8,548,404

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

The Company's equity movement is as follows:

	Share capital RMB'000	Treasury shares RMB'000	Equity component of convertible bonds	Share premium RMB'000	Share-based payment reserve RMB'000	Statutory reserve RMB'000	Cash flow hedge reserve	Retained profits RMB'000	Total RMB'000
As at January 1, 2020	794,387	(72,781)	–	5,872,090	33,531	116,024	–	972,029	7,715,280
Profit for the year	–	–	–	–	–	–	–	864,408	864,408
Total comprehensive income for the year	–	–	–	–	–	–	–	864,408	864,408
Restricted A Shares Tranche to share capital	–	26,715	–	39,375	(39,375)	–	–	–	26,715
Transferred from retained profits	–	–	–	–	–	86,441	–	(86,441)	–
Dividends declared by the Company	–	591	–	–	–	–	–	(119,138)	(118,547)
Recognition of share-based payments	–	–	–	–	60,548	–	–	–	60,548
As at December 31, 2020	794,387	(45,475)	–	5,911,465	54,704	202,465	–	1,630,858	8,548,404
Profit for the year	–	–	–	–	–	–	–	1,301,540	1,301,540
Cash flow hedges, net of tax	–	–	–	–	–	–	9,131	–	9,131
Total comprehensive income for the year	–	–	–	–	–	–	9,131	1,301,540	1,310,671
Transferred from retained profits	–	–	–	–	–	130,154	–	(130,154)	–
Issue of convertible bonds	–	–	198,554	–	–	–	–	–	198,554
Repurchase and cancellation of restricted A shares	(210)	3,755	–	(3,545)	–	–	–	–	–
Repurchase of H Shares	–	(280,303)	–	–	–	–	–	–	(280,303)
Restricted A Shares Tranche to share capital	–	19,838	–	48,341	(29,032)	–	–	–	39,147
Dividends declared by the Company	–	360	–	–	–	–	–	(238,122)	(237,762)
Recognition of share-based payments	–	–	–	–	63,885	–	–	–	63,885
As at December 31, 2021	794,177	(301,825)	198,554	5,956,261	89,557	332,619	9,131	2,564,122	9,642,596

53. EVENTS AFTER THE REPORTING PERIODS

In December 2021, Pharmaron UK Limited, the wholly-owned subsidiary of the Group, signed an agreement with Consort Medical Limited to acquire its 100% equity in Aesica Pharmaceuticals Limited for an expected consideration of approximately GBP55,000,000 equivalent to (RMB473,352,000). The acquisition will further enhance the overall strength of Pharmaron's platform in small molecule CDMO service.

On January 7, 2022, the Group completed the acquisition of Aesica Pharmaceuticals Limited, which became a subsidiary of the Group.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 25, 2022.

Definitions

"^{14}C"	Carbon-14 (^{14}C), or radiocarbon, a radioactive isotope of carbon with an atomic nucleus containing 6 protons and 8 neutrons
"^{3}H"	Tritium or Hydrogen-3, a radioactive isotope of hydrogen, whose nucleus contains one proton and two neutrons
"Absorption Systems"	Absorption Systems LLC, a Delaware limited liability company formerly known as Absorption Systems LP
"ADME"	Absorption, Distribution, Metabolism and Excretion, the analysis of the body's processes of altering, utilizing and eliminating ingested and administered drugs and xenobiotics, either in an *in vitro* or *in vivo* setting
"AGM"	the annual general meeting of the Company to be held for the purpose of, among others, approving the audited financial statements for the year ended December 31, 2021
"AMS"	accelerator mass spectrometry
"API"	Active Pharmaceutical Ingredient, the component of a drug product that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the body
"A Share(s)"	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed for trading on the Shenzhen Stock Exchange and traded in RMB
"Audit Committee"	the audit committee of the Board
"Bioanalysis"	a sub-discipline of analytical science covering the quantitative measurement of xenobiotics (drugs, their metabolites, and biological molecules in unnatural locations or concentrations) and biotics (macromolecules, proteins, DNA, biologics, metabolites) in biological systems
"biologics"	a subset of pharmaceuticals that include antibodies, proteins, nucleic acids and ADCs
"Biomedical Research"	Biomedical Research (GZ), Ltd. (肇慶創藥生物科技有限公司), a company incorporated in PRC on August 12, 2003, which is held as to 50.01% by our Company
"Board"	the board of Directors
"CADD"	computer-aided drug design, the use of computers (or workstations) to aid in the creation, modification, analysis, or optimization of novel compounds or biologics

"CAGR"	the compound annual growth rate
"Campus I in Ningbo"	Located at No. 800, Binhai 4th Road, Qianwan New District, Ningbo City, Zhejiang Province, it is mainly engaged in the laboratory services and CMC (small molecule CDMO) services, formerly known as Hangzhou Bay R&D service center
"Campus II in Ningbo"	Located in Qianwan New District, Ningbo City, Zhejiang Province, it is mainly engaged in the biologics product development and manufacturing services, formerly known as Hangzhou Bay service center II
"Campus III in Ningbo"	Located in Qianwan New District, Ningbo City, Zhejiang Province, it is mainly engaged in the safety assessment business
"CDMO"	contract development and manufacturing organization(s), a CMO that, in addition to comprehensive drug manufacturing services, also provide process development and other drug development services in connection with its manufacturing services
"cGMP" "	current Good Manufacturing Practice, regulations enforced by the FDA or other regulatory authorities on pharmaceutical and biotechnology firms to ensure that the products produced meet specific requirements for identity, strength, quality and purity
"CGT"	Cell and Gene Therapy
"China" or "PRC"	the People's Republic of China
"chiral separation"	Separation of chiral compounds chiral using chiral chromatography and other technical means. Chirality is one of the essential attributes in nature. Different chiral compounds usually present different physiological activities. Chiral separation technologies can be used to obtain efficient chiral monomeric compounds that are beneficial to the human body
"CMC"	chemistry, manufacturing and controls
"CMO"	Contract Manufacturing Organization, a company that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive drug manufacturing services
"commercialization"	the stage in drug development when a new drug is approved and released to the market
"Company" or "Pharmaron"	Pharmaron Beijing Co., Ltd. (康龍化成(北京)新藥技術股份有限公司), a joint stock limited company incorporated under the laws of the PRC on July 1, 2004, the A Shares of which are listed on the Shenzhen Stock Exchange (stock code: 300759) and the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3759)

"Convertible Bonds"	the (i) US$300.0 million zero coupon convertible bonds due 2026 (debt stock code: 40725) and the (ii) RMB1,916.0 million zero coupon US$-settled convertible bonds due 2026 (debt stock code: 40733) issued by the Company on June 18, 2021
"CRC"	Clinical Research Coordinator
"CRO"	Contract Research Organization, a company focused on providing pharmaceutical research and development services to companies in the pharmaceutical markets
"crystal screening"	use the high-throughput screening technology to obtain various possible solid forms of the drug, employ multiple solid state analysis technologies to indicate physical and chemical properties of various forms and apply multidisciplinary comprehensive means to assess biopharmaceutical properties of advantaged forms for the purpose of screening those advantaged crystal forms of the drug that are suitable for production, have a high level of bioavailability if applicable, and conduce to preparation
"DeltaMed"	DeltaMed (Hangzhou) Co., Ltd. (德泰邁(杭州)醫藥科技有限公司), a company incorporated in PRC on September 13, 2018 and is held as to 100% by Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司), which is held as to 57.74% by the Company
"Directors"	directors of the Company
"DNA"	a molecule that carries most of the genetic instructions used in the development, functioning and reproduction of all known living organisms and many viruses
"DMPK"	drug metabolism and pharmacokinetics, the studies designed to determine the absorption, metabolism, excretion and the kinetic study of a drug or potential drug either in an *in vitro* or *in vivo* setting
"drugability"	the property that has received the preliminary pharmacological study and early assessment of pharmacokinetic property and safety and proved the potential for drug development
"EMA"	European Medicines Agency, a European Union body responsible for the protection and promotion of human and animal health by means of evaluating and monitoring medicines within the European Union and the European Economic Area
"Enyuan Pharmaceutical"	Enyuan Pharmaceutical Technology (Beijing) Co., Ltd. (恩遠醫藥科技(北京)有限公司), a company incorporated in PRC on September 21, 2015, which is held as to 55% by our Company
"ESG"	Environmental, Social and Governance

"EU"	European Union
"EUR"	Euro, the lawful currency of European Union
"FDA"	the Food and Drug Administration of the U.S.
"FIH"	phase I clinical studies which include evaluation of pharmacokinetics, safety and tolerability of an investigational drug in human
"GBP"	Great Britain Pound, the lawful currency of the United Kingdom
"GCP"	Good Clinical Practice, an international ethical and scientific quality standard for the performance of a clinical trial on medicinal products involving humans
"GLP"	Good Laboratory Practice, a quality system of management controls for research laboratories and organizations to try to ensure the uniformity, consistency, reliability, reproducibility, quality and integrity of chemical and pharmaceuticals nonclinical safety tests
"GMP"	Good Manufacturing Practice, a quality system of management controls for laboratories and manufacturing facilities to ensure that a series of quality, health and safety management measures implemented in the drug production process, trying to achieve the uniformity, consistency, reliability, reproducibility, quality and integrity of pharmaceuticals manufactured
"Group", "we", "our" or "us"	the Company and its subsidiaries
"H Share(s)"	overseas-listed foreign shares in the share capital of our Company, with a nominal value of RMB1.00 each, which are listed for trading on the Hong Kong Stock Exchange and traded in HK dollars
"IND applications"	an experimental drug for which a pharmaceutical company obtains permission to conduct clinical trials before a marketing application for the drug has been approved
"lead compounds"	a compound that displays certain biological activity and selectivity against certain targets or models and usually has a novel chemical structure. It satisfies certain requirements for physical and chemical properties, drug metabolism and pharmacokinetic properties, pharmaceutical property and safety, and has the drug-likeness and developable property. A lead compound usually has its chemical structure must be optimized to achieve the desired configuration of the aforesaid natures. The quality of the lead compound will directly affect the speed and success rate of new drug development
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

"medical writing"	prepare phase I-III clinical study protocols, study plans and documents in support of IND/NDA/BLA applications
"MHRA"	U.K. Medicines and Healthcare products Regulatory Agency
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers
"NHP"	Non-Human Primate
"Ningbo Tech"	Pharmaron (Ningbo) Technology Development Co., Ltd. (康龍化成(寧波)科技發展有限公司), formerly known as Ningbo KTB Technology Development Co., Ltd. (寧波康泰博科技發展有限公司), a company incorporated in the PRC on January 12, 2015, our wholly-owned subsidiary
"NMPA"	National Medical Product Administration (國家藥品監督管理局) (formerly known as China Food and Drug Administration), the authority responsible for approving drug and biologic products in China
"OECD"	the Organization for Economic Cooperation and Development
"pharmaceutical"	a type of chemical drug products classified in accordance with the chemical drug registration of regulatory authorities and a type of biological products classified in accordance with the biological product registration of regulatory authorities
"pharmacology"	the branch of medicine concerned with the uses, effects, and modes of action of drugs
"pharmacovigilance"	Pharmacovigilance (PV) is defined as the science and activities relating to the detection, assessment, understanding and prevention of adverse effects or any other drug-related problem
"Pharmaron Biologics UK"	Pharmaron Biologics (UK) Ltd, formerly known as Allergan Biologics Limited, a private company limited by shares incorporated under the laws of England and Wales
"Pharmaron Clinical"	Pharmaron (Chengdu) Clinical Services Co., Ltd. (康龍化成(成都)臨床研究服務有限公司), a company incorporated in PRC on May 27, 2021, which is held as to 57.74% by our Company
"PRC"	the People's Republic of China
"pre-clinical"	of or relating to a stage preceding a clinical stage

"quantitative pharmacology"	a discipline uses advanced pharmacostatistical modeling and simulation techniques as tools to assess drugs' PK, dosage, efficacy and safety in human, including dosage prediction for child patients based upon adult dosage, adding value in clinical trial design, data analysis, translation medicine and regulatory decision-making
"R&D"	research and development
"reactor"	a physical or chemical or biological reaction vessel, which, through the structural design and parameter setting, realizes the steaming, evaporation, cooling and high or low-speed mixing functions required by the process
"Reporting Period"	the year ended December 31, 2021
"Restricted A Shares"	A Share(s) granted to the participants by the Company on such conditions as stipulated under the A Share Incentive Scheme, which are subject to the attribution conditions stipulated under the A Share Incentive Scheme and can only be attributed and transferred after satisfaction of the attribution conditions
"RMB"	Renminbi, the lawful currency of the PRC
"RNA"	ribonucleic acid, complex compound of high molecular weight that functions in cellular protein synthesis and replaces DNA as a carrier of genetic codes in some viruses
"safety assessment"	"Safety Assessment" means evaluation of the safety of new drug candidates in a non-clinical environment, in support of IND filing with regulatory authorities for starting a clinical study and NDA/BLA filing for marketing authorization. The safety assessment includes studies from general toxicology, safety pharmacology, genetic toxicology, DART, immunotoxicity and immunogenicity to carcinogenicity
"Series 1 Bonds"	the US$300.0 million zero coupon convertible bonds due 2026 (debt stock code: 40725) issued by the Company on June 18, 2021
"Series 2 Bonds"	the RMB1,916.0 million zero coupon US$-settled convertible bonds due 2026 (debt stock code: 40733) issued by the Company on June 18, 2021
"Share(s)"	A Share(s) and H Share(s)
"Shareholder(s)"	holder(s) of the Shares

"small molecule drug"	generally known as chemical drugs, that is, special chemicals that have the known chemical structures and are used to prevent, treat or diagnose diseases, or used to regulate human functions, improve the living quality and keep the physical health. Small molecule drugs are based on small molecule compounds in substance and based on the functions of the drug (biological effect) in application
"SSU"	Study Start up, the startup specialist of a clinical project
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sullivan"	Frost & Sullivan. Founded in 1961, it is a world-leading growth consultancy that owns 31 branches and more than 1,700 industry consultants, market analysts, technical analysts and economists in 21 countries across six continents
"synthesis process"	the single-step or multiple-step unit reaction process that turns the specific raw material into the required product
"target"	it means the biological large molecules that have the pharmaceutical effect and can be acted by the drug in the body, such as certain proteins, nucleic acid and other biological large molecules. Those genes that code target proteins are also known as target genes. It is the foundation for modern new drug development to determine target molecules related to the specific disease in advance
"TQT/cardiac safety"	this study means observing and describing all ECG changes of the subject in an all-round manner at the early stage of a clinical trial on the drug and measuring the extension of the QT/QTc interval to determine whether the drug will impact the heart repolarization and the extent of impact, judge the risk of malignant arrhythmia it will trigger, and provide the data support in deciding whether to enter the next drug research and development stage
"U.K."	the United Kingdom
"U.S."	the United States
"%"	percent

Pharmaron Beijing Co., Ltd.*

6 Tai-He Road, Beijing Economic
Technological Development Area, Beijing, China
http://www.pharmaron.com
pharmaron@pharmaron-bj.com