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维亚生物科技控股集团
VIVA BIOTECH HOLDINGS

(Incorporated in the Cayman Islands as an exempted company with limited liability)

(Stock code: 1873)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2021**

FINANCIAL HIGHLIGHTS			
	2021	2020	Change
	<i>RMB million</i>	<i>RMB million</i>	
Revenue	2,104.1	697.0	201.9%
Gross Profit	651.0	304.9	113.5%
Gross Profit Margin	30.9%	43.7%	
Net Profit/(Loss)	300.6	(378.9)	
Adjusted Non-IFRS Net Profit	352.5	252.3	39.7%
Adjusted Non-IFRS Net Profit Margin	16.8%	36.2%	
	HK\$	HK\$	
Earnings (loss) per share			
– Basic	0.18	(0.28)	
–Diluted	0.10	(0.28)	
Adjusted Non-IFRS Earnings per share			
– Basic	0.21	0.18	16.7%
– Diluted	0.21	0.18	16.7%

NON-IFRS MEASURE

To supplement the Group's audited condensed consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("IFRS"), the Company has provided adjusted Non-IFRS net profit, adjusted Non-IFRS net profit margin, and adjusted Non-IFRS earnings per share as additional financial measures, which are not required by, or presented in accordance with, the IFRS.

The Company believes that the adjusted Non-IFRS financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under the IFRS.

Additional information is provided below to reconcile adjusted Non-IFRS net profit.

Adjusted Non-IFRS net profit

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Net Profit/(Loss)	300,560	(378,870)
Add: fair value (gain)loss on embedded derivative instruments of the Convertible Bonds	(143,590)	547,048
Add: interest expenses of the debt components of the Convertible Bonds	136,104	52,117
Add: transaction costs relating to the embedded derivative instruments of the Convertible Bonds	0	5,068
Less: gain on repurchase of the Convertible Bonds	0	(4,447)
Add: loss on disposal of non-recurring fixed assets	5,135	0
Add: amortization of acquired assets from acquisition	48,181	15,820
Add: transaction costs relating to the acquisition	0	15,582
Add: fair value loss on contingent consideration	6,115	0
Adjusted Non-IFRS Net Profit (<i>Note i</i>)	352,505	252,318
Adjusted Non-IFRS Net Profit Margin	16.8%	36.2%

Note:

- i. In order to better reflect the key performance of the Group's current business and operations, the adjusted Non-IFRS net profit is calculated on the basis of net profit, excluding:
 - a) Fair value gain/loss on embedded derivative instruments of the Convertible Bonds, and amortization of acquired assets, which the management believes are non-cash items;
 - b) Interest expenses of the debt instruments of the Convertible Bonds, transaction costs relating to the derivative component of the Convertible Bonds, gain on repurchase of the Convertible Bonds, loss on disposal of non-recurring fixed assets, fair value loss on contingent consideration and transaction costs relating to the acquisition, which the management believes are non-recurring items or have no direct correlation to the operation of our business.

FOREIGN EXCHANGE RATE OF EARNINGS PER SHARE:

HK\$1:RMB0.8300 in 2021 (being the annual average central parity rate as announced by the People's Bank of China in 2021).

HK\$1:RMB0.8859 in 2020 (being the annual average central parity rate as announced by the People's Bank of China in 2020).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2021, COVID-19 continued to affect and pose challenges to industries to varying degrees. At the same time, the global biopharmaceutical investment and financing has experienced a wave of impact, but original biopharmaceutical development still maintained a robust growth across the world. The domestic market shifted its focus from generic drugs to innovative drugs. As research and development (“**R&D**”) and production outsourcing were growing in proportion, the CXO industry were still booming. The Group’s CRO and CDMO business based on the research and development of innovative drugs achieved good results. Based on innovation and deep integration of resources, we continued to provide clients with one-stop integrated services from structure-based drug research and development to commercial drug delivery.

During the year ended 31 December 2021 (the “**Reporting Period**”), the cumulative number of clients served by the Group increased to 1,820; the Group’s revenue during the Reporting Period surged by approximately 201.9% from RMB697.0 million for the corresponding period of last year to RMB2,104.1 million; and our gross profit increased substantially by approximately 113.5% from RMB304.9 million for the corresponding period of last year to RMB651.0 million. The Group’s adjusted non-IFRS net profit increased by 39.7% from RMB252.3 million for the corresponding period of last year to RMB352.5 million. This was mainly due to the rapid growth of the Company’s Contract Research Organization (“**CRO**”) business and the increase in revenue arising from the acquisition of Zhejiang Langhua Pharmaceutical Co., Ltd. (“**Langhua Pharmaceutical**”).

CRO Business Continued to Grow Rapidly

As at December 31, 2021, the Company’s revenue from CRO business increased significantly by approximately 68.7% from RMB438.8 million for the corresponding period of last year to RMB740.4 million. The order backlog amounted to approximately RMB965.0 million, representing a significant increase of approximately 58.9% from RMB607.0 million for the corresponding period of last year, which provides sufficient impetus for future growth.

As at December 31, 2021, the Company had delivered more than 34,000 protein structures to our clients, approximately 13,134 of which were newly delivered, representing a year-on-year increase of 73.8%, and conducted R&D on over 1,800 independent drug targets, 226 of which were newly delivered. The cumulative number of clients served had increased to 1,032, including the global top 10 pharmaceutical companies (by reported total revenue for 2021) and 41 companies included in Fierce Biotech’s Fierce 15. Revenue from the top ten customers accounting for 26.8% of our total revenue. Our clients of CRO business are geographically diverse and primarily located in the United States, which contributed approximately 72.5% of our revenue. The revenue from clients in the mainland China accounted for approximately 16.1% of the total, a year-on-year increase of approximately 83.8%.

During the Reporting Period, our utilization of synchrotron radiation source reached 1,934 hours. The Company established long-term cooperation with 12 synchrotron radiation source centers around the world, which are distributed in nine countries/regions, i.e. Shanghai of China, the United States, Canada, Japan, Australia, the United Kingdom, France, Germany and Taiwan, China, thus guaranteeing uninterrupted data collection all year round.

Increasing Investment in CDMO Production Capacity and Strengthening CMC Capacity Building

During the Reporting Period, the Group made great efforts to strengthen the strategic integration of Langhua Pharmaceutical. Specifically, we intensified the construction of chemistry, manufacturing and control (“**CMC**”) R&D centers for technology build-up, strengthened client outreach and business development activities for business growth, and accelerated production capacity building for production expansion. Langhua Pharmaceutical’s revenue for the year amounted to RMB1,363.6 million, representing a year-on-year decrease of 10.2%, which was mainly due to the limited production capacity caused by the upgrade of the T10 plant during the Reporting Period, the fluctuation in exchange rate, and the impact of COVID-19. As at December 31, 2021, Langhua Pharmaceutical had served a total of 788 clients, with the top ten clients accounting for 54.0% of its revenue, suggesting a further improvement in customer revenue structure. The retention rate of the top ten clients was 100%.

In respect of contract development manufacture organization (“**CDMO**”) capacity building, the upgrade of the T10 plant was completed in September, and the T02 plant entered the commissioning stage after equipment installation was completed in December. Both T02 plant and T10 plant are Langhua Pharmaceutical’s GMP-level plants located in its Taizhou factory, of which T02 plant was newly constructed during the Reporting Period and T10 plant was Langhua Pharmaceutical’s existing plant which was upgraded and renovated during the Reporting Period. During the Reporting Period, the annual usable capacity was 671 cubic meters, and the capacity utilization rate was 70%, a relatively high level. It is expected that the T02 plant will be formally put into operation in 2022, with a new capacity of 189 cubic meters.

In respect of CMC, we intensified the construction of R&D centers and increased R&D personnel. A CMC R&D center of approximately 10,000 square meters was partially put into use in December. The center is located in the Group’s headquarters in Zhoupu, Shanghai, and contains a 3,000-square-meter GMP pilot plant for formulation development. As at the end of the Reporting Period, the number of CMC R&D personnel had reached 120. In 2022, the Group will strengthen efforts to expand on our R&D personnel.

Focusing on Global Biopharmaceutical Innovation for EFS Investment & Incubation Business

During the Reporting Period, the Company reviewed a total of over 979 projects globally, added 20 start-ups to our portfolio companies, made additional investments in 7 existing portfolio companies, and was in negotiation of agreements for investment in 28 new companies. As at December 31, 2021, the Group had invested in a total of 87 portfolio companies with an average agreed shareholding¹ of 19%. The portfolio companies are mainly from the United States, Canada, Europe and China. 75.8% of the portfolio companies are from North America and 19.5% from China. The details of the portfolio companies added during the Reporting Period are as follows:

No.	Company Name	Region	Time of Investment	Initial Shareholding Percentage	Type	Indications/Primary Technology/Business
1	Argonaut Genomics, Inc.	USA	2/2021	0.00%	Strategic investment	Utilizing bioinformatics/proteomics to build a high-throughput discovery platform, which can mine from the dark genome for immune-dominant cancer antigens.
2	Ribogenics, Inc.	USA	2/2021	11.96%	Strategic investment	Pursuing the vast potential of small molecule medicines for RNA mis-splicing diseases.
3	AlxplorerBio (Zhejiang) Co., Ltd.	PRC	2/2021	12.00%	EFS	Driven by AI technology, focusing on the R&D of novel drugs in the field of autoimmune system and neurodegenerative diseases.
4	NAKI Therapeutics Inc.	USA	5/2021	20.00%	Strategic investment	Focusing on CAR-NK and NK cell-based immunotherapy.
5	Suzhou Genhouse Bio Co., Ltd.	PRC	5/2021	3.80%	EFS	Focusing on the development of global next-generation anti-cancer therapeutics.
6	Dorian Therapeutics, Inc.	USA	6/2021	0.00%	EFS	Working on a new class of therapeutics that can rejuvenate cells and tissues.
7	AbSci Corporation	USA	6/2021	N/A	Strategic investment	Focusing on accelerating drug development in the pre-clinical stages.
8	Fuse Biotherapeutics Inc.	USA	6/2021	14.18%	EFS	Focusing on developing a platform of T cell engagers and NK cell engagers.

¹ The agreed shareholding includes the equity interests to be acquired by the Company upon fulfillment of service and other milestones. The figure excludes the agreed number of shares to be converted from convertible bonds that has not been determined as at the date of this announcement.

No.	Company Name	Region	Time of Investment	Initial Shareholding Percentage	Type	Indications/Primary Technology/ Business
9	ORNOVI, INC.	USA	8/2021	7.99%	EFS	Focusing on therapies for inflammatory and autoimmune diseases and dedicated to developing small molecule medicines targeting innate immune cells.
10	Shanghai Zizhan Pharmaceutical Technology Co., Ltd.	PRC	9/2021	2.50%	Strategic investment	Focusing on the technology R&D, manufacturing, application and promotion of human organs-on chips
11	IpiNovyx Bio, Inc.	USA	9/2021	8.10%	EFS	A biotech company focused on developing immunoproteasome inhibitors for the treatment of autoimmune diseases.
12	ArrePath, Inc.	USA	10/2021	6.30%	EFS	A preclinical biotech company focused on developing new antibiotics.
13	Exarta Therapeutics	Cayman Islands	10/2021	5.24%	Strategic investment	A drug R&D company focused on the field of ferroptosis.
14	i2O Therapeutics, Inc.	USA	10/2021	0.00%	Strategic investment	Focusing on developing an oral administration platform based on ionic liquid (IL).
15	Deka Biosciences, Inc.	USA	10/2021	6.67%	Strategic investment	Focusing on developing novel cytokine-based therapies.
16	Aleta Biotherapeutics, Inc.	USA	11/2021	2.45%	Strategic investment	A biotech company focused on developing novel tumor immunotherapies.
17	Amberstone Biosciences, Inc.	USA	11/2021	7.50%	EFS	Focuses on developing immunotherapies specifically activated by the tumor microenvironment.
18	Full Circles Therapeutics, Inc.	USA	11/2021	7.57%	Strategic investment	Focus on developing an efficient non-virus, gene-editing tool development platform.
19	TATARA THERAPEUTICS, INC.	USA	12/2021	0.00%	EFS	A novel drug company focusing on the development of small molecule cancer drugs.
20	KARMA BIOTECHNOLOGIES, INC.	USA	12/2021	2.50%	EFS	Focusing on treating autoimmune diseases through its Xavine vaccine platform.

None of these investments constituted a discloseable transaction under Chapter 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

In 2021, 14 of our portfolio companies completed a new round of financing, raising over US\$360 million in total. The R&D efforts of the portfolio companies were advancing smoothly, with the total number of pipeline projects increasing to 185, of which 20 had entered the clinical stage. On June 14, 2021, AbSci Corporation (NASDAQ: ABSI), a synthetic biology company, announced that it had reached an acquisition agreement with Totient Inc., a portfolio company of ours.

TECHNOLOGY PLATFORM

During the Reporting Period, the Group's R&D spending was RMB92.4 million, representing a year-on-year increase of 40.0% from RMB66.0 million for the year ended December 31, 2020. For CRO business, we proactively built capabilities in Cryo-EM (Micro-ED), AI technology assisted drug research and development, antibody and macromolecule discovery, and photochemical reaction platform; for CDMO business, we strengthened automation transformation during the Reporting Period to further improve the level of production automation. In terms of process development, we continued to develop flow chemistry technology, catalyst and ligand screening platform, oral product production lines, injectable dosage form development platform, amorphous solid dispersion technology, etc.

STAFF AND FACILITIES

As at December 31, 2021, the Group had a total of 2,127 employees. The Company has been accelerating the construction of office and laboratory facilities in line with its workforce expansion plans and expanding production capacity to meet the fast-growing business needs.

- The Incubation Center located in Faladi Road, Shanghai covering 7,576 square meters has been put into full operation in the first quarter, including 5,552 square meters of laboratory area.
- The Group's new headquarters in Zhoupu, Shanghai with a total area of approximately 40,000 square meters was partially put into use in December 2021.
- The park with a total GFA of 64,564 square meters in Chengdu has been completed, of which 12,000 square meters of properties have been partially put into use in December 2021, including 8,848 square meters of laboratory area.
- The novel drug incubation center with a GFA of approximately 77,500 square meters in Qiantang New District, Hangzhou has commenced construction in July 2021.
- In November, the Group signed a strategic cooperation agreement with Jiaxing Municipal Government to set up the Viva Biotech AI Novel Drug Incubation Center in Xiuzhou District, Jiaxing.

FUTURE STRATEGIES AND OUTLOOK

With unique advantages in structure-based drug discovery (SBDD), the Company will continue to strengthen the construction of a one-stop drug R&D and manufacturing service platform, deepen the synergy between CRO and CDMO business, improve the capacity building for front-end services and drive business to back-end services to further enhance the business funnel effect. The Company is in an effort to establish an open eco-system for global biopharma and biotech.

DISCUSSION OF RESULTS OF OPERATION

Revenue

The Group's revenue in the Reporting Period was approximately RMB2,104.1 million, representing an increase of 201.9% as compared to approximately RMB697.0 million in the year ended December 31, 2020, primarily reflecting the expansion of the Group's business scope from front-end drug discovery to small molecule CDMO business, forming an integrated platform for the research, development and production of drugs.

The following table sets forth a breakdown of the Group's revenue by respective types of goods or services during the Reporting Period and the corresponding period last year.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Types of goods or services		
Drug discovery services		
– Full-time-equivalent (“FTE”)	532,356	299,393
– Fee-for-service (“FFS”)	122,319	79,400
– Service-for-equity (“SFE”)	85,799	60,015
CDMO and commercialization services		
– Sale of products	1,363,609	258,150
	<u>2,104,083</u>	<u>696,958</u>

While the Group's operation are located in China, it has a global customer base with a majority of our customers located in the USA. An analysis of the Group's revenue from customers, analyzed by their respective country/region of operation is detailed below:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
United States of America (“USA”)	646,523	396,927
European Union	590,225	127,479
Mainland China	376,735	116,247
Other Asian countries and regions outside of Mainland China	330,083	34,904
Africa	74,182	14,186
Other countries/regions	86,335	7,215
	<u>2,104,083</u>	<u>696,958</u>

The increase of revenue in the Reporting Period as compared to the corresponding period last year was primarily due to an increase in the revenue of the Group's customers headquartered in the USA and European Union. This was mainly due to increases in the number of customers as well as customer orders from such overseas customers and the acquisition of the Langhua Pharmaceutical.

Cost of Sales

Cost of sales primarily consists of direct labor costs, cost of materials and overhead. Direct labor costs primarily consist of salaries, bonus, welfare, social security costs and share-based compensation, excluding the costs allocated to research and development expenses, as well as those capitalized in contract costs. Cost of sales in the Reporting Period was approximately RMB1,453.1 million, representing an increase of 270.6% as compared to approximately RMB392.1 million for the year ended December 31, 2020. The increase was in line with the Group's business growth.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit was approximately RMB651.0 million, representing an increase of 113.5% as compared to approximately RMB304.9 million in the year ended December 31, 2020. The increase was in line with the Group's business growth. Gross margin was 30.9% for the Reporting Period, as compared to 43.7% for the year ended December 31, 2020. The decrease was primarily due to the integration of CDMO and commercialization services into our Group's service offerings.

Other Income and Gains

Other income and gains consist primarily of interest income, government grants, net foreign exchange gain, gain on derivative financial instruments, gain on deemed disposal of interests in an associate, gain on deemed disposal of interests in a joint venture, gain on repurchase of convertible bonds, revenue from sales of raw materials and gain on disposal of right-of-use assets. During the Reporting Period, the Group recorded other income and gains of approximately RMB123.4 million, representing an increase of 77.3% as compared to approximately RMB69.6 million in the corresponding period last year.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff cost, travelling expenses and others. During the Reporting Period, the Group's selling and distribution expenses were approximately RMB94.0 million, representing an increase of 617.6% as compared to approximately RMB13.1 million for the year ended December 31, 2020. The increase was primarily due to expansion of our CDMO business, as well as the growth to our marketing team.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, audit and consultancy fees, office administration expense, rental, depreciation, travelling and transportation expenses and others. During the Reporting Period, the Group's administrative expenses were approximately RMB226.3 million, representing an increase of 105.4% as compared to approximately RMB110.2 million for the year ended December 31, 2020. The increase primarily reflected rapid expansion of the Group's personnel.

Research and Development Expenses

Research and development expenses mainly consist of labor costs, cost of materials, overhead costs and fees paid to third parties that conduct certain research and development activities on our behalf. During the Reporting Period, the Group's research and development expenses were approximately RMB92.4 million, representing an increase of 40.0% as compared to approximately RMB66.0 million for the year ended December 31, 2020. The increase was primarily due to the expansion of our CDMO business.

Fair Value Gain on Financial Assets at Fair Value through Profit or Loss (“FVTPL”)

Fair value gain on FVTPL mainly consists of fair value gains from financial products issued by banks and the gains from the fair value change of the equity interests in the Group's incubation portfolio companies. The Group's EFS model features sharing of the upside of our customers' intellectual property values, which is primarily reflected by the gains from the fair value change of the equity interest in the Group's incubation portfolio companies. Such fair value gains are recorded as FVTPL in the Group's financial statements. As at December 31, 2021, no individual equity interests in the Group's incubation portfolio companies accounted for more than 5% of the Group's total assets.

The Group recorded gains arising from financial assets at FVTPL of approximately RMB45.7 million for the Reporting Period, mainly including (1) gain from investment in bank wealth management products of RMB9.2 million; (2) gain from fair value change of investment companies of RMB36.5 million, primarily reflecting the increase in the fair value of the Group's equity interest in four incubation portfolio companies, Mediar Therapeutics, Inc., ArthroSi Therapeutics, Inc., Dogma Therapeutics, Inc. and QureBio Ltd., as compared to the gain from financial assets at FVTPL of approximately RMB106.9 million for the year ended December 31, 2020, primarily reflecting the increase in fair value of the Group's equity interest in three incubation portfolio companies, Dogma Therapeutics, Inc., Mediar Therapeutics, Inc. and VivaVision Biotech (Shanghai) Ltd..

Impairment Losses under Expected Credit Model, Net of Reversal

Impairment losses under expected credit model, net of reversal reflects impairment loss on trade and other receivables. The Group recorded impairment losses of approximately RMB1.4 million for the Reporting Period, as compared to approximately RMB3.0 million of impairment losses for the year ended December 31, 2020.

Other Expenses

For the Reporting Period, the Group recorded other expenses of approximately RMB12.7 million, as compared to approximately RMB35.7 million for the year ended December 31, 2020. The decrease primarily represented the Group's decreased acquisition transaction cost.

Finance Costs

Finance costs primarily consist of interest on convertible bonds, interest on lease liabilities and interest expenses on loans from banks. For the Reporting Period, the Group's finance costs was approximately RMB183.1 million, representing an increase of 194.8%, as compared to approximately RMB62.1 million for the year ended December 31, 2020. The increase was mainly due to an increase in interest of the debt components of the convertible bonds of approximately RMB84.0 million and an increase in interest on bank loans of approximately RMB36.5 million.

Fair Value Gain/(Loss) on Financial Liabilities at FVTPL

Fair value gain/(loss) on financial liabilities at FVTPL primarily consists of changes in fair value of the embedded derivative instruments of the convertible bonds and changes in fair value of contingent consideration. For the Reporting Period, the Group recorded fair value gain on financial liabilities at FVTPL of approximately RMB143.6 million regarding the fair value changes of the embedded derivative instruments of the convertible bonds and a fair value loss on contingent consideration of approximately RMB6.1 million, as compared to approximately RMB547.0 million of loss regarding the fair value changes of the embedded derivative instruments of the convertible bonds for the year ended December 31, 2020.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately RMB47.1 million, representing an increase of 107.5% from approximately RMB22.7 million for the year ended December 31, 2020, the increase was in line with the Group's business growth.

Net Profit and Net Profit Margin

As a result of the foregoing, the Group's net profit for the Reporting Period was approximately RMB300.6 million, as compared to a net loss of approximately RMB378.9 million for the year ended December 31, 2020. Such turnaround was mainly due to (i) the significant increase of 68.7% in the revenue from the drug discovery services; (ii) the expansion of the Group's business scope from front-end drug discovery to small molecule CDMO business, forming an integrated platform for the research, development and production of drugs; and (iii) the significant increase of RMB684.5 million in fair value gain/(loss) on financial liabilities at FVTPL.

The adjusted non-IFRS net profit of the Group increased by approximately 39.7% to approximately RMB352.5 million for the Reporting Period from approximately RMB252.3 million for the year ended December 31, 2020. The adjusted non-IFRS net profit margin of the Group for the Reporting Period was approximately 16.8%, compared to approximately 36.2% for the year ended December 31, 2020. The lower adjusted Non-IFRS net profit margin of the Group for the Reporting Period was primarily due to the expansion of the Group's business scope from front-end drug discovery to small molecule CDMO business and the comparatively lower net profit margin of small molecule CDMO business.

Liquidity, Financial Resources and Gearing Ratio

As at December 31, 2021, the Group's total cash and cash equivalents amounted to approximately RMB800.9 million, representing a decrease of 65.3% as compared to approximately RMB2,308.5 million as at December 31, 2020. Such decrease was primarily due to the repayment of bank borrowings of approximately RMB975.6 million during the Reporting Period.

As at December 31, 2021, current assets of the Group amounted to approximately RMB1,983.8 million, including a cash and cash equivalents of approximately RMB800.9 million. Current liabilities of the Group amounted to approximately RMB926.6 million, including bank borrowings of approximately RMB233.1 million.

As at December 31, 2021, the gearing ratio, calculated as total liabilities over total assets, was approximately 51.4%, as compared with approximately 53.9% as at December 31, 2020. As at December 31, 2021, the Group had approximately RMB822.9 million of secured bank borrowings and RMB228.9 million of unsecured bank borrowings, decreased by approximately RMB410.5 million as compared to approximately RMB1,462.3 million as at December 31, 2020. The decrease was primarily due to the repayment of the secured bank loan obtained by the Group to finance the acquisition of Langhua Pharmaceutical, approximately RMB880.0 million during the Reporting Period. Of the Company's bank borrowings during the Reporting Period, approximately RMB233.1 million are repayable on demand or within one year, and approximately RMB818.8 million are repayable in the second to sixth year (inclusive). The Group intends to finance the expansion, investments and business operations with proceeds from its financing activities and internal resources.

Significant Investment, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

On 28 February 2021, the Group completed acquisition of the an 100% interest in SYNthesis med chem (Hong Kong) Limited (“**Synthesis HK**”) from its original shareholders, at a consideration of approximately RMB451.0 million.

Save as disclosed in this announcement, the Group did not make any significant investments and did not have material acquisitions or disposals of subsidiaries, associates and joint ventures during the reporting period.

Pledge of Assets

As at December 31, 2021, the buildings, the right-of-use assets, construction in progress and certain time deposits with a carrying amount of approximately RMB96.4 million, RMB205.6 million, RMB210.6 million and RBM672.2 million, respectively, were pledged to secure certain bank borrowings, letters of credit and notes payable of the Group.

Capital Expenditure

For the Reporting Period, the Group's capital expenditure amounted to approximately RMB1,059.0 million, which was mainly used for construction of facilities and equipment purchases, as compared to approximately RMB182.6 million for the year ended December 31, 2020. The Group funded its capital expenditure with cash flow generated from its operations and partial proceeds from its fundraising activities.

Future Plan for Material Investment and Capital Assets

Save as disclosed in the Prospectus, this announcement and other announcements and circulars published by the Company up to the date of this announcement, the Group does not have other plans for material investments and capital assets for Reporting Period and up to the date of this announcement.

Contingent Liability

The Group had no material contingent liabilities as at December 31, 2021.

Currency Risk

Certain entities in our Group have foreign currency sales and purchases, which exposes us to foreign currency risk. In addition, certain entities in our Group also have other payables and receivables which are denominated in currencies other than their respective functional currencies. We recorded a net foreign exchange gain of approximately RMB31.4 million and a net foreign exchange loss of approximately RMB19.8 million for the Reporting Period and the year ended December 31, 2020, respectively. We are exposed to the foreign currency of U.S. dollars as part of our revenue was generated from sales denominated in U.S. dollars as well as deposits denominated in U.S. dollars. We purchased various bank foreign exchange wealth management products and forward currency contracts to hedge against our exposure to currency risk during the Reporting Period and up to the date of this announcement while we chose not to designate a hedging relationship and use hedge accounting. Our management will continue to evaluate the Group's foreign exchange risk and take actions as appropriate to minimize the Group's exposure whenever necessary.

Goodwill

As at December 31, 2021, the Group recorded goodwill of approximately RMB2,156.4 million, as compared to approximately RMB1,847.7 million as at December 31, 2020. The increase was due to the acquisition of Synthesis HK in 2021.

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognized.

Upon acquisition of Langhua Pharmaceutical and Synthesis HK, the Group established presence in the CDMO field, and remained committed to in-depth integration of front-end CRO business and back-end CDMO business. On one hand, the Group proactively diverted customer traffic to back-end business through incubating portfolio companies, and on the other hand, it leveraged its advantages accumulated in North America to attract customers to the back-end operations via business development, in an effort to promote the funnel-effect in business operations.

No impairment loss in relation to goodwill is recognized for the year ended December 31, 2021. The impairment assessment is based on a valuation by an independent professional valuer. Considering there was still sufficient headroom based on the assessment, the management of the Company believes that a reasonably possible change in the key parameters would not cause the carrying amount of the CGUs to exceed its recoverable amount as at December 31, 2021.

SHARE INCENTIVE SCHEMES

The Group has adopted certain pre-IPO share incentive schemes (the “**Pre-IPO Share Incentive Schemes**”) in 2009 and 2018 to provide incentives to eligible employees of the Group. During the Reporting Period, 19,859,373 share options were exercised by directors and employees of the Group. As at December 31, 2021, an aggregate of 1,690,041 outstanding share options were exercisable under the Pre-IPO Share Incentive Schemes. As at December 31, 2021, outstanding options granted under the Pre-IPO Share Incentive Schemes and shares issued pursuant to the exercise of pre-IPO share options were held by trustees of relevant trusts set up for administering the Group’s employee incentive schemes.

The Group also adopted a post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”) on April 14, 2019. During the Reporting Period, 16,660,000 options have been granted under the Post-IPO Share Option Scheme, 135,000 outstanding options have been exercised and converted into 135,000 shares.

The Group further adopted a restricted share unit scheme (the “**Restricted Share Unit Scheme**”) on June 5, 2020. The Restricted Share Unit Scheme does not constitute a share option scheme within the meaning of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company not involving any issue of new Shares. The Company has appointed Tricor Trust (Hong Kong) Limited as trustee to assist with the administration and vesting of awards pursuant to the Restricted Share Unit Scheme. During the Reporting Period, restricted share unit underlying 4,480,000 Shares had been awarded under the Restricted Share Unit Scheme.

EVENT AFTER REPORTING PERIOD

In January 2022, an aggregate principal amount of US\$6.4 million of the US\$280 million convertible bonds were repurchased by Viva Biotech Investment Management Limited (“**Viva Biotech BVI**”) at a total consideration of US\$4.6 million (equivalent to RMB28.8 million).

On February 11, 2022, the conversion price of US\$180 million convertible bonds (“**Bonds**”) was reset from HK\$5.7456 to HK\$5.11 per share in accordance with the terms and conditions of the Bonds, the conversion price was subject to a reset mechanism based on the average market price of the shares of the Company for a certain period prior to the February 11, 2022.

Save as disclosed above, as at the date of this announcement, the Group has no material subsequent events after December 31, 2021 which are required to be disclosed.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company repurchased 11,493,000 shares on the Stock Exchange for an aggregate consideration of approximately HK\$73.1 million including expenses. The repurchased shares were subsequently cancelled. The repurchase was effected because the Board considered that the trading price of the Shares does not reflect their intrinsic value and this presents a good opportunity for the Company to repurchase the Shares, thereby enhancing the value of Shares and improving return to shareholders of the Company.

Details of the shares repurchased are as follows:

Month of repurchase	No. of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate Consideration⁽¹⁾ (HK\$'000)
January	3,098,500	7.56	7.19	22,687.1
September	7,515,500	6.40	5.58	45,287.5
October	<u>879,000</u>	5.79	5.71	<u>5,077.8</u>
Total	<u>11,493,000</u>			<u>73,052.4</u>

Note:

(1) Aggregate consideration inclusive of expenses.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

USE OF PROCEEDS FROM GLOBAL OFFERING

On May 9, 2019, the shares of the Company were listed on the Main Board of the Stock Exchange. The net proceeds from the global offering were approximately RMB1,217.1 million after deducting underwriting commissions and other expenses paid and payable by us in the global offering. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus. As at December 31, 2021, the details of intended application of net proceeds are set out as follow:

	Approximate % of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Utilized net proceeds up to December 31, 2021 ⁽¹⁾ <i>RMB'million</i>	Proceeds unused ⁽²⁾ <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds from the global offering ⁽³⁾
Expanding EFS model	30%	365.13	263.29	101.84	Expected to be fully utilized by December 31, 2022
Building up commercial & research manufacturing capabilities and capacities in contract manufacturing organization (“CMO”)	30%	365.13	325.30	39.83	Expected to be fully utilized by December 31, 2022
Purchasing laboratory equipment and materials	10%	121.71	121.71	0.00	–
Hiring, training and retaining biologics & chemical drug R&D personnel	10%	121.71	121.71	0.00	–
Expanding CMO business	10%	121.71	121.71	0.00	–
General corporate and working capital	10%	121.71	121.71	0.00	–

Notes:

- As disclosed in the Prospectus, the estimated net proceeds from the listing, after deduction of the underwriting fees and expenses paid by the Company in connection therewith were approximately HK\$1,231.7 million. The actual net proceeds received by the Company were approximately RMB1,217.1 million. The Company intends to adjust the difference between the estimated and actual net proceeds to each business objective in the same proportion as the original funds applied as shown in the Prospectus.
- As at December 31, 2021, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong or the PRC.
- The Company intends to use the remaining 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.

USE OF PROCEEDS FROM PLACING

On July 10, 2020, an aggregate of 130,000,000 Shares were placed at the placing price of HK\$8.15 per Share, representing 7.07% of the issued share capital of the Company as enlarged by the allotment and issue of the Shares immediately upon completion of the placing. The net proceeds from the placing, after deduction of the placing commission and other related expenses, amounted to approximately HK\$1,050.9 million (equivalent to approximately RMB948.4 million). As at December 31, 2021, the net proceeds from placing have been fully utilized in accordance with the purposes as set out in the relevant announcements and the 2020 annual report published on April 28, 2021.

USE OF PROCEEDS FROM CONVERTIBLE BONDS

On February 11, 2020, Viva Incubator HK issued the convertible bonds due in February 2025. The net proceeds, after deducting the transaction costs of US\$2.6 million (equivalent to RMB18.3 million), were US\$177.4 million (equivalent to RMB1,256.0 million), and had been utilized as follows as at December 31, 2021:

Business objective as stated in the offering circular	Percentage of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Utilized net proceeds up to December 31, 2021 <i>RMB'million</i>	Proceeds unused⁽¹⁾ <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds
Business development and expansion	70%	879.19	660.86	218.33	Expected to be fully utilized by December 31, 2022
Working capital and general corporate purposes	30%	376.80	370.88	5.92	Expected to be fully utilized by June 30, 2022

On December 30, 2020, Viva Biotech BVI issued the convertible bonds due in December 2025. The net proceeds, after deducting the transaction cost of US\$4.2 million (equivalent to RMB27.5 million), were US\$275.8 million (equivalent to RMB1,801.6 million), and has not been utilized as at December 31, 2021. The net proceeds is expected to be utilized in the following manner:

Business objective as stated in the offering circular	Percentage of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Utilized net proceeds up to December 31, 2021 <i>RMB'million</i>	Proceeds unused⁽¹⁾ <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds⁽²⁾
Business development and expansion including refinancing of the the acquisition cost of 80% of equity interest in Langhua Pharmaceutical	90%	1,621.4	934.84	686.56	Expected to be fully utilized by December 31, 2022
Other working capital and general corporate purposes	10%	180.2	180.2	0.00	–

Notes:

1. As at December 31, 2021, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong or the PRC.
2. The Company intends to use the remaining net proceeds in the coming years in accordance with the purpose set out in the relevant offering circulars, 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.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: HK\$0.01 per share). As disclosed in the interim results announcement dated August 31, 2021, no other dividend was proposed for the six months ended June 30, 2021.

ANNUAL GENERAL MEETING

The 2022 annual general meeting (the “**2022 AGM**”) will be held on Thursday, May 26, 2022. Notice of the 2022 AGM and all other relevant documents will be published and despatched to shareholders of the Company in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, May 23, 2022 to Thursday, May 26, 2022, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2022 AGM. In order to be eligible to attend and vote at the 2022 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, May 20, 2022.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

Under the code provision A.2.1 of the CG Code (which has been re-numbered as C.2.1 since 1 January 2022), the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Mr. Mao is the chairman and chief executive officer of the Company. With his extensive experience in the industry, the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Mr. Mao performs both the roles of chairman and chief executive officer, the division of responsibilities between the chairman and chief executive officer is clearly established. In general, the chairman is responsible for supervising the functions and performance of the Board, while the chief executive officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Mao distinctly. We also consider that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Save as disclosed above, during the Reporting period the Company has complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Audit Committee of the Company had reviewed together with the management and external auditor the accounting principles and policies adopted by the Company and the audited consolidated financial statements for the year ended December 31, 2021. The Audit Committee confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, risk management, internal control and financial reporting matters.

The annual results for the year ended December 31, 2021 have been prepared in accordance with IFRSs.

Scope of Work of Ernst & Young

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2021 as set out in this announcement have been agreed by the Group’s auditors, Ernst & Young, to the amounts set out in the Group’s audited consolidated financial statements for the year.

The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company’s website (www.vivabiotech.com). The annual report of the Company for the year ended December 31, 2021 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2021

	Notes	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
REVENUE	3	2,104,083	696,958
Cost of sales		<u>(1,453,102)</u>	<u>(392,092)</u>
Gross profit		650,981	304,866
Other income and gains	3	123,445	69,633
Selling and distribution expenses		(93,974)	(13,095)
Administrative expenses		(226,311)	(110,163)
Research and development expenses		(92,382)	(66,041)
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	11	45,676	106,941
Impairment losses on financial assets, net		(1,413)	(3,029)
Other expenses		(12,688)	(35,653)
Finance costs	4	(183,108)	(62,134)
Share of losses of a joint venture		<u>–</u>	<u>(487)</u>
PROFIT BEFORE FAIR VALUE GAIN/(LOSS) ON FINANCIAL LIABILITIES AT FVTPL AND TAX		210,226	190,838
Fair value gain/(loss) on financial liabilities at FVTPL	15,19	<u>137,475</u>	<u>(547,048)</u>
PROFIT/(LOSS) BEFORE TAX	5	347,701	(356,210)
Income tax expense	6	<u>(47,141)</u>	<u>(22,660)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>300,560</u>	<u>(378,870)</u>
Attributable to:			
Owners of the parent		287,546	(386,880)
Non-controlling interests		<u>13,014</u>	<u>8,010</u>
		<u>300,560</u>	<u>(378,870)</u>
		<i>RMB</i>	<i>RMB</i>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic		<u>0.15</u>	<u>(0.25)</u>
– Diluted		<u>0.08</u>	<u>(0.25)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

	2021 RMB'000	2020 RMB'000
PROFIT/(LOSS) FOR THE YEAR	<u>300,560</u>	<u>(378,870)</u>
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(34,009)</u>	<u>(85,161)</u>
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	<u>(34,009)</u>	<u>(85,161)</u>
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	<u>266,551</u>	<u>(464,031)</u>
Attributable to:		
Owners of the parent	253,579	(472,005)
Non-controlling interests	<u>12,972</u>	<u>7,974</u>
	<u>266,551</u>	<u>(464,031)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,269,870	520,290
Right-of-use assets		454,031	216,720
Goodwill	9	2,156,419	1,847,723
Other intangible assets	10	531,444	469,462
Financial assets at FVTPL	11	1,246,730	924,532
Contract assets		16,124	15,381
Rental deposits and prepayments		71,037	498,485
Deferred tax assets		7,630	9,943
Pledged deposits	13	307,688	300,000
		6,060,973	4,802,536
Total non-current assets			
CURRENT ASSETS			
Inventories		231,721	164,745
Trade and bills receivables	12	429,703	320,510
Contract costs		13,995	7,703
Prepayments, other receivables and other assets		129,646	100,133
Financial assets at FVTPL	11	–	49,500
Derivative financial instruments		2,805	18,843
Pledged deposits	13	374,968	381,658
Cash and cash equivalents	13	800,947	2,308,452
		1,983,785	3,351,544
Total current assets			
CURRENT LIABILITIES			
Trade and bills payables	14	281,053	295,704
Other payables and accruals	15	315,489	243,860
Contract liabilities		50,005	13,386
Interest-bearing bank borrowings	16	233,052	155,554
Lease liabilities		5,692	11,411
Income tax payable		41,312	15,757
		926,603	735,672
Total current liabilities			
NET CURRENT ASSETS		1,057,182	2,615,872
TOTAL ASSETS LESS CURRENT LIABILITIES		7,118,155	7,418,408

		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	<i>16</i>	818,764	1,306,786
Deferred income		36,441	22,710
Convertible bonds – debt component	<i>17</i>	1,569,415	1,491,848
Convertible bonds – embedded derivative instruments	<i>17</i>	53,805	200,291
Contract liabilities		38,828	–
Lease liabilities		27,774	3,912
Deferred tax liabilities		117,731	119,184
Other non-current liabilities		542,041	516,846
		<hr/>	<hr/>
Total non-current liabilities		3,204,799	3,661,577
		<hr/>	<hr/>
NET ASSETS		3,913,356	3,756,831
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>18</i>	326	323
Treasury shares	<i>18</i>	(134,651)	(52,683)
Equity component of convertible bonds	<i>17</i>	468,731	468,731
Reserves		3,578,950	3,340,460
		<hr/>	<hr/>
Total equity		3,913,356	3,756,831
		<hr/> <hr/>	<hr/> <hr/>

NOTES:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs (which include all IFRSs, International Accounting Standards (“IASs”) and interpretations) issued by the IASB, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, derivative financial instruments and embedded derivative components of convertible bonds which have been measured at fair value. These 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 (i.e., existing rights that give the Group the current ability to direct the relevant activities of 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 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. All intra-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 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.

1.2 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	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond June 30, 2021 (early adopted)</i>

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

- (a) Amendments to IFRS 9, IFRS 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.

The Group had certain interest-bearing bank borrowings denominated in RMB based on various Loan Prime Rate (“LPR”) as at December 31, 2021. The Group expects that LPR will continue to exist and the interest rate benchmark reform has not had an impact on the Group's LPR-based borrowings. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

- (b) Amendments to IFRS 16 issued in May 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 June 30, 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after April 1, 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 has early adopted the amendment on January 1, 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) Drug discovery services: structure-based drug discovery services to biotechnology and pharmaceutical customers for their pre-clinical stage innovative drug development; and
- (b) Contract Development Manufacture Organisation (“CDMO”) and commercialisation services: contract development and manufacturing services for small molecule APIs and intermediates and trading of APIs, intermediates and formulations.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that other income and gains, selling and distribution expenses, administrative expenses, research and development expenses, fair value gain on financial assets at FVTPL, impairment losses on financial assets, net, other expenses, finance costs, share of losses of a joint venture, and fair value gain/(loss) on financial liabilities at FVTPL are excluded from such measurement. 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.

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

	Drug discovery services <i>RMB'000</i>	CDMO and commercialisation services <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended December 31, 2021			
Segment revenue	740,474	1,363,609	2,104,083
Segment results	<u>342,193</u>	<u>308,788</u>	<u>650,981</u>
<i>Reconciliation:</i>			
Other income and gains			123,445
Selling and distribution expenses			(93,974)
Administrative expenses			(226,311)
Research and development expenses			(92,382)
Fair value gain on financial assets at FVTPL			45,676
Fair value gain on financial liabilities at FVTPL			137,475
Impairment losses on financial assets, net			(1,413)
Other expenses			(12,688)
Finance costs			<u>(183,108)</u>
Group's profit before tax			<u><u>347,701</u></u>
Year ended December 31, 2020			
Segment revenue	438,808	258,150	696,958
Segment results	<u>209,793</u>	<u>95,073</u>	<u>304,866</u>
<i>Reconciliation:</i>			
Other income and gains			69,633
Selling and distribution expenses			(13,095)
Administrative expenses			(110,163)
Research and development expenses			(66,041)
Fair value gain on financial assets at FVTPL			106,941
Impairment losses on financial assets, net			(3,029)
Other expenses			(35,653)
Finance costs			(62,134)
Share of losses of a joint venture			(487)
Fair value loss on financial liabilities at FVTPL			<u>(547,048)</u>
Group's loss before tax			<u><u>(356,210)</u></u>

Geographical information

(a) Revenue from external customers

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
United States of America ("USA")	646,523	396,927
European Union	590,225	127,479
Mainland China	376,735	116,247
Other Asian countries and regions out of Mainland China	330,083	34,904
Africa	74,182	14,186
Other countries/regions	86,335	7,215
	<u>2,104,083</u>	<u>696,958</u>

The revenue information above is based on the locations of the customers' operations.

(b) Non-current assets

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mainland China	<u>2,325,858</u>	<u>1,702,446</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, goodwill, contract assets and deferred tax assets.

Information about a major customer

Revenue of approximately RMB374,379,000 (2020: 107,206,000) was derived from sales by the CDMO and commercialisation services segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers	<u>2,104,083</u>	<u>696,958</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended December 31, 2021

Segments	Drug discovery services RMB'000	CDMO and commercialisation services RMB'000	Total RMB'000
Types of goods or services			
Revenue from non-investees			
FTE services	491,620	–	491,620
FFS services	117,626	–	117,626
Sale of products	–	1,363,036	1,363,036
	<u>609,246</u>	<u>1,363,036</u>	<u>1,972,282</u>
Revenue from investees			
FTE services	40,736	–	40,736
FFS services	4,693	–	4,693
SFE services	85,799	–	85,799
Sale of products	–	573	573
	<u>131,228</u>	<u>573</u>	<u>131,801</u>
Total revenue from contracts with customers	<u><u>740,474</u></u>	<u><u>1,363,609</u></u>	<u><u>2,104,083</u></u>
Geographical markets			
USA	536,690	109,833	646,523
European Union	40,013	550,212	590,225
Mainland China	119,573	257,162	376,735
Other Asian countries and regions out of Mainland China	9,826	320,257	330,083
Africa	–	74,182	74,182
Other countries/regions	34,372	51,963	86,335
	<u>740,474</u>	<u>1,363,609</u>	<u>2,104,083</u>
Total revenue from contracts with customers	<u><u>740,474</u></u>	<u><u>1,363,609</u></u>	<u><u>2,104,083</u></u>
Timing of revenue recognition			
Goods/services transferred at a point in time	122,319	1,363,609	1,485,929
Services transferred over time	618,155	–	618,154
	<u>740,474</u>	<u>1,363,609</u>	<u>2,104,083</u>
Total revenue from contracts with customers	<u><u>740,474</u></u>	<u><u>1,363,609</u></u>	<u><u>2,104,083</u></u>

For the year ended December 31, 2020

Segments	Drug discovery services <i>RMB'000</i>	CDMO and commercialisation services <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services			
Revenue from non-investees			
FTE services	269,870	–	269,870
FFS services	76,671	–	76,671
Sale of products	–	258,150	258,150
	<u>346,541</u>	<u>258,150</u>	<u>604,691</u>
Revenue from investees			
FTE services	29,523	–	29,523
FFS services	2,729	–	2,729
SFE services	60,015	–	60,015
	<u>92,267</u>	<u>–</u>	<u>92,267</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>
Geographical markets			
USA	359,565	37,362	396,927
European Union	4,216	123,263	127,479
Mainland China	65,046	51,201	116,247
Other Asian countries and regions out of Mainland China	2,766	32,138	34,904
Africa	–	14,186	14,186
Other countries/regions	7,215	–	7,215
	<u>438,808</u>	<u>258,150</u>	<u>696,958</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>
Timing of revenue recognition			
Goods/services transferred at a point in time	79,400	258,150	337,550
Services transferred over time	359,408	–	359,408
	<u>438,808</u>	<u>258,150</u>	<u>696,958</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2021 RMB'000	2020 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
FFS services	2,625	635
Sale of products	<u>10,761</u>	<u>–</u>
	<u>13,386</u>	<u>635</u>

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

FTE services

For 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 15.121, the Group does not disclose the value of unsatisfied performance obligations under the FTE model.

FFS services

The performance obligation is satisfied upon finalisation, delivery and acceptance of the deliverable units or after the end of a confirmation period of the report and the payment is generally due within 30 days from the date of billing. Under FFS model, contracts are generally within an original expected length of one year or less, therefore, the expedient allowed by IFRS 15.121 is also applied.

SFE services

For services under the SFE model, revenue is recognised over time at the amount to which the Group is entitled to receive the equity interests of the customer. Customers would transfer certain number of their equity interests to the Group upon reaching pre-set milestones of FTE service value.

Sale of products

The performance obligation is satisfied upon delivery of the products or acceptance by the customers and payment is generally due within 30 to 90 days from delivery. For sales of products, contracts are generally within an original expected length of one year or less, therefore, the expedient allowed by IFRS 15.121 is also applied.

The amount of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31 is as follows:

	2021 RMB'000	2020 <i>RMB'000</i>
SFE services	<u>105,186</u>	<u>117,618</u>

The amount of transaction prices allocated to the remaining performance obligations is expected to be recognised as revenue within three years.

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other income		
Interest income		
– banks	26,466	16,545
– imputed interest income on rental deposits	109	165
Government grants	<u>31,520</u>	<u>9,448</u>
	<u>58,095</u>	<u>26,158</u>
Gains		
Gain on deemed disposal of interests in an associate	9,486	–
Gain on deemed disposal of interests in a joint venture	–	6,303
Net foreign exchange gain	31,414	–
Gain on repurchase of convertible bonds	–	4,447
Gain on derivative financial instruments	20,800	30,974
Gain on disposal of right-of-use assets	689	1,612
Revenue from sales of raw materials	2,478	76
Others	<u>483</u>	<u>63</u>
	<u>65,350</u>	<u>43,475</u>
	<u>123,445</u>	<u>69,633</u>

4. FINANCE COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on convertible bonds	136,104	52,117
Interest on lease liabilities	1,620	1,173
Interest expenses on bank loans	<u>47,541</u>	<u>8,844</u>
Total interest expense	185,265	62,134
Less: Interest capitalized	<u>2,157</u>	<u>–</u>
	<u>183,108</u>	<u>62,134</u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
Cost of inventories sold		992,001	147,338
Cost of services provided		78,537	44,599
Depreciation of property, plant and equipment		80,675	45,671
Depreciation of right-of-use assets		25,446	18,376
Amortisation of other intangible assets	<i>10</i>	52,363	6,139
Less: capitalised in contract costs		(846)	(706)
Less: capitalised in inventories		(1,457)	(820)
Less: capitalised in property, plant and equipment		(5,330)	–
		150,851	68,660
Staff cost (including directors' emoluments):			
– Independent non-executive directors' fee		621	597
– Salaries and other benefits		436,140	199,085
– Retirement benefit scheme contributions		38,975	19,185
– Share-based payment expenses		20,584	14,047
		496,320	232,914
Less: capitalised in contract costs		(6,402)	(3,476)
Less: capitalised in inventories		(9,536)	(2,347)
		480,382	227,091
Foreign exchange (gain)/loss, net		(31,414)	19,790
Write-down of inventories to net realizable value		2,097	(134)
Fair value gain on derivative financial instruments		(20,800)	(30,974)
Transaction costs of business combination		–	15,582
Impairment losses on financial assets, net		1,413	3,029
Loss on disposal of items of property, plant and equipment		5,528	273
Gain on disposal of right-of-use assets		(689)	(1,612)
Fair value loss on contingent consideration		6,115	–
Fair value (gain)/loss on embedded derivative instruments of convertible bonds	<i>17</i>	(143,590)	547,048
Auditors' remuneration		5,270	3,800
Lease payment in respect of short-term leases		600	–

6. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The income tax expense of the Group for the period is analysed as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
– Hong Kong	1,373	2,349
– Mainland China	61,804	18,122
– Other countries	297	–
	<u>63,474</u>	<u>20,471</u>
Deferred tax	(16,333)	2,189
	<u>47,141</u>	<u>22,660</u>

Cayman Islands/BVI

Pursuant to the relevant rules and regulations of the Cayman Islands and the BVI, the Company and the subsidiary of the Group incorporated therein are not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2020: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Mainland China

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on January 1, 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Viva Biotech (Shanghai) Ltd. (“**Viva Biotech Shanghai**”) renewed its “High and New Technology Enterprise” qualification in 2019 and is entitled to the preferential tax rate of 15% from 2019 to 2021.

Zhejiang Langhua Pharmaceutical Co., Ltd. (“**Langhua Pharmaceutical**”) renewed its “High and New Technology Enterprise” qualification in December 2021 and is entitled to the preferential tax rate of 15% from 2021 to 2023.

Xinshi Bio Medicine (Shanghai) Co., Ltd. (“**Synthesis Shanghai**”) and Suzhou Xiangshi Medical Development Co., Ltd. (“**Synthesis Suzhou**”) renewed their “Advanced Technology Enterprise” qualifications in 2019 and are entitled to the preferential tax rate of 15% from 2019 to 2021.

Pursuant to Caishui [2019] No.13 “Circular of the Ministry of Finance, the State Administration of Taxation Issued on the Implementation of Preferential Tax Policies for Small Low-profit Enterprises” (財政部、國家稅務總局關於實施小微企業普惠性稅收減免政策的通告), certain subsidiaries, including Shanghai Langhua Pharmaceutical Service Co., Ltd and Shagnhai Dancheng Entrepreneurship Incubator Management Limited, whose annual taxable income less than RMB1,000,000, and the portion of annual taxable income more than RMB1,000,000 but less than RMB3,000,000, will be included in the actual taxable income at 25% and 50%, respectively, based on which the enterprise income tax payable will be calculated at the reduced tax rate of 20% from 2019 to 2021.

In addition, pursuant to Caishui [2021] No.12 “Circular of the Ministry of Finance, the State Administration of Taxation Issued on the Implementation of Preferential Income Tax Policies for Small Low-profit Enterprises” (財政部稅務總局關於實施小微企業和個體工商戶所得稅優惠政策的公告), certain subsidiaries whose annual taxable income less than RMB1,000,000 will be included in the actual taxable income at 12.5%, based on which the enterprise income tax payable will be calculated at the reduced tax rate of 20%. This policy has taken effect on January 1, 2021 and will expire on December 31, 2022.

USA

The subsidiary, incorporated in California, the United States, is subject to statutory United States federal corporate income tax at a rate of 21%. It is also subject to the state income tax in California at a rate of 8.84%.

Australia

Under the Treasury Law Amendment (Enterprise Tax Plan Base Rate Entitles) Bill 2017 of Australia, corporate entity who qualified as a small business entity is eligible for the lower corporate tax rate at 26% for the six months ended June 30, 2021 and at 25% for the six months ended December 31, 2021, respectively. The subsidiaries incorporated in Australia are qualified as small business entitles and are subject to the lower company income tax rate on the estimated assessable profits.

United Kingdom

The subsidiary incorporated in the United Kingdom is subject to income tax at a rate of 19% on the estimated assessable profits.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the applicable tax rate for the regions in which the majority of subsidiaries of the Company are domiciled to the tax expense at the effective tax rate is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit/(loss) before tax	347,701	(356,210)
Tax at the applicable tax rate of 25%	86,925	(89,053)
Preferential income tax rates applicable to subsidiaries	(17,958)	(10,427)
Effect on opening deferred tax of increase in rates	80	-
Adjustments in respect of current tax of previous years	(350)	(1,314)
Expenses not deductible for tax	11,866	167,239
Additional deduction allowance for research and development expenses	(10,350)	(5,319)
Income not subject to tax	(23,951)	(37,303)
Effect of tax rate differences in other jurisdictions	879	(1,163)
Tax charge	47,141	22,660

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,911,530,000 (2020: 1,571,507,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the US\$180,000,000 convertible bonds and fair value gain on the derivative component of the US\$180,000,000 convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended December 31, 2021, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. The diluted earnings per share for the year ended December 31, 2021 did not assume the conversion of the US\$280,000,000 convertible bonds nor exercise of certain batch of share options and restricted share units as their inclusion would be anti-dilutive.

The diluted loss per share for the year ended December 31, 2020 did not assume the conversion of the convertible bonds nor the exercise of share options and restricted share units as their inclusion would be anti-dilutive.

The calculations of the basic and diluted earnings/(loss) per share are based on:

	2021	2020
	RMB'000	RMB'000
Earnings/(loss)		
Profit/(loss) attributable to equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	<u>287,546</u>	<u>(386,880)</u>
Add: Interest on convertible bonds	18,848	–
Less: Fair value gain on the embedded derivative instruments of the convertible bonds	<u>143,590</u>	<u>–</u>
Profit/(loss) attributable to ordinary equity holders of the parent before the impact of convertible bonds	<u><u>162,804</u></u>	<u><u>(386,880)</u></u>
	Number of shares ('000)	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	1,911,530	1,571,507
Effect of dilutive potential ordinary shares:		
Share options	15,811	–
Restricted share unites schemes	170	–
Convertible bonds	<u>43,288</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings/(loss) per share	<u><u>1,970,799</u></u>	<u><u>1,571,507</u></u>

8. DIVIDENDS

The board of directors of the Company did not recommend the distribution of any annual dividend for the year ended December 31, 2021 (year ended December 31, 2020: RMB16, 270,000).

9. GOODWILL

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost at January 1, net of accumulated impairment	1,847,723	–
Acquisition of subsidiaries (<i>note 19</i>)	308,696	1,847,723
Impairment during the year	–	–
	<hr/>	<hr/>
Cost and net carrying amount at December 31	2,156,419	1,847,723
	<hr/> <hr/>	<hr/> <hr/>
At December 31		
Cost	2,156,419	1,847,723
Accumulated impairment	–	–
	<hr/>	<hr/>
Net carrying amount	2,156,419	1,847,723
	<hr/> <hr/>	<hr/> <hr/>

Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

The cash flows generated from each of the subsidiaries acquired are independent from those of the other subsidiaries of the Group. Therefore, each of these acquired subsidiaries is a separate cash-generating unit (“CGU”). Management of the Group considered that the synergies arising from each acquisition mainly benefited the corresponding acquired subsidiaries. Therefore, for the purposes of impairment assessment, goodwill has been allocated to corresponding subsidiaries acquired:

- CDMO and commercialisation service CGU; and
- Chemistry drug discovery services CGU.

CDMO and commercialisation service CGU

In 2021, the recoverable amount of the CDMO and commercialisation service CGU has been determined based on a value in use (“VIU”) calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. In 2020, the recoverable amount of the CDMO and commercialisation services CGU has been determined based on a fair value less disposal cost (“FVLCD”) 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 is 14.5% (2020: 15%). The growth rate used to extrapolate the cash flows of the CDMO and commercialization service CGU beyond the five-year period is 2.5% (2020: 3%). The budgeted gross margin used in the cash flow projections is from 27% to 33%. (2020: 28%).

Chemistry drug discovery services CGU

In 2021, the recoverable amount of the chemistry drug discovery services CGU was determined based on a VIU calculation using cash flow projections based on financial budget covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15% and cash flow beyond the five-year period were extrapolated using a growth rate of 2.5%. The budgeted gross margin used in the cash flow projections is from 45% to 47%.

The carrying amount of goodwill allocated to the operation of CGU is as follows:

	2021	2020
	RMB'000	RMB'000
CDMO and commercialisation service CGU	1,847,723	1,847,723
Chemistry drug discovery services CGU	308,696	–
	2,156,419	1,847,723

Assumptions were used in the VIU calculation and FVLCD calculation for December 31, 2021 and December 31, 2020, respectively. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margins and operating expenses – Gross margins are based on the average gross margins achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements, and expected market development. Estimates on operating expenses reflect past experience and management's commitment to maintain them at an acceptable level.

Discount rates – the discount rates used are after tax and reflect specific risks relating to the relevant units.

Growth rates – the rate is based on published industry research.

The value assigned to the key assumptions on gross margins and operating expenses, discount rate and growth rate are consistent with management's past experience and external information sources.

Considering there was still sufficient headroom based on the assessment, the management of the Company believes that a reasonably possible change in the above key parameters would not cause the carrying amount of the CGUs to exceed its recoverable amount as at December 31, 2021. No impairment loss in relation to goodwill in such CGUs is recognised for the year ended December 31, 2021.

10. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Customer relationships RMB'000	Total RMB'000
December 31, 2021			
Cost at January 1, 2021, net of accumulated amortisation	135,020	334,442	469,462
Acquisition of subsidiaries (note 19)	–	113,895	113,895
Additions	712	–	712
Amortisation provided during the year	(13,998)	(38,365)	(52,363)
Disposal	(262)	–	(262)
	<u>121,472</u>	<u>409,972</u>	<u>531,444</u>
At December 31, 2021	<u>121,472</u>	<u>409,972</u>	<u>531,444</u>
At December 31, 2021			
Cost	137,843	452,095	589,938
Accumulated impairment	(16,371)	(42,123)	(58,494)
	<u>121,472</u>	<u>409,972</u>	<u>531,444</u>
Net carrying amount	<u>121,472</u>	<u>409,972</u>	<u>531,444</u>
December 31, 2020			
Cost at January 1, 2020, net of accumulated amortisation	–	–	–
Acquisition of subsidiaries	137,401	338,200	475,601
Amortisation provided during the year	(2,381)	(3,758)	(6,139)
	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
At December 31, 2020	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
At December 31, 2020 and at January 1, 2021			
Cost	137,401	338,200	475,601
Accumulated impairment	(2,381)	(3,758)	(6,139)
	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
Net carrying amount	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>

Patents and customer relationships were resulted from the acquisitions of Langhua Pharmaceutical and Synthesis HK in 2020 and 2021.

The patents and customer relationships belong to the CDMO and commercialisation service CGU and Chemistry drug discovery services CGU and the management of the Group tests the patents and customer relationships for impairment in the CDMO and commercialisation service CGU and Chemistry drug discovery services CGU which is set out in Note 9.

11. FINANCIAL ASSETS AT FVTPL

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Listed equity securities	5,028	–
Unlisted investments at FVTPL	1,241,702	924,532
Financial products	–	49,500
	<u>1,246,730</u>	<u>974,032</u>
Analysed for reporting purposes as:		
Current assets	–	49,500
Non-current assets	<u>1,246,730</u>	<u>924,532</u>
	<u>1,246,730</u>	<u>974,032</u>

(a) Investments at FVTPL

The movements in the carrying value of investments at FVTPL for the reporting period are as follows:

	<i>RMB'000</i>
At January 1, 2020	647,271
Acquired	171,381
Recognised from SFE revenue	51,297
Recognised from deemed disposal of a joint venture	10,044
Gain on fair value change	102,010
Disposal	(33,344)
Exchange adjustment	<u>(24,127)</u>
At December 31, 2020 and January 1, 2021	924,532
Acquired	249,517
Recognised from SFE revenue	86,438
Recognised from deemed disposal of an associate	9,486
Gain on fair value change	36,456
Disposal	(48,743)
Exchange adjustment	<u>(10,956)</u>
At December 31, 2021	<u>1,246,730</u>

(b) **Financial products classified as financial assets at FVTPL**

The movements in the carrying value of the financial products of FVTPL for the reporting period are as follows:

	<i>RMB'000</i>
At January 1, 2020	5,212
Acquired	3,313,277
Acquisition of subsidiaries	49,000
Gain on fair value change	4,931
Disposal	<u>(3,322,920)</u>
At December 31, 2020 and January 1, 2021	49,500
Acquired	1,854,711
Gain on fair value change	9,220
Disposal	<u>(1,913,431)</u>
At December 31, 2021	<u><u>–</u></u>

12. TRADE AND BILLS RECEIVABLES

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
– a related party	–	95
– third parties	432,462	321,476
Bills receivables	6,693	7,044
Impairment	<u>(9,452)</u>	<u>(8,105)</u>
	<u>429,703</u>	<u>320,510</u>

The Group allows a credit period ranging from 30 to 90 days to its customers (2020: 30 to 90 days). The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	422,059	311,335
6 months to 1 year	4,558	8,184
Over 1 year	<u>3,086</u>	<u>991</u>
	<u>429,703</u>	<u>320,510</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021	2020
	RMB'000	RMB'000
At beginning of year	8,105	1,757
Acquisition of subsidiaries	207	7,653
Impairment losses, net	1,413	(931)
Amount written off as uncollectible	(273)	(374)
	<hr/>	<hr/>
At end of year	9,452	8,105
	<hr/> <hr/>	<hr/> <hr/>

An impairment analysis is performed at each reporting date 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 (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year 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:

As at December 31, 2021

	Ageing			Total
	Less than 6 months	7 to 12 months	Over 12 months	
Expected credit loss rate	2.1%	4.3%	10.2%	2.2%
Gross carrying amount (RMB'000)	430,953	4,765	3,437	439,155
Expected credit losses (RMB'000)	8,894	207	351	9,452

As at December 31, 2020

	Ageing			Total
	Less than 6 months	7 to 12 months	Over 12 months	
Expected credit loss rate	2.3%	3.9%	26.1%	2.5%
Gross carrying amount (RMB'000)	318,760	8,514	1,341	328,615
Expected credit losses (RMB'000)	7,425	330	350	8,105

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cash and bank balances	800,947	2,308,452
Pledged deposits	<u>682,656</u>	<u>681,658</u>
	<u>1,483,603</u>	<u>2,990,110</u>
Less:		
Pledged time deposits for letters of credit	(656,400)	(642,000)
Pledged time deposits for notes payable	(15,803)	(29,236)
Restricted bank balances	<u>(10,453)</u>	<u>(10,422)</u>
Cash and cash equivalents	<u>800,947</u>	<u>2,308,452</u>
Denominated in RMB	630,769	294,840
Denominated in US\$	110,268	2,006,508
Denominated in HK\$	46,723	7,096
Denominated in AU\$	2,468	5
Denominated in GBP	9,639	–
Denominated in other currencies	<u>1,080</u>	<u>3</u>
Cash and cash equivalents	<u>800,947</u>	<u>2,308,452</u>

The RMB is not freely convertible into other currencies, however, under the PRC 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. Time deposits are made for varying periods of between one day 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 pledged time deposits are deposited with creditworthy banks with no recent history of default.

At December 31, 2021, the restricted bank balances of RMB10,453,000 (2020: RMB10,422,000), represented government grants and subsidies received by the Group and are restricted for use till the Group complied with the conditions attached to the grants and the government acknowledged acceptance. Corresponding liabilities are recorded in deferred income.

14. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 3 months	209,621	230,157
3 months to 1 year	66,274	65,260
Over 1 year	5,158	287
	<u>281,053</u>	<u>295,704</u>

The trade and bills payables are non-interest-bearing and are normally settled on 90-day terms.

15. OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Other payables		
– Payable for acquisition*	81,202	30,000
– Payable for property, plant and equipment	104,985	35,454
– Others	23,452	30,724
	<u>209,639</u>	<u>96,178</u>
Salary and bonus payables	85,142	99,250
Other taxes payable	17,277	44,314
Interest payable	3,431	4,118
	<u>315,489</u>	<u>243,860</u>

* Payable for acquisition represents acquisition consideration payable to the original shareholders of Synthesis HK, including cash consideration of approximately RMB55,699,000 and contingent consideration of approximately RMB25,503,000. Contingent consideration is based on achievement of profit target for the year 2021 of acquiree and measured at fair value. The changes in fair value of approximately RMB6,115,000 are recognised in profit or loss during the year. At the date of approval of these financial statements, no further significant changes to the consideration are expected. Details of the acquisition are included in note 19 to the consolidated financial statements.

Other payables are non-interest-bearing.

16. BANK BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	One-year 3.915-4.41	2022	228,900	One-year 3.92	2021	25,000
Current portion of long term bank loans – secured (b)	Eight-year Loan prime rate ("LPR")*110%	2022	584	Eight-year LPR*110%	2021	554
Current portion of long term bank loans – secured and guaranteed (a)	–	–	–	One-year LPR+50 bps	2021	130,000
Current portion of long term bank loans – secured (b)	One-year LPR- 10 basepoints ("bps")	2022	3,568	–	–	–
			<u>233,052</u>			<u>155,554</u>
Non-current						
Bank loans – secured and guaranteed (a)	One-year LPR+50 bps	2025	556,000	One-year LPR+50 bps	2025	1,306,000
Bank loans – secured (b)	Eight-year LPR * 110%	2023	202	Eight-year LPR*110%	2023	786
Bank loans – secured (b)	Five-year LPR+10 bps	2026	80,170	–	–	–
Bank loans – secured (b)	Five-year LPR+10 bps	2027	8,100	–	–	–
Bank loans – secured (b)	One-year LPR-10 bps	2026	174,292	–	–	–
			<u>818,764</u>			<u>1,306,786</u>
			<u>1,051,816</u>			<u>1,462,340</u>

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	233,052	155,554
In the second year	14,430	330,584
In the third to sixth years, inclusive	804,334	976,202
	<u>1,051,816</u>	<u>1,462,340</u>

Notes:

- (a) To finance the acquisition of an 80% equity interest in Langhua Pharmaceutical, the bank loan incurred is pledged by one-year deposits of RMB640,000,000 of the Group as collateral and guaranteed by the Company. The Group has early repaid such bank loans of RMB880,000,000 during the year.

17. CONVERTIBLE BONDS

(a) **US\$180,000,000 convertible bonds**

On February 11, 2020, Viva Incubator HK issued five-year 2.5% convertible bonds in an aggregate principal amount of US\$180,000,000, which were guaranteed by the Company.

The conversion period is on or after March 23, 2020 up to the close of business on the 10th day prior to February 11, 2025 and the price of ordinary shares of the Company to be issued in exercise of the right of conversion is initially HK\$5.7456 per share. The conversion price would be subject to adjustment for, among other things, consolidation, subdivision, redesignation or reclassification of shares, capitalisation of profits or reserves, distributions, rights issues of shares or options over shares, rights issues of other securities, issues at less than current market price, other issues at less than current market price, modification of rights of conversion, other offers to shareholders.

In addition to the conversion price adjustment situation mentioned above, on February 11, 2021 and February 11, 2022 (the “**reset date**”), the conversion price shall be adjusted by the arithmetic average of the volume weighted average prices of the shares on each trading day for the period of 20 consecutive trading days ending on the trading day immediately prior to the relevant reset date. Any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than HK\$4.56.

On February 11, 2025, Viva Incubator HK would redeem all unconverted bonds from bondholders at the price of 108.21% of their principal amount, together with accrued and unpaid interest thereon.

On February 11, 2023, the bondholders would have the right to ask Viva Incubator HK to redeem all or some of bonds at 104.73% of its principal amount, together with interest accrued but unpaid to but excluding such date.

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), Viva Incubator HK may at any time prior to February 11, 2025 redeem in whole, but not in part, the bonds for the time being outstanding at their early redemption amount, together with interest accrued but unpaid to but excluding the date fixed for redemption provided that prior to the date of such notice at least 90% in principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The US\$180,000,000 convertible bonds comprise two components:

- (i) Debt component initially measured at fair value amounting to US\$129,863,000 (equivalent to RMB919,365,000) and subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs; and
- (ii) Derivative component comprising conversion options and early redemption options (not closely related to the debt component), which was initially measured at fair value amounting to US\$50,137,000 (equivalent to RMB354,945,000) and subsequently measured at fair value with changes in fair value recognised in profit or loss.

The total transaction costs that are related to the issue of the US\$180,000,000 convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values. The total transaction costs relating to the derivative components were charged to profit or loss in the current year. Transaction costs relating to the debt component were included in the carrying amount of the debt portion and amortised over the period using the effective interest method.

	Debt component RMB'000	Embedded derivative components RMB'000	Total RMB'000
At December 31, 2020	159,968	200,291	360,259
Interest charged	13,712	–	13,712
Gain arising on changes of fair value	–	(143,590)	(143,590)
Exchange adjustments	(3,819)	(2,896)	(6,715)
	<u>159,968</u>	<u>200,291</u>	<u>360,259</u>
At December 31, 2021	<u>169,861</u>	<u>53,805</u>	<u>223,666</u>
At December 31, 2019	–	–	–
Issue of US\$180,000,000 convertible bonds	919,365	354,945	1,274,310
Transaction costs	(13,216)	(5,068)	(18,284)
Transaction costs charged into profit or loss immediately	–	5,068	5,068
Exchange adjustments	(19,926)	(8,234)	(28,160)
Interest charged	36,875	–	36,875
Repurchase	(22,981)	(8,874)	(31,855)
Conversion	(740,149)	(684,594)	(1,424,743)
Loss arising on changes of fair value	–	547,048	547,048
	<u>159,968</u>	<u>200,291</u>	<u>360,259</u>
As at December 31, 2020	<u>159,968</u>	<u>200,291</u>	<u>360,259</u>

No conversion or redemption of the convertible bonds has occurred during the year ended December 31, 2021 (2020: an aggregate principal amount of US\$4,500,000 convertible bonds were repurchased and an aggregate principal amount of US\$148,000,000 convertible bonds were converted into 194,118,050 ordinary shares).

(b) US\$280,000,000 convertible bonds

On December 30, 2020, Viva Biotech BVI issued five-year 1% convertible bonds in an aggregate principal amount of US\$280,000,000, which were guaranteed by the Company.

The conversion period is on or after February 9, 2021 up to the close of business on the 10th day prior to December 30, 2025 and the price of ordinary shares of the Company to be issued in exercise of the right of conversion is initially HK\$11.637 per Share. The conversion price would be subjected to adjustment for, among other things, consolidation, subdivision, redesignation or reclassification of shares, capitalization of profits or reserves, distributions, rights issues of shares or options over shares, rights issues of other securities, issues at less than current market price, other issues at less than current market price, modification of rights of conversion, other offers to shareholders. The number of shares to be issued on conversion will be determined at the fixed exchange rate of HK\$7.7519 to US\$1.

On December 30, 2025, Viva Biotech BVI would redeem all unconverted bonds from bondholders at the price of 105.23% of its principal amount, together with accrued and unpaid interest thereon.

On December 30, 2023, the bondholders would have the right to ask Viva Biotech BVI to redeem all or some of bonds at 103.08% of its principal amount, together with interest accrued but unpaid to but excluding such date.

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), Viva Biotech BVI:

- (i) may at any time after January 9, 2024 and prior to December 30, 2025 redeem in whole, but not in part, the bonds for the time being outstanding at the early redemption amount, together with interest accrued but unpaid to but excluding the date fixed for redemption, provided that the closing price of the shares for each of 20 out of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption, is published was at least 130% of the applicable early redemption amount for each bond divided by the conversion ratio then applicable; or
- (ii) may at any time prior to December 30, 2025 redeem in whole, but not in part, the bonds for the time being outstanding at their early redemption amount, together with interest accrued but unpaid to but excluding the date fixed for redemption, provided that prior to the date of such notice at least 90% in principal amount of the bonds originally issued have already been converted, redeemed or purchased and cancelled.

The fair value of the debt component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The US\$280,000,000 convertible bonds have been split into the debt and equity components as follows:

	Debt component RMB'000	Equity component RMB'000	Total RMB'000
At December 31, 2020	1,331,880	468,731	1,800,611
Interest charged	99,293	–	99,293
Exchange adjustments	(31,619)	–	(31,619)
	<u>1,399,554</u>	<u>468,731</u>	<u>1,868,285</u>
At December 31, 2021	1,399,554	468,731	1,868,285
At December 31, 2019	–	–	–
Issue of US\$280,000,000 convertible bonds	1,353,220	475,880	1,829,100
Transaction costs	(20,328)	(7,149)	(27,477)
Interest charged	513	–	513
Exchange adjustments	(1,525)	–	(1,525)
	<u>1,331,880</u>	<u>468,731</u>	<u>1,800,611</u>
At December 31, 2020	1,331,880	468,731	1,800,611

No conversion or redemption of the convertible bonds has occurred during the year ended December 31, 2021.

18. SHARE CAPITAL/TREASURY SHARES

Shares

	2021 RMB'000	2020 RMB'000
Issued and fully paid:		
1,935,036,805 shares of US\$0.000025 each		
(2020: 1,917,880,747 shares of US\$0.000025 each) ordinary shares	326	323
	<u>326</u>	<u>323</u>

Share capital

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	1,561,818,398	261
Share repurchase and cancellation*	(3,652,500)	(1)
Shares issued upon exercise of share options	35,596,799	6
Conversion of convertible bonds	194,118,050	34
Placing of new shares	130,000,000	23
	<hr/>	<hr/>
At December 31, 2020 and January 1, 2021	1,917,880,747	323
Share repurchase and cancellation*	(11,493,000)	(2)
Share issued upon business combination (note 19)	8,654,685	2
Share issued upon exercise of equity-settled share-based Payment	19,994,373	3
	<hr/>	<hr/>
At December 31, 2021	<u>1,935,036,805</u>	<u>326</u>

* Pursuant to the board resolution passed on July 11, 2019, the Company announced to exercise its powers under the repurchase mandate to repurchase shares of the Company pursuant to the written resolutions passed on April 14, 2019 by the then shareholders of the Company. A total of 11,493,000 shares were repurchased and cancelled at a total consideration of HK\$73,052,000 (equivalent to approximately RMB60,796,000) for the year ended December 31, 2021 (2020: A total of 3,652,500 shares were repurchased and cancelled at a total consideration of HK\$15,192,000 (equivalent to approximately RMB13,581,000)).

Treasury shares

	Number of shares repurchased	Treasury shares RMB'000
At December 31, 2019 and January 1, 2020	–	–
Repurchase of ordinary shares for restricted share units	6,144,000	52,683
	<hr/>	<hr/>
At December 31, 2020 and January 1, 2021	6,144,000	52,683
Repurchase of ordinary shares for restricted share units	13,856,000	85,398
Exercise of restricted share units	(400,000)	(3,430)
	<hr/>	<hr/>
At December 31, 2021	<u>19,600,000</u>	<u>134,651</u>

19. BUSINESS COMBINATION

On February 28, 2021, the Group acquired a 100% interest in Synthesis HK. Synthesis HK and its subsidiaries (the “**Synthesis Group**”) are primarily engaged in research and development of new preclinical small molecule drugs which mainly provided high-end pharmaceutical chemistry and synthetic chemistry services to its clients. The subsidiaries acquired by the Group under this business combination transaction are as follows:

Subsidiaries acquired

Synthesis HK
Synthesis Shanghai
Synthesis Suzhou
Synthesis Australia
Synthesis UK
Synkinase Australia
Synkinase USA

Details of the transaction were set out in the circular and announcement published on February 25, 2021 and March 5, 2021, respectively.

Consideration

The purchase consideration for the acquisition are as follows:

	<i>RMB'000</i>
Cash consideration paid	246,275
Cash consideration payable (<i>note 15</i>)	55,699
In-kind service*	81,182
Shares issued** (<i>note 18</i>)	48,461
Contingent consideration*** (<i>note 15</i>)	19,388
	<hr/>
Total purchase consideration	<u>451,005</u>

* RMB81,182,000 (equivalent to US\$12,545,000) will be settled by providing drug discovery services by the Group to SYNthesis med chem Pty Ltd (the “**Vendor**”) or designated subsidiaries of the Vendor over the course of five years following February 28, 2021. RMB8,818,000 (equivalent to US\$1,363,000) has been settled during the year ended December 31, 2021.

** RMB48,461,000 (equivalent to US\$7,847,000) was settled by the allotment and issuance of 8,654,685 shares by the Company to the Vendor on March 5, 2021.

*** Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent cash consideration to the Vendor based on achievement of profit target of Synthesis Group. The maximum undiscounted contingent cash consideration payable is RMB25,885,000 (equivalent to US\$4,000,000). Based on the projected profit performance of Synthesis Group, the fair value of the contingent consideration arrangement was estimated to be RMB19,388,000 (equivalent to US\$2,996,000). The changes in fair value of contingent consideration was recognised in profit or loss during the year. Details are set out in note 15.

The fair values of the identifiable assets and liabilities of Synthesis Group as at the date of acquisition were as follows:

	<i>Notes</i>	Fair value recognised on acquisition RMB'000
Property, plant and equipment		14,909
Right-of-use assets		26,860
Intangible assets		113,895
Rental deposits and prepayments		902
Trade receivables		12,093
Defer tax assets		478
Prepayments, other receivables and other assets		6,532
Cash and cash equivalents		30,752
Trade payables		(1,786)
Other payables and accruals		(10,357)
Lease liabilities		(26,557)
Income tax payables		(7,226)
Other non-current liabilities		(634)
Deferred tax liabilities		<u>(17,552)</u>
Total identifiable net assets at fair value		142,309
Goodwill on acquisition	9	<u>308,696</u>
Total purchase consideration		<u><u>451,005</u></u>

The Group incurred transaction costs of RMB3,049,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Synthesis Group is as follows:

	<i>RMB'000</i>
Cash consideration	(321,362)
Cash and bank balances acquired	30,752
Net outflow of cash and cash equivalents included in cash flows from investing activities	(290,610)
Transaction costs of the acquisition included in cash flows from operating activities	<u>(3,049)</u>
	<u><u>(293,659)</u></u>

The fair values of the trade receivables and prepayments, other receivables and other assets as at the date of acquisition amounted to RMB12,093,000 and RMB6,532,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB12,300,000 and RMB6,532,000, respectively, of which an expected credit loss of RMB207,000 was recorded in trade receivables. The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and adjusted by lease payments made at or before the acquisition date.

Since the acquisition, Synthesis Group contributed RMB113,530,000 to the Group's revenue and RMB20,453,000 to the consolidated profit for the year ended December 31, 2021.

Had the combination taken place at the beginning of the year, the revenue from operations of the Group and the profit of the Group for the year would have been RMB2,117,952,000 and RMB299,188,000, respectively.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Viva Biotech Holdings
MAO Chen Cheney
Chairman and Chief Executive Officer

Hong Kong, March 28, 2022

As at the date of this announcement, the Board comprises four Executive Directors, namely, Mr. Mao Chen Cheney (Chairman), Mr. Wu Ying and Mr. Ren Delin; a Non-executive Director, namely, Ms. Sun Yanyan; and three Independent Non-executive Directors, namely, Mr. Fu Lei, Ms. Li Xiangrong and Mr. Wang Haiguang.