MicroPort
心通医疗

MicroPort CardioFlow Medtech Corporation
微创心通医疗科技有限公司
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2160

CONTENTS

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"2020 Pre-IPO Investor(s)"	the investor(s) of the 2020 Pre-IPO Investment, namely, CMP Cardio Investment Limited, AUT-XVI Holdings Limited, LBC Sunshine Healthcare Fund L.P., CRF Investment Holdings Company Limited, Gamnat Pte. Ltd., Gortune Artemis Limited, Happy Soul Limited and CDG Group Fund L.P.
"4C Medical"	4C Medical Technologies, Inc., a company incorporated under the laws of the State of Delaware and mainly engaged in the R&D of mitral and tricuspid valve devices in the United States
"Auditor's Report"	the auditor's report prepared by KPMG
"aortic valve"	the valve that prevents blood flowing back from aorta to left ventricle
"Articles of Association" or "Articles" or "Memorandum of Association" or "Memorandum"	Memorandum and Articles of Association of our Company conditionally adopted on January 15, 2021 and with effect from the Listing Date
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of our Company
"CE Mark"	a certification mark that indicates conformity with health, safety and environmental protection standards for products sold within the European Economic Area
"CG Code" or "Corporate Governance Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules, as amended from time to time
"Code Provision(s)"	the principles and code provisions set out in the CG Code
"China", "mainland China", or "PRC"	People's Republic of China, but for the purpose of this annual report and for geographical reference only and except where the context requires otherwise, references in this annual report do not apply to Hong Kong, Macau and Taiwan
"CICC Kangrui"	CICC Kangrui I (Ningbo) Equity Investment Limited Partners (Limited Partnership) (中金康瑞壹期（寧波）股權投資基金合夥企業（有限合夥）), a limited partnership established in the PRC and our pre-IPO investor
"Class IIIA Hospitals"	Top-level hospitals in China, as hospitals in China are divided into three classes by Ministry of Health, among which, Class III hospitals are at the highest level, typically having more than 500 beds, providing high-level specialist medical and healthcare services to several regions and performing advanced teaching and research tasks. Class III hospitals are divided into Special, A, B, and C grades

"CMO(s)"	contract manufacturing organizations, which provide support to the pharmaceutical industry in the form of manufacturing services outsourced on a contract basis
"Companies Act" or "Cayman Companies Act"	the Companies Act (As Revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	MicroPort CardioFlow Medtech Corporation (微创心通医疗科技有限公司), a company with limited liability incorporated under the laws of the Cayman Islands on January 10, 2019
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to MicroPort and/or Shanghai MicroPort
"Core Product"	has the meaning ascribed to it in Chapter 18A of the Listing Rules; for the purposes of this annual report, our Core Product refers to VitaFlow® II
"CRO"	contract research organization, a company that provides support to the pharmaceutical, biotechnology, and medical device industries in the form of research services outsourced on a contract basis
"Director(s)" or "our Director(s)"	the director(s) of our Company, including all executive, non-executive and independent non-executive directors
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market, research and consulting company
"GFA"	gross floor area
"Global Offering"	the Hong Kong Public Offering and the International Offering (including the Preferential Offering)
"GMP"	good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification
"Group", "our Group", "we", "us", or "our"	our Company and all of our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"HK$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"KOL(s)"	doctors that influence their peers' medical practice, including but not limited to prescribing behavior
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	February 4, 2021, on which the Shares were listed on the Stock Exchange and from which dealings in our Shares first commence on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the GEM of the Stock Exchange
"MicroPort"	MicroPort Scientific Corporation (微創醫療科學有限公司), an exempted company incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 00853)
"MicroPort Group"	MicroPort and all of its subsidiaries
"mitral valve"	the valve that prevents the blood in left ventricle from flowing back to left atrium
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"MP CardioFlow"	Shanghai MicroPort CardioFlow Medtech Co., Ltd. (上海微創心通醫療科技有限公司), a limited liability company established in the PRC on May 21, 2015 and a wholly-owned subsidiary of our Company
"Nanhui Facility"	our manufacturing facility located in Nanhui District, Shanghai
"New York Heart Association Functional Classification" or "NYHA Classification"	a simple way of classifying the extent of heart failure provided by the New York Heart Association. It classifies patients in one of four categories based on their limitations during physical activity, in regards to normal breathing and varying degrees in shortness of breath and/or angina pain
"nitinol"	nickel titanium, a metal alloy of nickel and titanium, where the two elements are present in roughly equal atomic percentages

"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor the China Food and Drug Administration (國家食品藥品監督管理總局), including its sub-division, such as the Center for Medical Device Evaluation (國家藥品監督管理局醫療器械技術審評中心)
"Nomination Committee"	the nomination committee of our Company
"PAV"	prosthetic aortic valve, the artificial valve of our TAVI products
"PET"	polyethylene terephthalate
"Prospectus"	the prospectus issued by the Company on January 26, 2021
"PVL"	paravalvular leakage, a complication associated with the implantation of a prosthetic heart valve through TAVI or SAVR
"Qianyi Investment"	Qianyi Investment I L.P., a limited partnership organized in the Cayman Islands and our pre-IPO investor
"R&D"	research and development
"Registration Clinical Trial"	the registration clinical trial in relation to VitaFlow® II on 60 patients during 30-day follow-up study after implantation. For details, see "Business — Our Product Portfolio — Aortic Valve Product — VitaFlow® II — Our Core Product" of the Prospectus
"Remuneration Committee"	the remuneration committee of our Company
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the year ended December 31, 2020
"Retained MicroPort Group"	MicroPort and its subsidiaries, excluding our Group
"Series D Adjustment"	the issuance of 300,078 Series D Preferred Shares (before the share subdivision) to the 2020 Pre-IPO Investors, details of which are set out in "History, Development and Corporate Structure — Major Shareholding Changes of Our Group — 5. 2020 Pre-IPO Investment" of the Prospectus
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shanghai Huahao"	Shanghai Huahao Enterprise Management Limited Partners (Limited Partnership) (上海鏵浩企業管理合夥企業（有限合夥）), a limited partnership established in the PRC and our pre-IPO investor

"Shanghai MicroPort"	Shanghai MicroPort Limited, a company incorporated in the BVI with limited liability on January 8, 2019, a wholly-owned subsidiary of MicroPort and one of our Controlling Shareholders
"Shanghai MicroPort Medical"	Shanghai MicroPort Medical (Group) Co., Ltd. (上海微創醫療器械（集團）有限公司), a limited liability company established in the PRC on May 15, 1998 and a wholly-owned subsidiary of MicroPort
"Share(s)"	ordinary share(s) in the share capital of our Company of US$0.000005 each
"Shareholder(s)"	holder(s) of our Share(s)
"Share Option Scheme"	the share option scheme adopted by our Company on March 13, 2020, as amended from time to time, the principal terms of which are set out in "Appendix IV — Statutory and General Information — D. Share Option Scheme" to the Prospectus
"SMO"	site management organization, an organization that provides clinical trial related services to medical device companies having adequate infrastructure and staff to meet the requirements of the clinical trial protocol
"sq.m"	square meter, a unit of area
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"STS Score"	Society of Thoracic Surgery risk score or percentage point, a validated risk-prediction model for open surgery, the higher value of which indicates the higher risk of patients to conduct a surgery
"TAVI"	transcatheter aortic heart valve implantation, a catheter-based technique to implant a new aortic valve in a minimally invasive procedure that does not involve open-chest surgery to correct severe aortic stenosis
"TMV"	transcatheter mitral valve, which refers to treatment methods for mitral valve diseases through transcatheter approach
"TTV"	transcatheter tricuspid valve, which refers to treatment methods for tricuspid valve diseases through transcatheter approach
"TVT"	transcatheter valve therapy, the treatment of valvular heart diseases (such as aortic valve disease, mitral valve disease and tricuspid valve disease) through transcatheter approach, which includes TAVI, TMV repair/replacement and TTVR
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"US dollar(s)", "US$" or "USD"	United States dollars, the lawful currency of the United States
"ValCare"	ValCare, Inc., a company incorporated under the laws of the State of Delaware and mainly engaged in the R&D of mitral valve and tricuspid valve medical devices
"VitaFlow®"	unless the context indicates otherwise, "VitaFlow®" refers to the VitaFlow® transcatheter aortic valve implantation system, which comprises of a PAV, a motorized delivery system and certain procedural accessories
"VitaFlow® II"	unless the context indicates otherwise, "VitaFlow® II"refers to the VitaFlow® II transcatheter aortic valve implantation system, which comprises of a PAV, a motorized delivery system and certain procedural accessory. VitaFlow® II is our Core Product
"Zhangjiang Facility"	our manufacturing facility located in Zhangjiang Hi-tech Park

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Chen Guoming
Ms. Yan Luying
Mr. Wu Guojia

Non-Executive Directors

Dr. Luo Qiyi *(Chairman of the Board)*
Mr. Zhang Junjie
Ms. Wu Xia

Independent Non-Executive Directors

Mr. Jonathan H. Chou
Dr. Jiang Hualiang
Ms. Sun Zhixiang

JOINT COMPANY SECRETARIES

Ms. Li Xiangmei
Ms. Chan Lok Yee

AUTHORIZED REPRESENTATIVES

Dr. Luo Qiyi
Ms. Chan Lok Yee

AUDIT COMMITTEE

Mr. Jonathan H. Chou *(Chairman)*
Ms. Sun Zhixiang
Dr. Jiang Hualiang

REMUNERATION COMMITTEE

Ms. Sun Zhixiang *(Chairwoman)*
Dr. Luo Qiyi
Mr. Jonathan H. Chou

NOMINATION COMMITTEE

Dr. Luo Qiyi *(Chairman)*
Dr. Jiang Hualiang
Ms. Sun Zhixiang

REGISTERED OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House, Cricket Square
Grand Cayman, KY1-1001
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1601 Zhangdong Road
Zhangjiang Hi-Tech Park
Pudong New District
Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue, Causeway Bay
Hong Kong

COMPANY'S WEBSITE

www.cardioflowmedtech.com

COMPLIANCE ADVISER

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

PRINCIPAL BANK

Shanghai Pudong Development Bank,
Zhangjiang Innovation Sub-branch
56 Boyun Road
Pudong New District
Shanghai, PRC

LEGAL CONSULTANT

Kirkland & Ellis
26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

KPMG
Certified public accountants and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

OVERVIEW

We are a medical device company in China focusing on the research, development and commercialization of innovative transcatheter and surgical solutions for valvular heart diseases. We are deeply rooted in the vast, rapid-growing and substantially underpenetrated heart valve medical device market and have developed a medical device platform focusing on valvular heart disease. Complemented by our proven commercialization capabilities, medical device platform focusing on valvular heart disease and experienced management team with continuous support from Shareholders, we have successfully developed and launched a TAVI product with positive clinical trial results with respect to all-cause mortality rate and postoperative complications including moderate/severe PVL, major stroke and vascular complications in China and we are also developing our second-generation TAVI product, which is at near-commercialization stage. We are also dedicated to serving the vast but underserved TMV market, strategically targeting all mainstream viable TVT options for mitral regurgitation through in-house development and collaboration with our global partners, namely 4C Medical and ValCare, each being a medical device company focusing on the R&D of mitral and tricuspid valve medical devices.

OUR MISSION

Our mission is to improve the lives of valvular heart disease patients by providing optimal and affordable medical solutions through continuous innovation.

OUR PIPELINE

Our in-house developed product portfolio consists of one commercialized TAVI product — VitaFlow® (including two procedural accessories as part of its offering), one registration stage TAVI product — VitaFlow® II and various TAVI products, TMV products, TTV products, procedural accessory products and surgical valve products at different stage of development.

In addition to our in-house developed product portfolio, we also collaborate with our business partners, namely 4C Medical and ValCare, with respect to certain TMV and TTV products, for which we own the exclusive commercial rights in China.

CHAIRMAN'S STATEMENT

Dr. Luo Qiyi
Chairman

The year of 2020 marks an eventful year in the history of our Group. With the increasing aging population in large and medium-sized cities in China and the growing demands for high-quality and healthy lives, transcatheter aortic valve implantation ("**TAVI**") has gained increasing recognition and acceptance from physicians and patients in China, the number of TAVI procedure in China has ushered in explosive growth, while our Group also entered into the golden age of our development.

We are deeply rooted in the vast, rapid-growing and substantially underpenetrated heart valve medical device market. The year of 2020 is the second year after our self-developed first-generation TAVI product, VitaFlow®, was commercially launched. With VitaFlow®'s outstanding clinical performance and reasonable pricing, strong internal marketing team and external distributors, as well as the brand synergy of our Controlling Shareholder, MicroPort, we experienced a sustained and rapid increase in numbers of hospital admission and sales, and recorded a total of sales revenue of RMB103.9 million, representing an increase of 383.4% from the previous year. Our mission is to improve the lives of valvular heart disease patients by providing optimal and affordable medical solutions through continuous innovation.

In 2020, the Company has entered the fast lane of all-round development. The Company obtained ISO13485 : 2016 Quality Management System Certification and the National High-tech Enterprise Certification, VitaFlow® was listed in the Recommendation Catalogue of the Second Batch of Innovative Products in Shanghai in 2020; a total of 6 projects were supported by government funds; we also carried out the standard implementation certification of Enterprise Intellectual Property Management Specification (GB/T29490-2013), and obtained the Certificate of Intellectual Property Management System in January 2021.

We have further improved our product pipeline on the research and development and deployed a product portfolio covering TAVI products, TMV products, TTV products, surgical valve products and procedural accessory products, strategically covering overall treatment methods for valvular heart diseases. We encouraged our employees to focus on innovation and outcome protection. In 2020, 25 patents were newly granted and 71 patents were newly applied for.

In terms of clinical registration, VitaFlow® received its registration approval from the Argentinean State Food and Drug Administration for Medical Technology in July and was approved to be marketed in the overseas market for the first time. In November, we obtained the registration certificate of Thailand and took a solid step on the road of internationalization. We completed the five-year follow-up for first in man stage and four-year follow-up for pivotal stage of VitaFlow®, which further demonstrated the safety of VitaFlow®. We have completed the Registration Clinical Trial for our second generation TAVI product VitaFlow® II in China and submitted the registration application for VitaFlow® II to the NMPA in October 2020 which was accepted in November 2020 and is currently under review. We are preparing the CE marking application for VitaFlow® II in Europe, with its European clinical trial in progress.

As of December 31, 2020, VitaFlow® covered 144 hospitals in 28 provinces (including municipalities and autonomous regions), and gained share advantage in some key hospitals, as well as ranked first in terms of market share in some provinces. We conducted education for doctors by participating in academic seminars, holding department meetings and training classes in hospitals as well as other forms to continuously enhance doctors' recognition of VitaFlow® products. We have cultivated a batch of highly qualified distributor teams who strongly recognize our business prospects, which are constantly developing and growing. Through the continuous efforts of the Company and by virtue of the resources of distributors, we effectively improved the breadth and depth of VitaFlow® in hospital coverage.

In 2020, we completed the pre-IPO financing, and completed most of the procedures in the listing application stage to ensure that our Company was successfully listed on the Hong Kong Stock Exchange on February 4, 2021, providing sufficient fund support for the rapid and high-quality development of the Company.

In the new year, we will continue to strengthen our corporate governance, accelerate our R&D process, deepen our market penetration, and seek to reduce costs and improve efficiency. We devote to the world's leading enterprise for treatment of valvular heart diseases and bring health and longevity to every country and every patient in the world with our heart valvular products and treatment technologies of high-tech level.

Our Directors, senior management and employees continue to pursue excellence with integrity and diligence. On behalf of all our colleagues, I would like to express gratitude to all our Shareholders, suppliers, distributors, physicians and partners for their support over the years.

Dr. Luo Qiyi
Chairman

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last three* financial years, as extracted from the audited financial information and financial statements is set out below:

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	For the year ended December 31,		
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
Revenue	**103,934**	21,502	—
Gross profit	**45,380**	6,302	—
Loss before taxation	**(398,087)**	(144,522)	(60,263)
Loss for the year	**(398,087)**	(144,522)	(60,263)
Loss attributable to equity shareholders of the Company	**(398,087)**	(144,522)	(60,263)
Loss per share — Basic and diluted (in RMB)	**(0.23)**	(0.08)	(0.04)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,		
	2020	2019	2018
	RMB'000	RMB'000	RMB'000
Non-current assets	**392,213**	362,171	324,784
Current assets	**719,968**	183,729	77,346
Total assets	**1,112,181**	545,900	402,130
Non-current liabilities	**25,671**	26,315	13,539
Current liabilities	**1,431,694**	387,741	115,212
Total liabilities	**1,457,365**	414,056	128,751
Total (deficit)/equity	**(345,184)**	131,844	273,379

* The Shares were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on February 4, 2021.

BOARD OF DIRECTORS

Dr. Luo Qiyi (羅七一), aged 58, is the chairman and a non-executive Director of our Company. He was appointed as a non-executive Director on August 5, 2019 and the chairman of our Board of Directors on January 16, 2020. Dr. Luo is mainly responsible for participating in decision-making of important matters and the high-level oversight of the management and operations of our Group. Dr. Luo also serves as the chairman of MP CardioFlow since he joined our Group in May 2015.

Dr. Luo has over 30 years of experience in the medical device industry. He joined the MicroPort Group in January 2003 and is currently serving as the chief technology officer and a member of the Intercontinental Cardiac Rhythm Management Committee and Greater China Executive Committee of MicroPort. Prior to joining the MicroPort Group, from February 1991 to May 1995, he worked as a supervisor and an engineer of the angioplasty research and development team at Vas-Cath Inc., a subsidiary of C.R. Bard, Inc. which is a medical device manufacturing company listed on the New York Stock Exchange (ticker symbol: BCR). Dr. Luo worked as the principal research and development engineer and a senior manufacturing/development engineer at Medtronic AVE Inc. from May 1995 to December 2002.

Dr. Luo received his bachelor's degree in applied science from Yunnan University of Technology (雲南理工大學) in China in July 1983, his master's degree in applied science from Queen's University in Canada in December 1990 and his doctor's degree in biomedical engineering from University of Shanghai for Science and Technology (上海理工大學) in China in March 2015. Dr. Luo is the inventor or a co-inventor of over 200 patents in China, the United States, Japan and the European Union as of the date of this annual report.

Mr. Chen Guoming (陳國明), aged 37, is an executive Director and the President of our Company. He was appointed as an executive Director, President of our Company and director and general manager of MP CardioFlow on September 29, 2020. He joined our Group as a vice president on September 1, 2016 and is mainly responsible for research and development since then and participating in the management and strategic development of our Group.

Mr. Chen focused on research and development, clinical application and supply chain management of devices in the field of valves in the past 10 years. Before joining us in September 2016, Mr. Chen joined the MicroPort Group in March 2010 and worked as senior R&D manager at Shanghai MicroPort Medical from March 2010 to August 2016.

Mr. Chen obtained a bachelor's degree in Engineering Mechanics from Shanghai Jiao Tong University (上海交通大學) in China in June 2007 and a master's degree in mechatronics engineering from Shanghai Jiao Tong University in China in March 2010. He is also the inventor or a co-inventor of over 100 invention patents in China and overseas as of the date of this annual report.

Ms. Yan Luying (閆璐穎), aged 40, is an executive Director and a Vice President of our Company. She was appointed as our Vice President on September 1, 2016 when she joined our Group, and was appointed as an executive Director and director of MP CardioFlow on September 29, 2020. Ms. Yan is responsible for regulatory affairs and clinical trial and participating in the management and strategic development of our Group.

Ms. Yan has more than 17 years of experience in registration, clinical investigation and management regarding active, non-active, interventional, and implantable devices. Prior to joining our Group in September 2016, Ms. Yan has been working as regulatory affairs senior manager at the MicroPort Group from July 2004 to December 2015.

Ms. Yan obtained a bachelor's degree and a master's degree in biomedical engineering from Capital Medical University (首都醫科大學) in China in July 2004 and December 2012, respectively.

Mr. Wu Guojia (吳國佳), aged 47, was appointed as our Vice President on March 15, 2018 when he joined our Group, and was appointed as an executive Director and director of MP CardioFlow on September 29, 2020. He is responsible for sales and marketing and participating in the management and strategic development of our Group.

Mr. Wu has more than 16 years of experience in medical device companies and more than 6 years of experience as an interventional cardiologist, obtained attending doctor license. Before joining us, Mr. Wu has been working as a clinical training manager at BSC International Medical Trading (Shanghai) Co., Limited, a subsidiary of Boston Scientific Corporation, a medical device company listed on the New York Stock Exchange (ticker symbol: BSX) from April 2005 to September 2009, as regional training manager at Covidien (Shanghai) Management Consulting Co., Ltd., which was acquired by Medtronic Inc., a medical device company listed on the New York Stock Exchange (ticker symbol: MDT) in 2014, from September 2009 to March 2011, and as Asia Pacific training manager, marketing director, sales director successively at St. Jude Medical (Hong Kong) Limited, which was acquired by Abbott Laboratories, a medical device company listed on the New York Stock Exchange (ticker symbol: ABT), from March 2011 to January 2018.

Mr. Wu obtained a bachelor's degree in pediatrics from Shanghai Second Medical University (上海第二醫科大學) (currently, known as Shanghai Jiao Tong University School of Medicine (上海交通大學醫學院)) in China in July 1998.

Mr. Zhang Junjie (張俊傑), aged 43, is a non-executive Director of our Company. He was appointed as a non-executive Director on August 5, 2019 and is mainly responsible for participating in decision-making of important matters of our Group and the high-level oversight of the management and operations of our Group. Mr. Zhang also serves as a director of MP CardioFlow since he joined our Group in October 2017.

Mr. Zhang has over 14 years of experience in the healthcare investment industry. He is currently a director of Shanghai MicroPort Endovascular MedTech (Group) Co., Ltd. (上海微創心脈醫療科技（集團）股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688016), since July 2018. Prior to joining our Group, Mr. Zhang served as a consultant of Deloitte Consulting (Beijing) Co., Ltd. (德勤諮詢（北京）有限公司) from July 2004 to March 2006 and an investment manager of H&Q Asia Pacific Ltd. (漢鼎亞太有限公司) from March 2006 to December 2006. From December 2006 to September 2016, he was as a global partner of Actis (Beijing) Investment Consulting Center (L.P.) (英聯（北京）投資諮詢中心（有限合夥）) and he has been a founding partner of Huaxing Healthcare Fund (華興醫療產業基金) since November 2016.

Mr. Zhang received a bachelor's degree in organic chemistry from Lanzhou University (蘭州大學) in China in June 2000 and a master's degree in management and professional accounting from University of Toronto in Canada in November 2004.

Ms. Wu Xia (吳夏), aged 39, is a non-executive Director of our Company. She was appointed as a non-executive Director on August 5, 2019 and is mainly responsible for participating in decision-making of important matters of our Group and the high-level oversight of the management and operations of our Group. Ms. Wu also serves as a director of MP CardioFlow since she joined our Group in October 2017.

Ms. Wu has over 10 years of experience in research and private equity investment focusing on healthcare industry. She is currently serving as a managing director of CICC Capital since January 2019 and is responsible for the overall investment and management of CICC Kangrui. Ms. Wu joined CICC Jia Cheng Investment Management Company Limited (中金佳成投資管理有限公司) in July 2008 and served as vice president from January 2012 to December 2014 and as executive director from January 2015 to August 2018. In August 2018, Ms. Wu transferred into CICC Capital as executive director. Ms. Wu has been a director of Genetron Holdings Limited (a company listed on the NASDAQ under the trading symbol of "**GTH**") since September 2017.

Ms. Wu obtained her bachelor's degree in finance from Peking University (北京大學) in China in July 2003, and a master's degree in economics and finance from Warwick Business School of the Warwick University in the UK in January 2005. She was awarded "Outstanding Young PE Investor of the Year 2018" by China Renaissance (華興資本) in 2018.

Mr. Jonathan H. Chou (周嘉鴻), aged 56, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on January 15, 2021 and is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Chou is a seasoned finance and operations executive with more than 30 years of professional experience from banking to various senior leadership positions with Fortune 500 companies and Asia headquartered U.S. listed companies. He has been serving as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of MicroPort since September 3, 2010. He also serves on the board of directors of Emerging Markets Investors Alliance, a not-for-profit organization which enables the institutional investors to support good governance, promote sustainable development and improve investment performance in the governments and companies in which they invest.

He joined UTAC Group in February 2021 as its Chief Financial Officer. UTAC is a leading independent provider of assembly and test services in the following key product categories: analog, mixed-signal and logic, and memory; serving primarily fabless companies, integrated device manufacturers and wafer foundries customers.

Mr. Chou worked at Kulicke and Soffa Industries, Inc. (a company listed on the NASDAQ under the trading symbol of "KLIC"), a leading provider of semiconductor packaging and electronic assembly solutions supporting the global automotive, consumer, communications, computing and industrial segments, from December 2010 to February 2018 and held position of chief financial officer from December 2010 to November 2017. From April 2008 to December 2010, Mr. Chou served as the chief financial officer of Feihe International, Inc. (a company listed on the New York Stock Exchange in April 2005 under the trading symbol of "ADY", and the predecessor company of China Feihe Limited, a company listed on the Stock Exchange in November 2019 with stock code of 6186), during which period he led the company's listing application. Prior to joining Feihe International, Inc., he also served as the chief financial

officer of Asia Pacific and various senior financial positions with several Fortune 500 companies, including Honeywell, Tyco ADT, Lucent Technologies / Bell Labs and Public Service Enterprise Group.

Mr. Chou is also a founding member and the chief financial officer of Open5G Inc. where he is primarily responsible for finance, legal and business administration of the company. The company is now pursuing a new open-access business model bringing giga plus fiber connections to homes and businesses by competing in the telecom infrastructure industry.

Mr. Chou was a recipient of the "China's Top 10 CFO for 2008" award issued by the CFO World Magazine in April 2009 for navigating through the 2008 global financial crisis.

Mr. Chou gives back his time to non-profit organizations by serving on the board of directors of Emerging Markets Investors Alliance (EMIA) since 2019. EMIA enables institutional investors to support good governance, promote sustainable development and improve investment performance in the governments and companies in which they invest. He also serves on the Fuqua School of Business of Duke University's East Asia Advisory Board since 2011 and served on the Duke University Alumni Association's Global Board of Directors form 2015–2018.

Mr. Chou received bachelor's degree in economics from the State University of New York at Buffalo in the United States in February 1988 and a master's degree in business administration from Duke University's Fuqua School of Business in the United States in December 1999.

Dr. Jiang Hualiang (蔣華良), aged 57, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on January 15, 2021 and is primarily responsible for supervising and providing independent judgment to our Board.

Dr. Jiang joined Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所) in August 1995 and successively served as different positions including a research fellow, a director and a research director of State Key Laboratory of Drug Research (新藥研究國家重點實驗室). He is also serving as an adjunct professor at Shenyang Pharmaceutical University (瀋陽藥科大學) since September 2015. Dr. Jiang was recognized as an Academician of Chinese Academy of Sciences (中國科學院院士) in November 2017. Dr. Jiang was awarded the Second Prize of State Technological Invention Award (國家技術發明獎二等獎) by State Council of the People's Republic of China (中華人民共和國國務院) in 2017, the First Prize of Shanghai Science and Technology Award (上海市科學技術獎一等獎) by Shanghai Municipal People's Government (上海市人民政府) twice in 2003 and 2015 and the Second Prize of National Natural Science Award (國家自然科學獎二等獎) by State Council of the People's Republic of China in 2007. He has been an independent non-executive director of Alphamab Oncology, a company listed on the Stock Exchange (stock code: 9966), since November 2019. He has been an independent non-executive director of Shanghai Junshi Biosciences Co., Ltd. a company listed on the Stock Exchange (stock code: 1877) and Shanghai Stock Exchange (stock code: 688180) since November 16, 2020.

Dr. Jiang received his bachelor's degree in chemistry from Nanjing University (南京大學) in July 1987, his master's degree in physical chemistry from East China Normal University (華東師範大學) in July 1992 and his doctoral degree in medicinal chemistry from Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所) in July 1995.

Ms. Sun Zhixiang (孫志祥), aged 53, is an independent non-executive Director of our Company. She was appointed as an independent non-executive Director of our Company on January 15, 2021 and is primarily responsible for supervising and providing independent judgment to our Board.

Ms. Sun served as a lawyer at Shanghai Foreign Economic Law Office (上海市對外經濟律師事務所) from July 1990 to December 1996. She served as a Chinese law consultant at Helen Yeo & Partners (Singapore) from January 1997 to January 1998. From February 1998 to February 1999, she worked at Shanghai Xin Min Law Firm (上海市新閔律師事務所) as the director of corporate and finance division. Since March 1999, she has been working at Shanghai Pu Dong Law Office (上海市浦棟律師事務所) and served as a senior partner. She has been an independent non-executive director at Jiangsu Jonnyma New Materials Co., Ltd. (江蘇鏘尼瑪新材料股份有限公司) since October 2017. She has also been a secretary general at Shanghai Donghai Ci Hui Charitable Foundation (上海東海慈慧公益基金會) since June 2018.

Ms. Sun obtained her bachelor's degree in law and master's degree in international commercial law from Fudan University (復旦大學) in July 1990 and January 1997, respectively. She was a visiting scholar in East Asian Legal Studies of Harvard Law School from August 2009 to July 2010.

Except as otherwise disclosed in this annual report, none of our Directors held a position of director in any other listed companies during the Track Record Period, and no other information relating to our Directors is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and no other matters are required to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Mr. Chen Guoming (陳國明), aged 37, is an executive Director and the President of our Company. Please refer to "— Board of Directors — Mr. Chen Guoming" for his biography.

Ms. Yan Luying (閆璐穎), aged 40, is an executive Director and a Vice President of our Company. Please refer to "— Board of Directors — Ms. Yan Luying" for her biography.

Mr. Wu Guojia (吳國佳), aged 47, is an executive Director and a Vice President of our Company. Please refer to "— Board of Directors — Mr. Wu Guojia" for his biography.

Save as disclosed above, none of our Directors and senior management held any directorship in any public companies, the shares of which are listed in the Stock Exchange or overseas stock markets during the three years prior to the date of this annual report.

To the best of the Board's knowledge, information and belief, save as disclosed in the annual report, our Directors and senior management do not have any relationship amongst them.

JOINT COMPANY SECRETARIES

Ms. Li Xiangmei (李香梅) was appointed as one of our joint company secretaries on October 27, 2020. She has been taking the position of the Board secretary of our Group since she joined our Group in February 2020. Prior to that, she has been working as senior manager and manager of shareholders and securities affairs in the MicroPort Group from December 2014 to January 2020.

Prior to joining the MicroPort Group, Ms. Li worked at Sinopec Shanghai Petrochemical Company Limited (中國石化上海石油化工股份有限公司), a petrochemical company listed on New York Stock Exchange (trading symbol: SHI) and the Stock Exchange (stock code: 0338) and the Shanghai Stock Exchange (stock code: 600688) as an investor relations manager from February 2006 to December 2014, during which she also received the senior economist qualification issued by China Petrochemical Corporation (中國石油化工集團公司) in November 2014.

Ms. Li obtained her bachelor of arts and bachelor of business administration (double degree) from Zhengzhou University (鄭州大學) in China in July 2002.

Ms. Chan Lok Yee (陳濼而) was appointed as one of our joint company secretaries on October 27, 2020. Ms. Chan is currently a manager of Corporate Services of Vistra Corporate Services (HK) Limited, a professional provider of corporate services. She has had over seven years of experience in providing company secretarial and compliance services to private and listed companies. Ms. Chan obtained a bachelor's degree of arts from The Hong Kong Polytechnic University and a master's degree of science in professional accounting and corporate governance from The City University of Hong Kong. She has been an associate member of The Hong Kong Institute of Chartered Secretaries and an associate member of The Institute of Chartered Secretaries and Administrators (now known as The Chartered Governance Institute) in the United Kingdom since 2015.

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed herein, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

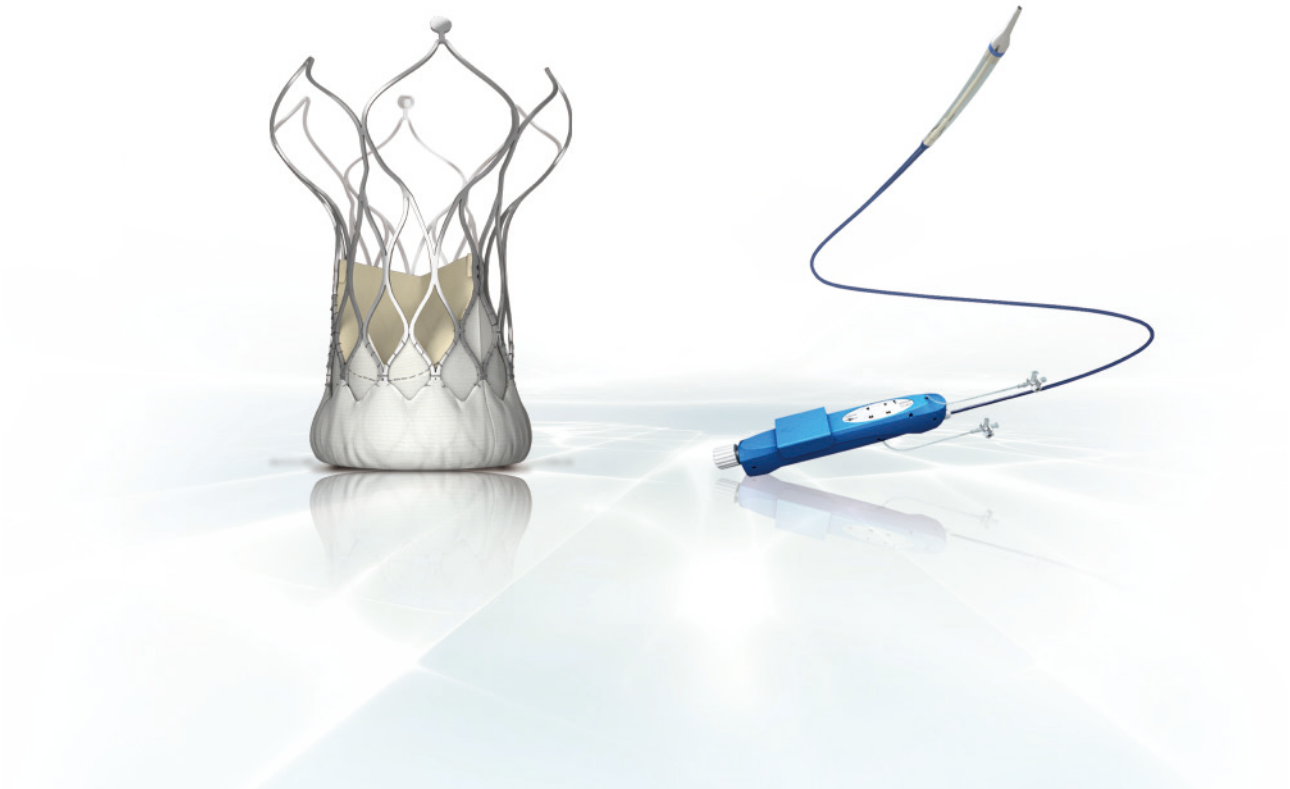
BUSINESS REVIEW

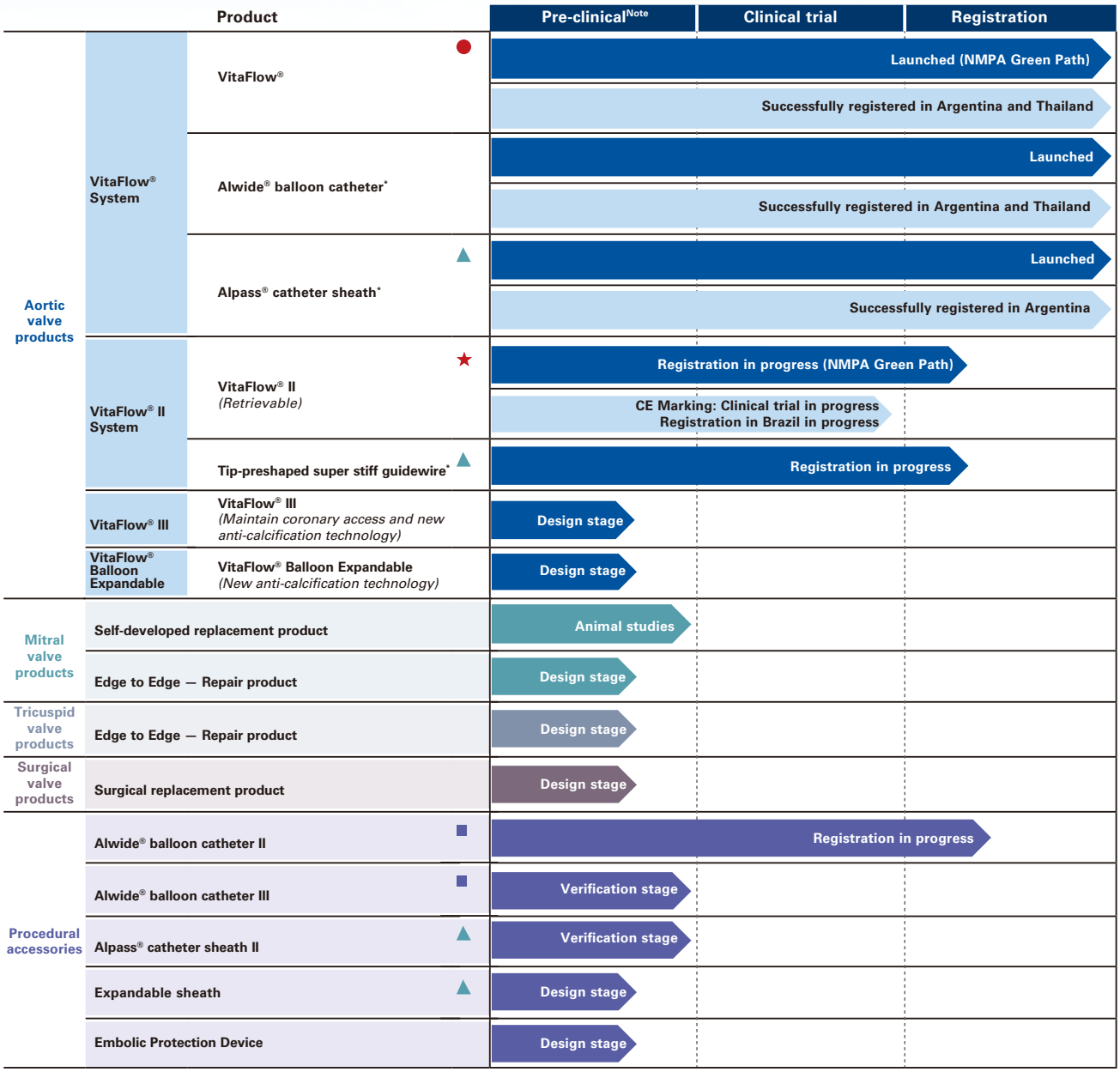
Overview

We are a medical device company in China focusing on the research, development and commercialization of innovative transcatheter and surgical solutions for valvular heart diseases. Our mission is to improve the lives of valvular heart disease patients by providing optimal and affordable medical solutions through continuous innovation.

Our Pipeline

Our in-house developed product portfolio consists of one commercialized TAVI product — VitaFlow® (including two procedural accessories as part of its offering), one registration stage TAVI product — VitaFlow® II and various TAVI products, TMV products, TTV product, procedural accessory products and surgical valve product at different stage of development. The following chart summarizes our in-house developed product portfolio as of the date of this annual report.





China status Global status ★ Core product ● Key product

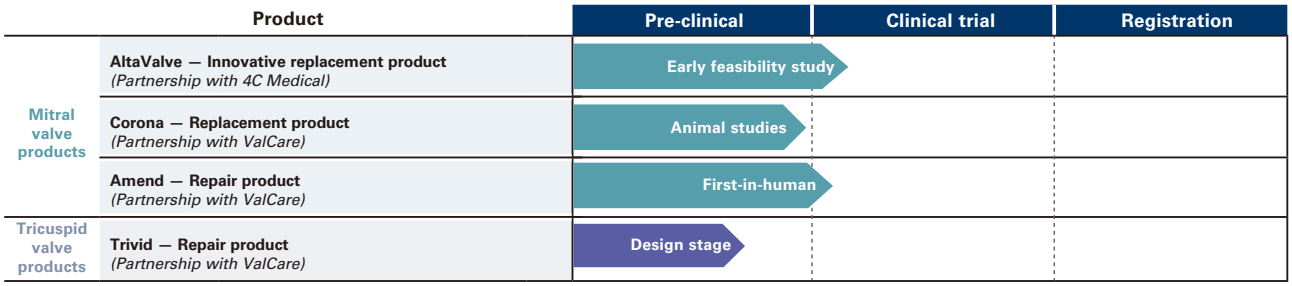
■ Applied or plan to apply for exemption from clinical trial for NMPA approval following relevant PRC regulations

▲ Among our product candidates, these devices are exempted from clinical trial requirements in accordance with the Catalogue of Medical Device Exemption from Clinical Trials (《免於進行臨床試驗醫療器械目錄》) promulgated by the NMPA, as amended

* These procedural accessories are registered and commercialized as part of VitaFlow® or VitaFlow® II system and are not registered as standalone product in China. For details, see "— Our Product Portfolio — Procedural Accessories and Surgical Valve."

Note: Design stage refers to the designing and developing of the sample product. Verification stage refers to performing verification testing on the sample product to finetune its design.

In addition to our in-house developed product portfolio, we also collaborate with our business partners, namely 4C Medical and ValCare, with respect to certain TMV and TTV products, for which we own the exclusive commercial rights in China. The following chart summarizes our product portfolio that we collaborate with these business partners as of the date of this annual report.



VitaFlow®

Our self-developed first-generation TAVI product VitaFlow®, was approved by the NMPA in July 2019. VitaFlow® primarily consists of a PAV, a motorized delivery system and certain procedural accessories. The PAV is a self-expanding bio-prosthesis valve that is manufactured by suturing bovine pericardial valve leaflets and double-layer PET skirt onto a self-expanding nitinol frame. The motorized delivery system consists of a catheter and a motorized handle. The procedural accessories comprise our first-generation Alwide® balloon catheter and our first-generation Alpass® catheter sheath, which are designed to help physicians overcome the challenges in performing TAVI procedures.

We conducted a prospective, multi-center and single-arm pivotal clinical trial in China with VitaFlow®, which enrolled 110 patients with an average STS Score of 8.8. Compared with other TAVI products currently commercialized in China, VitaFlow® achieved positive clinical trial results with respect to all-cause mortality rate and postoperative complications including moderate/severe PVL, major stroke and vascular complications. The all-cause mortality rate was 0.9% at discharge, 0.9% at 30 days, 2.7% at six months, 2.7% at 12 months, 4.5% at 24 months and 12.7% at 48 months post-implantation. None of the patients experienced moderate or severe PVL during the 12 months following the TAVI procedure. None of the patients experienced a major stroke during the 24 months following the TAVI procedure. During the 48 months following the TAVI procedure, only 2.0% of the patients experienced major stroke.

We started to commercialize VitaFlow® in China in August 2019. We are also evaluating the opportunities to market our VitaFlow® overseas, especially in emerging markets that recognize the NMPA marketing approval. In July 2020 and November 2020, VitaFlow® was registered in Argentina and Thailand, respectively.

For the year ended December 31, 2020, our revenue generated from the sales of VitaFlow® amounted to RMB103.9 million, representing an increase of 383.4% compared to RMB21.5 million for the year ended December 31, 2019.

VitaFlow® II — Our Core Product

VitaFlow® II is our second-generation TAVI product. Similar to VitaFlow®, VitaFlow® II consists of a PAV, a motorized retrievable delivery system and certain procedural accessory. The PAV adopts the same design with VitaFlow®. The key upgrade lies in the delivery system, where the capsule of VitaFlow® II includes a distal flare (a flared tip located at the distal part of the delivery system), enabling the physician to retrieve the PAV if it is not placed accurately at the designated position provided the deployment does not exceed 75% of the maximal deployment range. The retrievable function will help increase the accuracy of positioning the PAV, which will further improve the overall success rate of the TAVI procedure.

VitaFlow® II had achieved positive clinical trial results during the Registration Clinical Trial with respect to its safety and efficacy. During the 30-day follow-up period, none of the patients experienced a disabling stroke. We had also observed a significant improvement in patients' cardiac functions, measured by the NYHA Classification. Prior to the TAVI implantation, none of the patients were classified as Class I and only 18.3% of the patients were classified as Class II under the NYHA Classification, which significantly improved to 19.3% and 68.4% at 30-day follow-up evaluation, respectively. Although there were three mortality cases observed, as reviewed and adjudicated by the clinical endpoints committee, none of the mortality cases were related to the function of VitaFlow® II. In October 2020, we submitted the registration application for VitaFlow® II to the NMPA, which was supported by the Registration Clinical Trial results. The registration application was accepted by the NMPA in November 2020 and is currently under review. We expect that we will complete the registration of VitaFlow® II in China by the end of 2021.

In addition, we are also conducting a pivotal clinical trial for VitaFlow® II in Europe. We plan to submit the application for CE Mark registration in 2021. We also plan to register VitaFlow® II primarily in countries that recognize the NMPA marketing approval or the CE Mark, such as Argentina, Brazil, India, South Korea, Thailand and Russia, among others, provided we successfully obtained marketing approval from the NMPA and/or the CE Mark.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We cannot guarantee that we will ultimately develop or market our Core Product successfully. Shareholders and potential investors of the Company are advised to exercise due care when dealing in the Shares of the Company.

Research and Development

R&D is crucial to our growth. We have built a core R&D team with key technology expertise in areas including, among others, biological material, suturing technique, structure design and processing technique. Our R&D team is divided into three R&D groups, namely the frame group, the valve group and the delivery system group. Each group focuses on the R&D of new technology and materials related to that group that has the potential to be applied to our product portfolio. For the design and development of a pipeline product, we established a project team which consists of members from each R&D group. The project team holds regular meetings to discuss the R&D progress in each group, the latest market trends as well as detailed analysis of similar products manufactured by our competitors. We believe this working mechanism enables each R&D group to closely follow and meet our in-house R&D needs as well as the market trend while separately focus on the R&D of their respective fields. Through this working mechanism, we have been able to develop innovative designs for each of the valve tissue, PET skirt, frame and handle in VitaFlow®. We also have an international scientific advisory board, consisting of global leading scientists and physicians in the cardiovascular field, namely Dr. Nicolo Piazza, Dr. Thomas Modine and Dr. Darren Mylotte, who share their abundant experiences and insights on the latest technology breakthroughs and the latest trends in the treatment of valvular heart diseases worldwide.

Intellectual Properties

As of December 31, 2020 we owned 99 patents in China, including 23 invention patents, 69 utility models and seven industry designs. As of the same date, we also had 81 pending patent applications in China, including 72 invention patents and nine utility models. To facilitate our strategy to enter overseas market, we also owned 58 patents in UK, Italy, Germany, France, Spain, America, Korea, Australia and Brazil, among others. All of the patents that we owned or applied for are related to technologies of our product or product candidates and are self-developed by our in-house R&D team.

Manufacturing

We commenced commercial manufacturing of VitaFlow® shortly after we received the NMPA marketing approval in July 2019. We had two manufacturing facilities in Shanghai in compliance with the GMP standard, namely the Nanhui Facility and the Zhangjiang Facility, with a total GFA of approximately 3,863.8 sq.m. We lease the Nanhui Facility from an independent third party and the Zhangjiang Facility from MicroPort Group. Zhangjiang Facility was primarily used for research and development of our pipeline products. Nanhui Facility was primarily used for commercial production of VitaFlow®. We have engaged a third party to construct a new manufacturing facility in Shanghai with a total GFA of approximately 13,000 sq.m. We expect that the new manufacturing facility will commence production in 2022, which will significantly enhance our production capacity.

Commercialization

We have established a dedicated in-house sales and marketing team with professional medical background, primarily focusing on academic promotions. Our sales and marketing team was led by Mr. Wu Guojia, who had over six years of experience at the cardiology department of a hospital and over 16 years of experience at leading international cardiovascular medical device companies such as Boston Scientific. We also have a training team within the sales and marketing team, which is responsible for introducing our products and technologies at educational symposia.

We actively participate in medical conferences and industry exhibitions in the cardiac or cardiovascular fields. We believe these activities provide us with great opportunities to introduce our TAVI products to physicians, especially to get them familiarized with our unique designs such as the bovine pericardium leaflets, the double-layer PET skirt and the motorized delivery system.

We focus on penetrating core TAVI hospitals as the first step of our marketing strategy. In order to gain a higher market share in these hospitals, we maintained interaction and communication with KOLs from these hospitals from time to time. We invite these KOLs to carry out clinical studies for our pipeline products and post-marketing clinical studies. We also provide certain in-sale services during TAVI implantation using VitaFlow®, such as product unpacking and assembly and providing assistance during the TAVI procedure, in order to familiarize physicians with our product and its innovative features. We believe their views and endorsement of these KOLs are valuable to our market penetration and future product upgrade.

Currently, there are strong demands for qualified hospitals with an experienced TAVI operation team to support the growth of China's TAVI market. Supported by our penetration in core TAVI hospitals and presence at industry leading conferences, we believe we are well-positioned to penetrate eligible hospitals for TAVI procedure that lack TAVI experiences. We organize hospital seminars and training sessions at eligible hospitals for TAVI procedures in China. We also invite experienced TAVI practitioners, especially leading physicians in this area to facilitate the training process.

For the year ended December 31, 2020, we sold 1,293 units of VitaFlow®. As of the date of this annual report, TAVI procedures using VitaFlow® had been performed at 166 hospitals in China, most of which are Class IIIA Hospitals located at tier-one and tier-two cities.

Events after the Reporting Period

On February 4, 2021, the Shares of the Company were listed on the Main Board of the Stock Exchange.

On February 10, 2021, the Company successfully issued and allotted additional 30,843,000 Shares pursuant to the over-allotment option, representing approximately 15% of the maximum number of offer Shares initially available under the Global Offering, at the offer price of HK$12.20 per Share.

On February 18, 2021, our Company made an investment of US$819,377 in ValCare. The amount for the investment was determined after commercial arm's length negotiations, taking into account the capital required for the clinical and regulatory affairs of the products of ValCare. For details, please refer to the section headed "History, Development and Corporate Structure" in the Prospectus. It is clarified that, the date "February 18, 2020" in the second paragraph on page 8 of the 2020 annual result announcement of the Company should read as "February 18, 2021". Save for the aforesaid, all the information in the 2020 annual result announcement remains true and accurate.

On March 30, 2021, the Company has adopted a share award scheme (the "**Share Award Scheme**") to, among other things, recognize the contributions of the directors, employees, consultants and advisors of the Group in order to incentivize them to retain with the Group, and to motivate them to strive for the future development and expansion of the Group.

On March 31, 2021, the Company has resolved to grant share options to eligible participants, who are employees of the Company and its subsidiaries, to subscribe for up to an aggregate of 8,000,000 Shares pursuant to the Share Option Scheme, subject to the acceptance of such grantees.

Save as disclosed in this annual report and note 33 to the financial statements, the Company is not aware of any material subsequent events from the end of Reporting Period to the date of this annual report.

Impact of the COVID-19 Pandemic

Since early 2020, a growing number of countries and regions around the world have experienced an outbreak of the novel coronavirus ("**COVID-19**"), a highly contagious disease known to cause respiratory illness. Significant rises in COVID-19 cases have been reported since then, causing governments around the world to implement unprecedented measures such as city lockdowns, travel restrictions, quarantines and business shutdown. The spread of COVID-19 continues to affect China and Europe, where we conduct substantially all of our business and engage in preclinical studies and clinical trials, as well as certain other countries and regions that are part of our supply chain.

To protect our employees, we required all of our employees to work remotely in late January and February 2020. We officially resumed normal on-site operations, including our in-house R&D and commercialization activities in March 2020. As such, the COVID-19 outbreak had a material impact on our business operations and results of operations during the first quarter of 2020. Our revenue for the first half of 2020 has been significantly affected by the COVID-19 pandemic as sales of our TAVI product has decreased, especially in February and March 2020, primarily because of temporary decreases in the hospital treatment rate of patients with aortic stenosis as many avoided going to hospitals. We expect that the effect of the COVID-19 pandemic on our business to be relatively limited in the next few years, considering that:

- The number of daily new infections and suspected COVID-19 cases in China has declined substantially since mid-February 2020, and mass lockdown measures in low-risk cities were lifted in early March, according to Frost & Sullivan. Social distancing measures have been gradually lifted and hospitals have gradually resumed full services. As a result, the hospital treatment rate of our addressable patient population increased and resumed to normal levels. In turn, the demand for our marketed products has gradually recovered.

- With respect to our clinical trial of VitaFlow® II in China, we completed TAVI procedures on all the patients enrolled for the Registration Clinical Trial as of March 2019. As a result, the 30-day evaluation in relation to the Registration Clinical Trial had been completed before the COVID-19 outbreak. In October 2020, we submitted the registration material for VitaFlow® II to the NMPA which was accepted in November 2020 and is currently under review.

- With respect to our clinical trial in Europe, patient enrollment has been temporarily suspended since February 2020. As of the date of this annual report, none of the clinical sites had resumed clinical trials. We expect this situation to continue to improve with the containment of the COVID-19 pandemic and do not expect it to have any material long-term impact on VitaFlow® II's ongoing clinical trial in Europe. We are actively discussing with each clinical site and the CRO we engaged for the clinical trial to understand the latest status in Europe. We are also conducting follow-up evaluations for the patients that have been enrolled in the clinical trial and had completed TAVI procedures. Nevertheless, as an industrial norm, the European Medicines Agency will take into consideration clinical trial data obtained in other countries that are obtained in clinical trials in accordance with international guidelines as supporting data for CE Mark registration. We plan to use the clinical data from the one year follow-up evaluations of Registration Clinical Trial and the patients that have already been enrolled in the clinical trial in Europe for VitaFlow® II's CE Mark registration. We had completed TAVI procedures with VitaFlow® II on all of these patients and therefore the expected development progress of VitaFlow® II in Europe will not be materially and adversely affected by the COVID-19 pandemic and it has taken into account the COVID-19 outbreak.

- The COVID-19 pandemic did not have a material effect on the registration of VitaFlow® in emerging markets, including Argentina, Russia and Thailand. As VitaFlow® is not required to complete local clinical trials in these countries, the registration progress of these countries were not materially affected by the COVID-19 pandemic and we successfully registered VitaFlow® in Argentina and Thailand in July 2020 and November 2020, respectively.

- The COVID-19 pandemic did not have a material effect on our manufacturing activities. In the first quarter of 2020, we temporarily experienced a decrease in our production capacity due to the implementation of social distancing measures and resumed normal manufacturing operations in March 2020 with protective measures in place. Since April 2020, we have resumed normal manufacturing level, which are sufficient to support our ongoing R&D and commercialization activities.

- The COVID-19 pandemic did not have a material effect on our inventory levels and supply chain. Our inventory levels were generally sufficient to support our operations. In light of the COVID-19 pandemic, we kept a slightly higher inventory level in 2020 compared to 2019 and we had not experienced any shortage of raw materials that had a material and adverse impact on our operations. Despite minor delays in logistics and the temporarily insignificant increase in logistics expenses, especially international shipments, we have been able to manage our supply chain and ensure a decent level of raw material and finished products inventory. Our major suppliers, including suppliers for bovine pericardium, have been able to deliver shipments on schedule.

- The COVID-19 pandemic did not have a material effect on services provided to us by third parties, in particular, CROs and SMOs. With respect to the Registration Clinical Trial, our CROs and us had arranged telephone follow-up interviews for all the patients enrolled and onsite follow-up inspections for substantially all the patients. With respect to the ongoing clinical trial in Europe, as patient enrollment has been temporarily suspended since February 2020, we did not require significant efforts from CROs and SMOs but we have kept regular communications with them with respect to the relevant clinical trial arrangements during the COVID-19 pandemic.

- The COVID-19 pandemic did not have a material effect on our product delivery. We did not experience any material delays in fulfilling product orders.

We have adopted measures to mitigate the impact of the COVID-19 outbreak on our business operations, financial results and prospects, and maintained a safe and hygienic working environment in our offices and manufacturing facilities. For example, after we resumed on-site operations, we have provided our staff with protective equipment (surgical masks, sanitation and sterilization supplies, and thermometers), required all staff to self-quarantine after travel or if feeling unwell, limited physical meetings and non-essential travel, sterilized our premises daily, and monitored the health conditions of our employees.

It is uncertain when and whether COVID-19 will be contained globally. The above analysis are made by our management based on currently available information concerning COVID-19. We cannot guarantee you that the COVID-19 outbreak will not further escalate or have a material adverse effect on our results of operations, financial position or prospects. We are constantly monitoring the COVID-19 outbreak situation as well as various regulatory and administrative measures adopted by local governments to prevent and control the pandemic. We will continue to monitor and evaluate any impact of the COVID-19 outbreak on us and adjust our precautionary measures according to the latest developments of the outbreak.

Significant Investments, Material Acquisitions and Disposals

The Company had no other significant investments, material acquisitions and/or disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2020.

Employees and Remuneration

As of December 31, 2020, the Group had 305 employees. The total staff cost incurred by the Group for the year ended December 31, 2020 was RMB97.1 million, as compared to RMB46.1 million for the year ended December 31, 2019. The remuneration package of our employees includes, salary, bonus and share option incentives, which are generally determined by their qualifications, industry experience, position and performance. We make contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

Future Development

We intend to capitalize our strengths to pursue a business strategy in the following aspects:

Continue to strengthen our presence in China's TAVI market

The China TAVI market is significantly under-penetrated. We intend to further increase our sales of TAVI products in China through the following:

- **Expand and deepen hospital penetration.** We will continue our focus on increasing penetration into top tier hospitals, in which we believe we can gain a substantial advantage by leveraging our positive clinical trial results of VitaFlow® with respect to mortality rate and postoperative complications. We plan to further penetrate top tier hospitals to gain a leading market share in the near future. We will also expand into other hospitals that has either existing TAVI capabilities or the potential to perform TAVI procedures. According to Frost & Sullivan, it is expected that there will be 1,149 eligible hospitals for TAVI procedures in China, among which 616 hospitals are expected to have performed TAVI procedures in 2025. These hospitals indicate high potential for TAVI penetration. We will also recruit more sales and marketing personnel with experience in or knowledge of valvular heart diseases and expand our distributor network to further penetrate China's TAVI market.

- **Further advance development of next-generation products.** We intend to rapidly advance the R&D of our TAVI pipeline products. We will also advance the development of our third-generation self-expanding TAVI product and another balloon-expandable TAVI product, in order to provide full solution to all suitable patients, especially younger patients and patients with lower surgical risks.

- **Strengthen academic promotion.** In addition to maintaining our KOLs and physician network in the medical specialty of cardiology, we also intend to expand our KOLs and physician network to physicians in cardiothoracic surgery, which we believe potentially also have strong demand for our products. We have been keeping, and will continue to keep frequent communications with several leading medical associations and conferences in these medical specialty fields, such as the Asia Valvular Heart Disease Conference, to design customized training programs for cardiac surgeons. We believe our KOLs and physician coverage in the medical specialty of cardiothoracic surgery will enable us to gain advantages to promote our products in the cardiothoracic surgery department.

- **Conduct long-term postoperative follow-ups and marketing surveillance.** We will continue to conduct postoperative follow-up evaluations for up to five years post-TAVI procedure to further monitor the long-term safety and efficacy of VitaFlow®. We believe we are well-positioned to further enhance our relationship with physicians and boost our brand recognition through these valuable long-term clinical data.

Continue to advance our international strategy

We will continue our efforts in the international markets with a tailored strategy for both VitaFlow® and VitaFlow® II in various international markets with significant market potential. Leveraging the global awareness of the "MicroPort" brand, we plan to collaborate with global enablers, including medical device companies, research institutes, hospitals and distributors, to advance our international strategy.

- **VitaFlow®.** We are exploring opportunities for VitaFlow® in emerging markets that recognize the NMPA approval. We plan to increase academic promotion activities and ramp up sales in these territories.

- **VitaFlow® II.** We will focus on product registration and commercialization of VitaFlow® II overseas, especially in Europe. With our extensive experience in product development, registration and manufacture of TAVI products and the awareness of "MicroPort" brand, we believe VitaFlow® II has the potential to become the first commercialized China-developed TAVI product in Europe. We will also advance product registrations in emerging markets, especially countries that recognize the CE Mark or the NMPA approval such as Argentina, Brazil, South Korea, Russia, Thailand and India. We are also evaluating opportunities in other territories and we may consider enter such territories and conduct local clinical trials for product registration of VitaFlow® II in such territories in the future.

- **Overseas collaborations.** As part of our international strategy, we will steadily expand our academic coverage into overseas markets. Leveraging the experience and the expertise of our international scientific advisory board, we intend to participate in more leading international cardiovascular conferences by organizing presentations and case studies to introduce our product to enhance our brand awareness globally.

Rapidly advance our TMV pipeline and other product candidates

We will continue our focus on the development of other pipeline products to expand our product portfolio, including TMV pipeline products, TTV pipeline products and next-generation procedural accessories and surgical accessories designated to strengthen our position in the transcatheter medical device market. Capitalizing on our market position and extensive know-how in the valvular heart disease field, we will further expand our product portfolio through in-house R&D capabilities. We believe we can leverage our experiences and know-how accumulated during the development of the current product portfolio in our future products.

We will also seek opportunities for third-party cooperation with a focus on valvular heart disease. Our deep and unique understanding and insights on valvular heart diseases will enable us to identify the technologies that we believe are of great clinical potential to tackle aortic valve, mitral valve and tricuspid valve diseases. We will prudently assess investment opportunities to expand our product portfolio through acquisitions, collaborations or in-licensing arrangements with regard to these technologies.

We also intend to recruit and train additional talented R&D personnel to expand our in-house R&D team. Our in-house R&D team will work closely with our international scientific advisory board and KOLs to follow the market trends and technology breakthroughs, which will in turn enable us to better understand the clinical demands.

Improve operational efficiency and achieve economies of scale to support our long-term growth.

We plan to improve operational efficiency to achieve long-term growth through the following measures.

- **Manufacturing.** To support our future sales growth, we have engaged a third party to construct a new manufacturing facility in Shanghai with a total GFA of approximately 13,000 sq.m., which is currently expected to commence production in 2022. We expect the manufacturing capacity expansion will enable us to achieve economies of scale. In addition, we intend to further improve the automation and manufacturing efficiency through continuous infrastructure upgrade and facility automation.

- **Operation.** We will continue our efforts to pursue lean management and operational excellence strategy. We plan to upgrade our digital supply management system and information management system to achieve real-time monitoring of our supply chain. We are also exploring methods to optimize our inventory management system, which will improve our operational efficiency.

FINANCIAL REVIEW

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

Revenue

During the Reporting Period, all of our revenue was generated from the sales of our first commercialized product, VitaFlow®. The following table sets forth the components of our revenue, sales volume and average selling price for the periods indicated.

	For the year ended December 31,	
	2020	2019
	(RMB in thousands, except for sales volume)	
VitaFlow®		
Revenue	**103,934**	21,502
Sales volume (units)	**1,293**	271
Average selling price (per unit)	**80.4**	79.3

For the year ended December 31, 2020, the Group's revenue increased by 383.4% from RMB21.5 million for the year ended December 31, 2019 to RMB103.9 million in 2020, primarily because we started to commercialize our first marketed product, VitaFlow®, in August 2019.

Cost of Sales

During the Reporting Period, our cost of sales was all related to the manufacturing of VitaFlow®. Our cost of sales increased by 285.2% from RMB15.2 million for the year ended December 31, 2019 to RMB58.6 million for the year ended December 31, 2020, primarily because we started to commercialize our first marketed product, VitaFlow®, in August 2019.

Gross Profit and Gross Profit Margin

We started to generate revenue and recorded gross profit after the commercialization of VitaFlow® in August 2019. Our gross profit for sales of VitaFlow® increased by 620.1% from RMB6.3 million for the year ended December 31, 2019 to RMB45.4 million for the year ended December 31, 2020, and the gross profit margin increased by 14.4 percentage points from 29.3% for the year ended December 31, 2019 to 43.7% for the year ended December 31, 2020, primarily due to our continuous efforts to optimize our manufacturing efficiency. In addition, as we gradually ramped up our sales of VitaFlow®, we have achieved more bargaining power over raw material suppliers and are able to control costs through economies of scale.

Research and Development Costs

Our R&D costs remained stable at RMB96.7 million for the year ended December 31, 2019 and RMB96.8 million for the year ended December 31, 2020.

Distribution Costs

Our distribution costs increased by 96.7% from RMB26.1 million for the year ended December 31, 2019 to RMB51.4 million for the year ended December 31, 2020, primarily due to (i) an increase of RMB15.0 million in market development expenses, as we increased our sales and marketing activities after the commercialization of VitaFlow®; (ii) an increase of RMB4.4 million in share-based compensation expenses due to the Share Option Scheme; and (iii) an increase of RMB3.3 million in staff costs to support our increasing sales and marketing activities.

Administrative Expenses

Our administrative costs increased by 316.7% from RMB10.9 million for the year ended December 31, 2019 to RMB45.2 million for the year ended December 31, 2020, primarily due to an increase of RMB24.8 million in share-based compensation expenses primarily due to the Share Option Scheme.

Other Net Income

For the year ended December 31, 2020, we recorded RMB14.3 million of other net income, compared to RMB5.1 million for the year ended December 31, 2019, which consisted of RMB16.7 million of government grants and RMB5.2 million of interest income, partially offset by net foreign exchange loss of RMB7.6 million, reflecting the impact of depreciation of U.S. dollars against Renminbi on our deposits that are denominated in U.S. dollars.

Fair Value Changes in Financial Instruments

Our losses on fair value changes in financial instruments increased from RMB8.6 million for the year ended December 31, 2019 to RMB64.7 million for the year ended December 31, 2020 due to a combination of the increase in fair value of Series D Adjustment and a put option granted to Witney Global Limited (the "**Witney Put Option**"), which was partially offset by an increase in valuation of our investment in 4C Medical.

Other Operating Costs

Our other operating costs increased from RMB1.1 million for the year ended December 31, 2019 to RMB54.0 million for the year ended December 31, 2020. This increase was primarily due to the listing expenses in relation to the Global Offering.

Finance Costs

Our finance costs increased significantly from RMB12.5 million for the year ended December 31, 2019 to RMB146.3 million for the year ended December 31, 2020. This increase was primarily attributable to an increase in interest on other financial liabilities due to the issuance of series C preferred shares and series D preferred shares.

Inventories

Our inventories consist of (i) raw materials used in R&D activities and manufacturing for our product candidates; (ii) work in progress; and (iii) finished goods. We regularly monitor our inventories and endeavor to keep an optimal inventory level in line with the expected usage in the near term.

Our inventories increased from RMB49.2 million as of December 31, 2019 to RMB67.8 million as of December 31, 2020, reflecting (i) an increase in work in progress of RMB12.0 million; and (ii) an increase in finished goods of RMB5.2 million, primarily because we kept the optimal level of inventories in anticipation of increasing marketing demand for our products.

Current Trade and Other Receivables

Our current trade and other receivables primarily consist of (i) value-added tax recoverable, representing value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables; (ii) deposits and prepayments to suppliers and service providers; and (iii) trade receivables. We require substantially all of our distributors to make full payment prior to product shipments, except for two distributors to whom we granted a credit term of 10 business days starting from June 2020 and approximately 30 days starting from October 2019, respectively. As a result, we did not have trade receivables in 2019 and recorded trade receivables of RMB4.7 million as of December 31, 2020. We seek to maintain strict control over the outstanding receivables to minimize credit risk.

Our current trade and other receivables increased from RMB24.9 million as of December 31, 2019 to RMB39.4 million as of December 31, 2020. This increase was primarily due to (i) RMB4.7 million of trade receivables due from our distributors; (ii) an increase of RMB5.9 million in deposits and prepayments due to our procurement of raw materials and services; and (iii) and increase of RMB3.5 million in other receivables arising from prepaid listing expenses to be accounted for as a deduction from equity upon the completion of the Listing.

Trade and Other Payables

Our trade and other payables primarily consist of (i) trade payables due to third party suppliers and related parties; (ii) accrued payroll; and (iii) other payables and accrued charges.

Our trade and other payables increased from RMB35.3 million as of December 31, 2019 to RMB86.1 million as of December 31, 2020, primarily due to an increase of RMB46.8 million in other payables and accrued charges primarily reflecting (i) accrued listing expenses; (ii) an increase of RMB4.4 million in accrued payroll; and (iii) an increase of RMB3.0 million in trade payables due to third parties in consistent with the increase of purchase.

Derivative Financial Liabilities

During the Reporting Period, our derivative financial liabilities comprised the Series D Adjustment and the Witney Put Option. As of December 31, 2020, the fair values of the Series D Adjustment and the Witney Put Option were RMB60.4 million and RMB13.7 million, respectively. The fair value of derivative financial liabilities that are not traded in an active market and is determined by using the applicable valuation techniques, which incorporated unobservable inputs, including expected probability of event, expected volatility and others.

Lease Liabilities

As of December 31, 2020, we recorded lease liabilities of RMB15.8 million, which were primarily in relation to the properties we leased for our office premises, manufacturing and R&D. We recognize lease liabilities with respect to all leases, except for short-term leases and leases of low value assets.

Capital Expenditure

Our capital expenditure amounted to RMB62.6 million during the Reporting Period represented the additions of intangible assets and property, plant and equipment. In particular, our intangible assets primarily represent the capitalized development costs.

Foreign Exchange Exposure

During the year ended December 31, 2020, the Group mainly operated in China and a majority of its transactions were settled in RMB, the functional currency of the Company's primary subsidiaries. As of December 31, 2020, a portion of the Group's bank balances and cash was denominated in U.S. dollars. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Except for certain bank balances and cash, other receivables, trade and other payables, and other denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as of December 31, 2020.

Contingent Liabilities

As of December 31, 2020, we did not have any contingent liabilities.

Capital Management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher Shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Liquidity and Financial Resources

Our cash and cash equivalents increased significantly from RMB109.3 million as of December 31, 2019 to RMB612.5 million as of December 31, 2020 primarily attributable to the funds we received from our Series D financing. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Borrowings and Gearing Ratio

Total borrowings of the Group, including interest-bearing borrowing, as of December 31, 2020 were nil, compared to RMB20.0 million as of December 31, 2019, reflecting the repayment of bank loan in January 2020. As of December 31, 2020, the gearing ratio of the Group (calculated as total interest-bearing borrowings and lease liabilities divided by total equity plus other financial liabilities as of the same date) decreased to 1.7%, compared to 8.5% as of December 31, 2019.

Net Current Liabilities

The Group's net current liabilities as of December 31, 2020 were RMB711.7 million, as compared to RMB204.0 million as of December 31 2019. Such increase was mainly attributable to the series D preferred shares issued during the Reporting Period, which were accounted for as current liabilities.

Charge on Asset

As of December 31, 2020, there was no charge on assets of the Group.

The Board is pleased to present this report of Directors together with the consolidated financial statements of the Group for the year ended December 31, 2020.

BOARD OF DIRECTORS

The Board currently comprises three executive Directors, three non-executive Directors and three independent non-executive Directors.

The Directors during the year ended December 31, 2020 and up to the date of this annual report are:

Executive Directors:

Mr. Chen Guoming
Ms. Yan Luying
Mr. Wu Guojia

Non-Executive Directors:

Dr. Luo Qiyi *(Chairman of the Board)*
Mr. Zhang Junjie
Ms. Wu Xia

Independent Non-Executive Directors:

Mr. Jonathan H. Chou
Dr. Jiang Hualiang
Ms. Sun Zhixiang

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on January 10, 2019 as an exempted limited liability company under the laws of the Cayman Islands. The Shares were listed on the Main Board of the Stock Exchange on February 4, 2021.

PRINCIPAL ACTIVITIES

We are a medical device company in China focusing on the research, development and commercialization of innovative transcatheter and surgical solutions for valvular heart diseases. Our mission is to improve the lives of valvular heart disease patients by providing optimal and affordable medical solutions through continuous innovation.

RESULTS

The results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of profit or loss on page 98 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. These discussions form part of this annual report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Important Events after the Reporting Period" in this annual report. The discussion of the Company's key relationships with its employees, suppliers and others that have a significant impact on the Company is set out in the section headed "Relationships with Key Stakeholders" in this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties faced by the Group, some of which are beyond its control:

- we have incurred significant net losses since inception and expect to continue to incur losses, and may never achieve or maintain profitability. As a result, you may lose substantially all of your investment in us if our business fails;

- we have only recently begun commercializing our products and our sales currently mainly rely on one product, VitaFlow®, which may make it difficult to evaluate our future prospects. As a result, you may lose substantially all of your investment in us given the nature of biotech industry;

- we have relatively limited experience in marketing and sales of our products;

- our future growth depends substantially on the success of our pipeline products. If we are unable to successfully complete clinical development, obtain regulatory approval and commercialize our pipeline products, or experience significant delays in doing so, our business may be materially and adversely affected;

- if our products cause, or are perceived to cause, severe adverse events, our reputation, revenue and profitability could be materially and adversely affected;

- if we fail to effectively expand our overseas business, our business prospects may be adversely affected;

- our business, results of operations and financial condition could be adversely affected by the outbreak of COVID-19; and

- if we determine our intangible assets to be impaired, our results of operations and financial condition may be adversely affected.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental-friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. In 2020, we complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints, which had a material and adverse effect on our business, financial condition or results of operations.

A comprehensive review on the Company's environmental policies and performance during the year of 2020 is provided in the "Environment, Social and Governance Report" from page 70 to page 92 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended December 31, 2020, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

EMPLOYEE AND REMUNERATION POLICIES

As of December 31, 2020, the Group had 305 employees.

The number of employees employed by the Group varies from time to time depending on need. The remuneration package of our employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Company makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

The Company also has adopted the Share Option Scheme to provide incentives for certain employees. Please refer to the section headed "Share Option Scheme" in this annual report for further details.

For the year ended December 31, 2020, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations, or any difficulty in recruiting employees.

MAJOR SUPPLIERS

Our principal raw materials for the manufacturing of TAVI products are bovine pericardium and nitinol components, which are generally procured on an as-needed basis. To ensure the quality of our principal raw materials, we only procure bovine pericardium and nitinol components from selected suppliers that can satisfy our stringent raw material requirements. The bovine pericardium we used in our R&D activities and the commercial manufacturing of VitaFlow® are imported from one qualified supplier in Australia, where bovine pericardium has not been affected by bovine spongiform encephalopathy. Considering that there are also other bovine pericardium suppliers in China and overseas that can satisfy our stringent quality requirements, we believe we are able to source bovine pericardium from other suppliers if our relationship with the current Australian bovine pericardium supplier is materially adversely affected. Our nitinol components are mainly procured from Germany.

For the year ended December 31, 2020, purchases from the Group's five largest suppliers amounted to RMB67.4 million (2019: RMB63.7 million), accounting for approximately 41.3% (2019: 42.1%) of the Group's total purchase amount in the same year. The Group's purchase from the largest supplier for the year ended December 31, 2020 amounted to RMB25.0 million (2019: RMB23.9 million), accounting for approximately 15.3% (2019: 15.8%) of the Group's total purchase amount for the same year.

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

For the year ended December 31, 2020, the Group did not experience any significant disputes with its suppliers.

MAJOR CUSTOMERS

We currently have one in-house developed commercialized product, VitaFlow®, for which we received the NMPA marketing approval in July 2019. During the Reporting Period, all of our revenues were generated from the sale of VitaFlow® in China. In line with the medical device industry norm, we adopt a distributorship model and we do not sell our products directly to hospitals. During the Reporting Period, all of our VitaFlow® products were sold through distributors. As of the date of this annual report, we had 19 distributors. In addition, our distributors may from time to time, engage sub-distributors to assist them, penetrating a broader network of eligible hospitals for TAVI procedures. Under the distribution agreements with our distributors, we require our distributors to seek our written consent before engaging sub-distributors.

In addition, with respect to our overseas strategies, we plan to engage local agent or distributor to assist us to penetrate local markets. We normally select local distributors/agents based on their relevant experiences in the territory, especially whether they have access to eligible hospitals for TAVI procedures. As of the date of this annual report, we had engaged a local distributor in Argentina.

For the year ended December 31, 2020, revenue from the Group's five largest customers amounted to RMB53.5 million (2019: RMB14.9 million), accounting for approximately 51.4% (2019: 58.2%) of the Group's total revenue amount in the same year. The Group's largest customer for the year ended December 31, 2020 amounted to RMB18.0 million (2019: RMB5.8 million), accounting for approximately 17.3% (2019: 27.1%) of the Group's total revenue for the same year.

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

For the year ended December 31, 2020, the Group did not experience any significant disputes with its customers.

RELATIONSHIP WITH KEY STAKEHOLDERS

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

Employees

The Company builds its success on employees' dedication and commitment. Our Company is committed to providing as much opportunities as possible for employees' skills enhancement and career development. We aim at cultivating talents in a long run, encouraging employees to realise their full potential and to keep pace with growth of the Company. Details of employees of the Company during the year are set out in the "Environmental, Social and Governance Report" from page 70 to page 92 of this annual report.

Customers and Suppliers

The Group's principal customers are distributors. We procure bovine pericardium and nitinol components from selected suppliers. We have been devoted to maintaining long term cooperation, enhancing product quality, increasing sales volume and improving profitability.

We have established relationships with many key opinion leaders in medical community, including physicians, researchers and hospital administrators. Through regular visits with specialists, attendance of conferences, holding physician education programs and other activities, our brand recognition are enhanced greatly.

Shareholders

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. Apart from transparent and timely disclosure of corporate information in accordance with the Listing Rules, the Company has kept effective communication with Shareholders through the Company's website, Wechat platform, shareholder's hotline, and IR mailbox. Senior managements are also glad to receive Shareholders' on-site visit and have one-on-one meetings with them to share the information which they are concerned and enable them to make rational investment decisions.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last three financial years, as extracted from the audited consolidated financial statements, is set out on page 12 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out in note 12 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group for the year ended December 31, 2020 are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended December 31, 2020 are set out in note 27 to the consolidated financial statements.

DONATION

For the year ended December 31, 2020, the Group made charitable donations of nil.

DEBENTURE ISSUED

The Group did not issue any debenture for the year ended December 31, 2020.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed for the year ended December 31, 2020.

DIVIDENDS

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2020.

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended December 31, 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DISTRIBUTABLE RESERVES

The Company may pay dividends out of the share premium account, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As of December 31, 2020, our Company had retained nil profits under HKFRSs as reserves available for distribution to our equity Shareholders.

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2020 are set out in the consolidated statement of changes in equity on page 102 and in note 27 to the consolidated financial statements, respectively.

BANK LOANS AND OTHER BORROWINGS

As of the date of this annual report, the Company has no bank loans and other borrowings. Please refer to the section headed "Management Discussion and Analysis" in this annual report and note 18 to the consolidated financial statements.

CONVERTIBLE BONDS

As of the date of this annual report, the Company has not issued any convertible bonds.

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

As of the date of this annual report, the Company has not entered into any loan agreement which contains covenants requiring specific performance of the Controlling Shareholders.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date.

Each of the non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from the Listing Date.

The above appointments are always subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the note 30 to the consolidated financial statements, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2020.

DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus and save for their respective interests in the Group, none of the Directors and the Controlling Shareholders was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended December 31, 2020.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed for the year ended December 31, 2020.

PENSION SCHEME

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

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

As of the date of this annual report, the interests and short positions of the Directors and chief executives of our Company and their associates in any of the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in the underlying Shares of the Company

Name of Directors/ Chief Executive	Nature of interest	Number of underlying Shares in respect of the options granted under the Share Option Scheme	Approximate percentage of shareholding interest
Dr. Luo Qiyi	Beneficial owner	6,000,000	0.25%
Mr. Chen Guoming	Beneficial owner	5,000,000	0.21%
Ms. Yan Luying	Beneficial owner	4,000,000	0.17%
Mr. Wu Guojia	Beneficial owner	4,000,000	0.17%

Save as disclosed above, as of the date of this annual report, none of the Directors or chief executives of the Company or their associates had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations.

Substantial shareholders' interests and short positions in shares and underlying shares

As of the date of this annual report, so far as the Directors are aware, the following persons (other than the Directors or chief executives of the Company or their associates) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholders	Nature of interest	Number of Shares	Approximate percentage of shareholding interest[5]
Shanghai MicroPort[1]	Beneficial Interest	1,078,650,680	45.00%
Shanghai Huahao[2]	Beneficial Interest	191,681,040	8.00%
CICC Kangrui[3]	Beneficial Interest	181,592,220	7.58%
Qianyi Investment[4]	Beneficial Interest	150,000,000	6.26%

Notes:

(1) Shanghai MicroPort was wholly owned by MicroPort. Therefore, MicroPort was deemed to be interested in the Shares that Shanghai MicroPort was interested in under the SFO.

(2) Each of Tianjin Huajie Enterprise Management Advisors Partners, L.P. (as the general partner of Shanghai Huahao), Huajie (Tianjin) Medical Investment Partnership (Limited Partnership) (as sole limited partner of Shanghai Huahao), Tianjin Huajie Enterprise Management Advisors Partners, L.P. (as general partner of Huajie (Tianjin) Medical Investment Partnership (Limited Partnership)), Tianjin Huaqing Enterprise Management Advisors Co., Ltd. (as the general partner of Tianjin Huajie Enterprise Management Advisors Partners, L.P.), Shanghai Weihong Investment Co., Ltd. (as the largest shareholder holding 51% of the equity interests in Tianjin Huaqing Enterprise Management Advisors Co., Ltd.), Huagan (Shanghai) Business Consulting Co., Ltd. (as the sole shareholder of Shanghai Weihong Investment Co., Ltd.), CR INVESTMENT (HK) LIMITED (as the sole shareholder of Huagan (Shanghai) Business Consulting Co., Ltd.), CR Investments Corporation (as the sole shareholder of CR INVESTMENT (HK) LIMITED), China Renaissance Holdings Limited (a company listed on the Stock Exchange with stock code 1911, as the sole shareholder of CR Investments Corporation) was deemed to be interested in the Shares that Shanghai Huahao was interested in under the SFO.

(3) CICC Kangzhi (Ningbo) Equity Investment Management Co., Ltd. (中金康智（寧波）股權投資管理有限公司), "**CICC Kangzhi**") was the general partner of CICC Kangrui. As confirmed by CICC Kangrui, CICC Kangzhi was controlled by CICC Capital Management Co., Ltd. (中金資本運營有限公司), which is a wholly-owned subsidiary of China International Capital Corporation Limited (中國國際金融股份有限公司). Therefore, each of CICC Kangzhi, CICC Capital Management Co., Ltd. (中金資本運營有限公司) and China International Capital Corporation Limited (中國國際金融股份有限公司) was deemed to be interested in the Shares that CICC Kangrui was interested in under the SFO.

(4) Qianyi Investment was owned by Five Bulls International Holding Group and Vstar SWHY Investment Fund Limited Partnership as to 50% and 33.33% respectively. Each of Qianyi Investment Limited (as the general partner of Qianyi Investment) and its sole shareholder Mr. Wang Zheng, Five Bulls International Holding Group and its sole shareholder Mr. Han Xiao, Vstar SWHY Investment Fund Limited Partnership, Vstar SWHY Partners Limited (as the general parter of Vstar SWHY Investment Fund Limited Partnership), Vstar Chuang Zhi Investment Limited (as the sole shareholder of Vstar SWHY Partners Limited), and Mr. Zhuo Fumin (as the sole shareholder of Vstar Chuang Zhi Investment Limited) was deemed to be interested in the Shares that Qianyi Investment was interested in under the SFO.

Save as disclosed above, as of the date of this annual report, no person, other than the Directors or chief executives of the Company whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company and any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme was adopted by ordinary resolution of the shareholders of MicroPort ("**MicroPort Shareholders**") in the extraordinary general meeting of MicroPort dated March 13, 2020 ("**Adoption Date**"). The terms of the Share Option Scheme are governed by Chapter 17 of the Listing Rules. A summary of the principal terms of the Share Option Scheme is set out below:

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as our Board may approve from time to time.

(b) Grant of Options

Each offer of an option (the "**Offer**") shall be in writing made to an eligible person by letter in such form as our Board may from time to time determine at its discretion (the "**Offer Letter**"). The Offer Letter shall state, among others, the period during which the option may be exercised (the "**Option Period**"), which period is to be determined and notified by our Board but shall expire in any event not later than the last day of the 10-year period after the date of grant of the option. Our Board may specify in the Offer Letter any conditions which must be satisfied before the option may be exercised, including without limitation such performance targets (if any) and minimum periods for which an option must be held before it can be exercised and any other terms in relation to the exercise of the option, including without limitation such percentages of the options that can be exercised during a certain period of time, as our Board may determine from time to time. Our Board shall specify in the Offer Letter a date by which the grantee must accept the Offer, being a date no later than 28 days after the date on which the option is offered or the date on which the conditions for the offer are satisfied, whichever is earlier.

(c) Eligible Participants

Eligible persons include:

(i) any employee (whether full-time or part-time) of our Group;

(ii) any director (including executive, non-executive and independent non-executive directors) of our Group; and

(iii) any director (including executive, non-executive and independent non-executive directors) or employee (whether full-time or part-time) of MicroPort who, in the sole and absolute direction of our Board, has contributed or will contribute to the development of our Group.

The basis of eligibility of any of the above classes of eligible persons to the grant of any options shall be determined by our Board from time to time on the basis of their contribution to the development and growth of our Group.

(d) Maximum Number of Shares Available for Issue under the Share Option Scheme

At the time of adoption of the Share Option Scheme or any new Share Option Scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Scheme(s)**") of our Group must not in aggregate exceed 5% of the total number of Shares in issue as of the date of adoption of the Share Option Scheme or the New Scheme (as the case may be) (the "**Scheme Mandate Limit**"). For the purposes of calculating the Scheme Mandate Limit, the Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted. The Scheme Mandate Limit may be refreshed by both ordinary resolution of the MicorPort Shareholders and special resolution of our Shareholders of our Company in their respective general meeting, provided that:

(i) the Scheme Mandate Limit so refreshed shall not exceed 5% of the total number of Shares in issue as of the date of the MicroPort Shareholders' approval or the date of the Shareholders' approval, whichever is later, of the refreshing of the Scheme Mandate Limit;

(ii) options previously granted under any Existing Scheme(s) (including options outstanding, canceled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and

(iii) a circular regarding the proposed refreshing of the Scheme Mandate Limit has been despatched to the MicroPort Shareholders and Shareholders (if applicable) in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain the information which comply with the relevant provisions of Chapter 17 of the Listing Rules in force from time to time.

Our Company may seek separate approvals from the MicroPort Shareholders and our Shareholders in their respective general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:

(i) the grant is to eligible persons specifically identified by our Company before the approval is sought; and

(ii) a circular regarding the grant has been despatched to the MicroPort Shareholders and our Shareholders (if applicable) in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose, and other information required to comply with the relevant provisions of Chapter 17 of the Listing Rules in force from time to time.

Notwithstanding the foregoing, the maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of our Company if this will result in such limit being exceeded.

(e) Subscription Price

Subject to the effect of alterations to share capital as set out in the prospectus, the price at which each Share subject to an option may be subscribed for on the exercise of that option shall be a price determined by our Board in its sole and absolute discretion and notified to an eligible person. The subscription price shall be subject to further alteration in accordance with relevant requirements under note (2) to Rule 17.03(9) of the Listing Rules, pursuant to which, the exercise price of any options granted after the listing of our Company on the Stock Exchange or any other stock exchange on which our Company is listed must not be lower than the new issue price. In particular, the exercise price of any options granted during the period commencing six months before the lodgment of form A1 by our Company on the Main Board of the Stock Exchange up to the Listing Date of our Company shall be not lower than the new issue price of the listing.

(f) Term of the Scheme

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options shall be granted. Subject to the above, in all other respects, in particular, in respect of options remaining outstanding on the expiry of the 10-year period referred to in this paragraph, the provisions of the Share Option Scheme shall remain in full force and effect.

During the Reporting Period, 71,908,940 share options were granted and the status of the share options granted up to December 31, 2020 is as follows:

Name	Position	Exercise price	Number of Shares underlying the granted options as of December 31, 2020	Date of grant	Vesting period	Exercise period	Exercised during the Reporting Period	Expired during the Reporting Period	Cancelled during the Reporting Period
Directors and senior management of our Company									
Dr. Luo Qiyi	Non-executive Director and Chairman of our Board	US$0.16	6,000,000	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Mr. Chen Guoming	Executive Director and President	US$0.16	5,000,000	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Ms. Yan Luying	Executive Director and Vice President	US$0.16	4,000,000	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Mr. Wu Guojia	Executive Director and Vice President	US$0.16	4,000,000	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Subtotal:			19,000,000				—	—	—
Director of MicroPort									
Dr. Chang Zhaohua	Chairman and Chief Executive Officer	US$0.16	6,000,000	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Others									
Employees of the Group and MicroPort									
		US$0.16	46,908,940	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	—	—	—
Total			71,908,940				—	—	—

SHARE AWARD SCHEME

On March 30, 2021, the Company has adopted the Share Award Scheme to, among other things, recognize the contributions of the directors, employees, consultants and advisors of the Group in order to incentivize them to retain with the Group, and to motivate them to strive for the future development and expansion of the Group. The total number of the Shares that can be issued under the Share Award Scheme in any financial year would not exceed 3% of the total issued share capital of our Company. For the summary of the principal terms of the Share Award Scheme, please refer to the announcement of the Company dated March 30, 2021.

The Board considers that the successful development of the Group could not be achieved by the Directors and employees alone and will also depend on the cooperation of the external consultants and advisors of the Group, who play an important role in the business of the Group. As such, it is important that the Group is able to maintain good relationship with these external consultants and advisors. The inclusion of consultants or advisors who have contributed or will contribute to the Group in the list of eligible participants for the Scheme would provide the Company with the flexibility of rewarding such persons should the situation arises that such reward and incentive could encourage them to align their interests and objectives with that of the Group and work towards enhancing the value of the Company and its Shares for the long-term development of the Group. The basis of eligibility of any of the external consultants and advisors of the Group to the grant of any Award shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group, including, among others, the projects/ work streams such consultants and advisors are involved and their roles and responsibilities. The external consultants and advisors may also receive other remunerations other than the award Shares under the Share Award Scheme.

According to the rules of the Share Award Scheme, when (i) the relevant selected participant ceases to be an employee or a director of the Group, or (ii) the subsidiary of the Company by which a selected participant is employed ceases to be a subsidiary of the Company (or of a member of the Group), or (iii) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of the Company pass to a successor company), the relevant award shall automatically lapse forthwith and the award shares shall not vest on the relevant vesting date but shall become returned shares for the purposes of the Share Award Scheme. The external consultants and advisors of the Group are not subject to the first two lapse conditions given that the purpose of granting awards to the consultants and advisors of the Group is more to recognize their contributions as they do not maintain employment relationship with the Group. The Board will, on a case-by-case basis, determine the vesting conditions for the award shares of external consultants and advisors after considering the work stream that they are involving as well as their roles and responsibilities.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time for the year ended December 31, 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board. The Directors and the senior management personnel are eligible participants of the Share Option Scheme.

The Company also has adopted the Share Option Scheme and the Share Award Scheme to provide incentives for certain employees. Please refer to the section headed "Share Option Scheme" and "Share Award Scheme" in this annual report for further details.

Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in note 7 and note 8 to the consolidated financial statements, respectively.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in note 30 to the consolidated financial statements, the following transactions constitute connected transactions for the Company under Rule 14A.31 of the Listing Rules and are required to be disclosed in this annual report in accordance with Rule 14A.71 of the Listing Rules. The Company confirmed that the related party transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules and complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Please see below the information required to be disclosed in compliance with Chapter 14A of the Listing Rules.

Given substantially all of the revenue of our Group in 2019 was derived from the sale of VitaFlow®, which was officially launched in August 2019, the revenue ratio would not be an appropriate measure of the size of the continuing connected transactions set out in this section and is not indicative of the size of the transaction as compared to a full year's results of our Group. As an alternative, we have applied a percentage ratio test based on the total expenses for R&D and administrative matters of our Group.

Continuing Connected Transactions

Master Service Procurement Agreement

Our Company (for itself and on behalf of its subsidiaries) and Shanghai MicroPort Medical (for itself and on behalf of its subsidiaries) entered into the Master Service Procurement Agreement on January 21, 2021, pursuant to which our Group will procure animal test services, balloon processing services, sterilization services, product testing services and numerical simulation service from the Retained MicroPort Group.

The Master Service Procurement Agreement has an initial term commencing from the Listing Date till December 31, 2023. Subject to compliance with Listing Rules and applicable laws and regulations, the Master Service Procurement Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with one months' written notice prior to the expiry of the agreement's term. Upon renewal of the Master Service Procurement Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

As we are a biotechnology medical device company, the services provided by the Retained MicroPort Group are essential to our development and manufacturing process and such services require sophisticated technologies and knowledge that are better handled by service providers with such capabilities. The Retained MicroPort Group has been providing for our Group the animal test services, balloon processing services, sterilization services and product testing services of good quality at reasonable fee rate during the years ended December 31, 2018 and 2019 and seven months ended July 31, 2020, and started to provide the numerical simulation service for our Group in 2020. Due to the geographical proximity and long-term and stable cooperation relationship between the Retained MicroPort Group and us, we believe the Retained MicroPort Group will provide such services to us in a timely and cost-efficient manner. Thus, we are of the view that continuous procurement of the services from the Retained MicroPort Group are in the interest of our Company and our Shareholders as a whole and will be beneficial to our Group. Please refer to the section headed "Connected Transaction" in the Prospectus for details.

The annual caps for the transactions under the Master Service Procurement Agreement for the years ended December 31, 2021, 2022 and 2023 are RMB11,250,000, RMB16,950,000 and RMB10,500,000, respectively.

Master Raw Materials Procurement Agreement

Our Company (for itself and on behalf of its subsidiaries) and Shanghai MicroPort Medical (for itself and on behalf of its subsidiaries) entered into the Master Raw Materials Procurement Agreement on January 21, 2021, pursuant to which our Group will procure certain raw materials (the "**Raw Materials**"), such as evacuation tubes, outer tubes, inner tubes, nitinol tubes and PTFE sheathes, from the Retained MicroPort Group.

The Master Raw Materials Procurement Agreement has an initial term commencing from the Listing Date till December 31, 2023. Subject to compliance with Listing Rules and applicable laws and regulations, the Master Raw Materials Procurement Agreement may be renewed for a further term of three years from time to time, unless either party notifies the other party to the contrary with one months' written notice prior to the expiry of the agreement's term. Upon renewal of the Master Raw Materials Procurement Agreement, the parties may amend the terms of the agreement based on the then prevailing circumstances.

We plan to procure the Raw Materials from the Retained MicroPort Group as the prices are more favorable as compared to other third party suppliers. The production of the Raw Materials requires specialized production line, facilities and personnel. The Retained MicroPort Group currently has such production capacity, and offers to provide customization of such products for independent third parties, while we do not have or plan to build up such production capacity. Thus, it is commercially sensible to procure the Raw Materials from the Retained MicroPort Group or Independent Third Parties instead of building up our own production capacity solely for the purpose of producing the Raw Materials. The Raw Materials are produced by Retained MicroPort Group with high quality, stable and quick delivery in reasonable price could satisfy and ensure our efficient commercialized production of our products and further product candidates. Accordingly, we are of the view that continuous procurement of the Raw Materials from Retained MicroPort Group are in the interest of our Company and our Shareholders as a whole and will be beneficial to our Group. Please refer to the section headed "Connected Transaction" in the Prospectus for details.

The annual caps for the transactions under the Master Raw Materials Procurement Agreement for the years ended December 31, 2021, 2022 and 2023 are RMB23,000,000, RMB38,000,000 and RMB39,000, respectively.

The above continuing connected transactions have followed the policies and guidelines under chapter 14A of the Listing Rules when determining the price and terms of the transactions conducted for the year ended December 31, 2020.

The independent non-executive Directors have confirmed that the above continuing connected transactions: (i) have been entered into, and will be carried out, in the ordinary and usual course of business of our Group and on normal commercial terms or better to us and are fair and reasonable and are in the interests of our Company and our Shareholders as a whole; and (ii) the proposed annual caps are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

The Company has designated a team of senior management from business operation, legal, risk control and finance departments and Board office to monitor the continuing connected transactions and ensure that the continuing connected transactions with the above-mentioned connected persons are on arm's length basis and that the annual caps are not exceeded. Such team of senior management continuously traces and regularly monitors the progress of the continuing connected transactions and reports to management of the Company. They review the continuing connected transactions with the finance department to ensure that annual caps are not exceeded. They will also communicate with the Audit Committee, management and the Board, monthly or as needed, to report the progress of the continuing connected transactions, and request for approval of new changes of existing transaction terms. The heads of different departments of the Company will be informed on a periodic basis in relation to the terms and pricing policies of the continuing connected transactions as well. The Audit Committee has also assigned the independent internal audit team the task to ensure that the Company's internal control measures in respect of the continuing connected transactions remain effective and complete. With these measures, the independent non-executive Directors could therefore assess and give the confirmations in the preceding paragraph.

Save for disclosed above, for the year ended December 31, 2020, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules.

Save as aforesaid, none of the "Material Related Party Transactions" as disclosed in Note 30 to the consolidated financial statements for the year ended December 31, 2020 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

To the extent of the above "Material Related Party Transactions" constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year ended December 31, 2020.

CONTRACT OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" and "Significant Investments, Material Acquisitions and Disposals" above, no contract of significance was entered into between the Company, or one of its subsidiary companies, and any of its Controlling Shareholders or subsidiaries for the year ended December 31, 2020.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the period for the year ended December 31, 2020.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration for the year ended December 31, 2020. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2020.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Company's Shares were listed on the Stock Exchange on February 4, 2021. The net proceeds from the Global Offering amounted to approximately HK$2,717.2 million. As of the date of this annual report, the Company did not utilize any of the proceeds from the global offering. Going forward, the net proceeds will be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus. As of the date of this annual report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus. The Company expects that approximately HK$270 million to HK$560 million, accounting for approximately 9.9% to 20.6% of the net proceeds of the global offering, will be utilized by December 31, 2021 and plans to utilize the balance of net proceeds of the global offering by the end of 2025. The expected timeline for utilizing the net proceeds from the global offering is based on the best estimation of future market conditions made by the Company and subject to changes in accordance with our actual business operation.

The following table sets forth the breakdown of our expected uses of proceeds from the global offering:

	Allocation of net proceeds from the global offering in the proportion disclosed in the Prospectus		Percentage of proceeds from the global offering expected to be used by December 31, 2021
	HK$ million	Percentage	
VitaFlow® II			
— the ongoing R&D activities, clinical trial and product registration of VitaFlow® II	423.9	15.6%	
— the ongoing sales and marketing activities of VitaFlow® II in China and overseas	391.3	14.4%	
Subtotal	**815.2**	**30.0%**	**Approximately 1.6% to 2.1%**
VitaFlow®	**92.4**	**3.4%**	**Approximately 0.4% to 0.6%**
The remaining products			
— fund the research, preclinical, clinical trial and commercialization of VitaFlow® III, and VitaFlow® Balloon Expandable	190.2	7.0%	
— the ongoing and planned R&D of our TMV product candidates	312.5	11.5%	
— the ongoing and planned R&D of our TTVR product candidates, surgical valves and procedural accessories	163.0	6.0%	
— fund the planned commercialization activities after receiving the relevant regulatory approvals	67.9	2.5%	
Subtotal	**733.6**	**27.0%**	**Approximately 0.4% to 0.7%**
Fund the expansion of our product portfolio through collaboration with global enabler	**407.6**	**15.0%**	**Approximately 0% to 8.6%**
Expand our production capacity and strengthen our manufacturing capabilities for VitaFlow® and VitaFlow® II	**396.7**	**14.6%**	**Approximately 3.0% to 3.7%**
Working capital and general corporate purposes	**271.7**	**10.0%**	**Approximately 4.5% to 4.9%**
Total	**2,717.2**	**100.0%**	**Approximately 9.9% to 20.6%**

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

AUDITOR

The consolidated financial statements of the Group have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the section headed "Management Discussion and Analysis — Business Review — Events after the Reporting Period", no important events affecting the Company occurred since the Reporting Period and up to the date of this annual report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this annual report, we do not have other plans for material investments and capital assets as of the date of this annual report.

CLOSURE OF REGISTER OF MEMBERS AND RECORD DATE

The register of members of the Company will be closed from Friday, June 18, 2021 to Wednesday, June 23, 2021, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the AGM to be held on Wednesday, June 23, 2021. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, June 17, 2021.

By order of the Board
Microport CardioFlow Medtech Corporation
Dr. Luo Qiyi
Chairman

Hong Kong
March 30, 2021

CORPORATE GOVERNANCE REPORT

GENERAL

The Board is pleased to present this corporate governance report in the Group's annual report for the year ended December 31, 2020.

CORPORATE GOVERNANCE PRACTICES

The Company strives to maintain high standards of corporate governance to safeguard the interests of its Shareholders and to enhance corporate value and accountability.

The Company has adopted the Code Provisions of the CG Code as the basis of the Company's corporate governance practices since the Listing Date.

The CG Code has been applicable to the Company with effect from the Listing Date and was not applicable to the Company during the year ended December 31, 2020. The Company has complied with all applicable Code Provisions as set out in the CG Code from the Listing Date up to the date of this annual report.

BOARD OF DIRECTORS

Board Composition

The Board structure is governed by the Company's Articles of Association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

The Board currently comprises nine members, including three executive Directors, three non-executive Directors and three independent non-executive Directors.

The list of all Directors, which also specifies the posts, e.g. Chairman, and chairman and member of committees, held by each Director is set out under "Corporate Information" section of this annual report. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The composition of the Board is as follows:

Executive Directors:

Mr. Chen Guoming
Ms. Yan Luying
Mr. Wu Guojia

Non-Executive Directors:

Dr. Luo Qiyi *(Chairman of the Board)*
Mr. Zhang Junjie
Ms. Wu Xia

Independent Non-Executive Directors:

Mr. Jonathan H. Chou
Dr. Jiang Hualiang
Ms. Sun Zhixiang

The biographical details of the Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 13 to 18 of this annual report.

Save as disclosed in this annual report, there is no other relationship (including financial, business, family or other material/relevant relationships) between the board members.

Independence of Independent Non-Executive Directors

During the period from the Listing Date to the date of this annual report, the Company has three independent non-executive Directors, which at all times meets the requirement of the Listing Rules that the number of independent non-executive Directors must represent at least one-third of the Board and should not be less than three, and that at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Board has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from January 15, 2021 until terminated in accordance with the terms and conditions stated in the letter. Independent non-executive Directors are required to inform the Company if there is any change that may affect his/her independence.

Appointment and Re-Election of Directors

Code Provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas Code Provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a term of three years and is subject to retirement by rotation at least once every three years.

Pursuant to Article 16.19 of the Articles of Association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. In addition, any new Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and be subject to re-election.

Dr. Luo Qiyi, Mr. Zhang Junjie and Ms. Wu Xia shall retire from office and being eligible, and will offer themselves for re-election pursuant to Articles 16.19 of the Articles of Association at the 2021 annual general meeting.

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment/re-election and succession planning of Directors.

Induction and Continuing Development of Directors

All Directors confirmed that they had complied with Code Provision A.6.5 of the Code during the year and up to the date of this annual report, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged an in-house training on the Listing Rules in the form of a seminar during the year conducted by the legal advisor of the Company and relevant training material has been distributed to all the Directors. All Directors had attended the in-house training. The training covered topics which include, directors' duties, the disclosure obligations under laws of Hong Kong and other applicable laws, the requirements of disclosable transactions and connected transactions etc. under the Listing Rules.

BOARD MEETINGS

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally will scheduled meetings at quarterly interval each year and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code since the Listing Date.

As the Company was not listed on the Stock Exchange as of December 31, 2020, related rules under the Listing Rules concerning the Model Code that the Directors shall observe did not apply to the Company for the year ended December 31, 2020. Specific enquiry has been made of all the Directors and all Directors confirmed that they have complied with the Model Code for transactions in the Company's securities from the Listing Date and up to the date of this annual report.

DELEGATION BY THE BOARD

Corporate Governance Functions

The Board is responsible for determining corporate governance policy of the Company and performing the functions set out in code provision D.3.1 of the CG Code. Such duties have been delegated to the Audit Committee.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the CG Code, the Company's code of conduct applicable to its employees and Directors, and disclosure in its Corporate Governance Report during the Reporting Period.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company may from time to time and as the circumstances required, provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

Board Committees

The Board reserves for its decision all major matters of the Company, in terms of approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information and the advices/services of the company secretary, with a view to ensure that Board procedures and all applicable laws and regulations are properly followed. Each Director can seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Board has delegated a schedule of responsibilities to senior management of the Company. These responsibilities include implementing decisions of the Board, directing and coordinating day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the operating and production plans and budgets, and supervising and monitoring the control systems.

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee, and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to Shareholders. The Independent Non-executive Directors are invited to serve on these three Board committees.

Audit Committee

The Company established the Audit Committee on January 15, 2021 with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members:

Mr. Jonathan H. Chou *(Chairman)*
Ms. Sun Zhixiang
Dr. Jiang Hualiang

Mr. Jonathan H. Chou, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The main duties of the Audit Committee include the following:

- Review of the financial information of the Group;
- Review of the relationship with and the terms of appointment of the external auditor;
- Review of the Company's financial reporting system, internal control system and risk management system;
- Review of the Company's connected transactions.

As the Company was listed on February 4, 2021, no Audit Committee meeting was held during the year ended December 31, 2020.

Since the year ended December 31, 2020 and up to the date of this annual report, two Audit Committee meetings were held at which the Audit Committee discussed the 2020 audit plan with independent auditor, KPMG, and reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

Remuneration Committee

The Company established a Remuneration Committee on January 15, 2021 with written terms of reference in compliance with the CG Code.

The Remuneration Committee comprises three members:

Ms. Sun Zhixiang *(Chairwoman)*
Dr. Luo Qiyi
Mr. Jonathan H. Chou

The primary duties of the Remuneration Committee are to review and assess the performance of our Directors and make recommendations to our Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and the establishment of a formal and transparent procedure for developing policy on such remuneration.

As the Company was listed on February 4, 2021, no Remuneration Committee meeting was held during the year ended December 31, 2020.

Since the year ended December 31, 2020 and up to the date of this annual report, one Remuneration Committee meeting was held at which the Remuneration Committee reviewed the current policy and structure for the remuneration of Directors and senior management and make recommendations to the Board on the policy, structure, and remuneration of Directors and senior management for the year 2021.

The remuneration of the members of senior management by band for the year ended December 31, 2020 is set out below:

Remuneration to the senior management by bands (RMB)	**Number of senior management**
2,000,000–3,000,000	1
3,000,001–4,000,000	2
Total	3

Details of the remuneration of the Directors and senior management for the year ended December 31, 2020 are set out in notes 7 and 30(a) to the consolidated financial statements in this annual report.

Nomination Committee

The Company established a Nomination Committee on January 15, 2021 with written terms of reference in compliance with the CG Code. The Nomination Committee comprises three members:

Dr. Luo Qiyi *(Chairman)*
Dr. Jiang Hualiang
Ms. Sun Zhixiang

The primary duties of the Nomination Committee are to review the structure, diversity, size and composition of the Board, assess the independence of the independent non-executive Directors and make recommendations to our Board regarding the appointment of Directors and Board succession.

As the Company was listed on February 4, 2021, no Nomination Committee meeting was held during the year ended December 31, 2020.

Since the year ended December 31, 2020 and up to the date of this annual report, one Nomination Committee meeting was held at which the Remuneration Committee reviewed the Board composition and made recommendation to the Board on the proposed re-election of retiring Directors at the forthcoming annual general meeting.

The nomination policy was approved and adopted by the Board for evaluating and selecting any candidate for directorship. The Nomination Committee would consider the following criteria, including, among other things, character and integrity, qualifications (cultural and educational background, professional qualifications, skills, knowledge and experience and diversity aspects), any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity, and willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s).

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

Board Diversity Policy

The composition and diversity of the Board were considered by adopting the Company's board diversity policy ("**Board Diversity Policy**") including the necessary balance of skills and experience appropriate for the requirements of the business development of the Company and for effective leadership. All the executive and non-executive Directors possess extensive and diversified experience in management and broad industrial experience. The three independent non-executive Directors possess professional knowledge in management, finance, accountancy and legal, respectively with broad and extensive experience in business advisory and management, respectively. A summary of the Board Diversity Policy is set out below and would be reviewed by the Nomination Committee from time to time:

Purpose

The Board Diversity Policy aims to set out the approach to achieve diversity of the Board and enable the Board to comply with the CG Code.

Board Diversity Policy Statement

The Company considers increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from several aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

In reviewing the structure, size, composition and diversity of the Board, the Nomination Committee has considered the measurable objectives as set out in the Board Diversity Policy. The Nomination Committee is of the view that the diversity level of the Board is appropriate in terms of knowledge, experience and skills of the Directors. However, the Nomination Committee will continue to observe the Board Diversity Policy and consider potential candidates against the objective criteria set out in the Board Diversity Policy in order to achieve increasing diversity at the Board level.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the financial year ended December 31, 2020.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the senior management the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

Audit Committee

In addition to the duties and responsibilities set out under its terms of reference, the Audit Committee assists the Board by providing an objective non-executive review of the effectiveness and efficiency of the internal control, risk management and governance processes of the Group on an annual basis.

Risk Management and Internal Control

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The Company is exposed to various risks during our operations and have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to the R&D, manufacture and commercialization of our products. To monitor the ongoing implementation of our risk management policies and corporate governance measures, the Company has adopted the following risk management measures:

- establish the Audit Committee to review and supervise our financial reporting process and internal control system. The Audit Committee consists of three members, namely Mr. Jonathan H. Chou, who serves as chairman of the committee, Ms. Sun Zhixiang and Dr. Jiang Hualiang.

- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

- attend the training session by our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong; and

- provide regular anti-corruption and anti-bribery compliance training for our Directors and senior management in order to enhance their knowledge and compliance of applicable laws and regulations.

The Company is committed to excellence and continual improvement and will continue to encourage innovation while maintaining a low-risk profile. Employees are encouraged to adopt a positive approach to risk management, which further strengthens the risk-aware culture (as opposed to risk-adverse culture) of the Group. Risk management is incorporated into the strategic and operational processes at all levels within the Group in order to minimize the impact of risk. Opportunities and risks are identified and are proactively assessed and monitored by employees on an on-going basis.

The Group has established an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems. Relevant personnel have been designated to be responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to Audit Committee of any findings and follow-up actions. Each member of the Group is required to adhere strictly to the Group's internal control procedures and report to the internal audit manager of any risks or internal control measures.

The Company has engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. During the review process of our internal control consultant, certain internal control matters were identified and we have adopted corresponding internal control measures to improve on these matters. The Company has adopted the recommendations made by the internal control consultant and our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us in September 2020 and have not identified any material deficiencies in our internal control system. The Board, as supported by the Audit Committee and the senior management annually reviewed the effectiveness of the risk management and internal control system and considered them effective and adequate.

In addition, as part of our risk management measures, the Company has implemented specific measures against corruption and bribery. The Company requires our employees, especially those involved in procurement, distribution and sales, and other business functions which are more susceptible to bribery and corruptions, to abide by our compliance requirements, and make necessary representations and warranties to the Company. We also communicate our anti-bribery and anti-corruption principles to our distributors as well as the CMOs and SMOs we engaged for our clinical trial and require them to comply with our anti-bribery and anti-corruption principles. We have established a system of supervision that allows complaints and reports to be submitted to management regarding non-compliant behavior of our employees and external customers and suppliers.

The Group has also adopted an information disclosure policy which sets out comprehensive guidelines in respect of handling and dissemination of inside information.

Going forward, the Board, to be supported by the Audit Committee as well as the management report and the internal audit findings, will continue to review the effectiveness of the risk management and internal control systems of the Group, including the financial, operational, compliance controls and risk management annually. The annual review will also cover the financial reporting and staff qualifications, experience and relevant resources.

Arrangements are in place to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

External Auditor and Auditor's Remuneration

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" on pages 93 to 97 in this annual report.

For the year ended December 31, 2020, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services	**Fees (RMB'000)**
Auditors	
KPMG	4,600

Non-audit Services	**Fees (RMB'000)**
Auditors	
KPMG	970

During the year ended December 31, 2020, non-audit services performed by KPMG are primarily in relation to acquisitions related services.

JOINT COMPANY SECRETARIES

Ms. Li Xiangmei was appointed as one of our joint company secretaries on October 27, 2020. She has been taking the position of the Board secretary of our Group since she joined our Group in February 2020. She has over 15 years experience in investors relations management, shareholders and securities affairs of Hong Kong listed Companies.

Ms. Chan Lok Yee was appointed as one of our joint company secretaries on October 27, 2020. Ms. Chan is currently a manager of Corporate Services of Vistra Corporate Services (HK) Limited, a professional provider of corporate services. She has had over seven years of experience in providing company secretarial and compliance services to private and listed companies.

Ms. Li and Ms. Chan will undertake no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meetings by Shareholders

Pursuant to Article 12 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company for the transaction of any business specified in such requisition.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Companies Act or the Articles of Association. However, Shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

As regards the procedures for Shareholders to propose a person for election as a Director, they are available on the Company's website at http://www.cardioflowmedtech.com/.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

To promote effective communication, the Company maintains a website at www.cardioflowmedtech.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. Investors may write to the Company at its principal place of business in Hong Kong or China or via the Company's website for any enquiries. During the periods of interim results and annual results release, dual-languages conference calls, non-deal roadshows will held for ensuring effective and timely communication with Shareholders and investors. Normally, the Company also accommodated Shareholders' and investors' site visits by arranging meetings with senior managements.

The general meetings of the Company provide a forum and an important channel for communication between the Board and the Shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees, will be available at the annual general meeting and other relevant shareholder meetings to answer questions.

DIVIDEND POLICY

The Articles of Association provides that the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board.

The Company may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

The Company may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit.

CONTACT DETAILS

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

Address: 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Shanghai 201203, The People's Republic of China (For the attention of the Board Secretary)
Fax: (86) (21) 50801305
Email: CardioFlow-ir@microport.com

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

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account the significant changes that have occurred since the end of 2020 to the date of approval of this report.

By Order of the Board
MicroPort CardioFlow Medtech Corporation
Dr. Luo Qiyi
Chairman
Hong Kong
March 30, 2021

2020 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

We hereby release the 2020 Environmental, Social and Governance ("**ESG**") Report (the "**Report**") of MicroPort CardioFlow Medtech Corporation to mainly disclose information related to the environmental, social and governance performance of the Group. It is the first time that the Company releases the ESG report to the public.

This Report, in accordance with the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited, covers the main businesses of the Company in China. Key performance indicators in the scope of environmental protection mainly cover our office buildings, plants and R&D center in Shanghai, China. The Reporting Period is from January 1, 2020 to December 31, 2020.

ESG MANAGEMENT STRATEGY

Upholding the strategy of sustainable development, the Company provides optimal and affordable medical solutions to improve the lives of valvular heart disease patients. We aim to improve our environmental performance, create comfortable working environment for our employees and safeguard their legitimate rights and interests. Meanwhile, we take the initiative to fulfill our social responsibilities, establish positive influences and make contributions to the society.

The Company's Board of Directors is responsible for reviewing the Group's ESG-related matters, supervising and approving the annual ESG report, and ensuring the establishment of an applicable and effective ESG risk management and internal control system for the Group. The Board undertakes that there is no false record or misleading statement in the Report, and is liable for the authenticity, accuracy and completeness of the content herein.

The Management of our Group is responsible for implementing the ESG risk management and internal control system, and reporting ESG-related risks and opportunities to the Board, so as to ensure effective implementation of the ESG system.

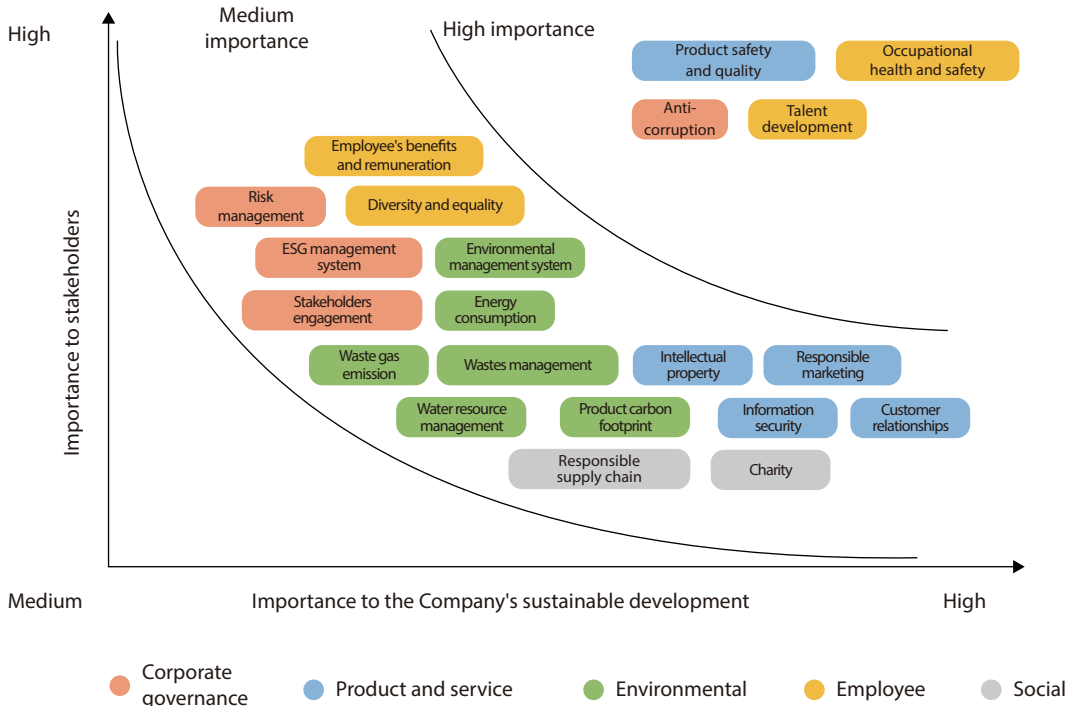
The Group has set up an ESG work team composed of our major departments, with the direct participation of heads of those departments, and designated personnel to conduct work related to ESG management and reporting.

MATERIALITY ASSESSMENT

To further clarify the key areas of concern for ESG management of the Group and to respond to the expectations of all stakeholders regarding ESG management of the Group, we carried out the materiality assessment through the following steps:

We, according to the ESG Reporting Guide of the Stock Exchange and combining the Company's actual conditions with the industry status, have identified 21 ESG topics and categorized them into social, product and service, environmental, employee and corporate governance issues. And we have also evaluated their materiality based on their importance to the business development of the Group as well as their impact on interested parties, and established a materiality assessment matrix. Of all the 21 material topics, 4 are of high importance, and 17 are of medium importance. This Report discloses the above topics according to their materiality.

ESG Materiality Matrix



SUPPLIER MANAGEMENT

The Company believes that a sound supplier management system can help us achieve common goals with suppliers and realize win-win cooperation.

We formulated the Supplier Management Regulations and the Procurement Control Procedure, and developed corresponding procedures and management regulations at different stages of supplier introduction, evaluation and withdrawal, so as to lead suppliers to enhance their awareness of social responsibility and reduce supply chain risks. In order to better manage suppliers, we classify them according to the raw materials, auxiliary materials, and services they provided.

With regard to quality, we actively cooperate with our suppliers to resolve issues related to product safety and quality assurance. We require suppliers providing key materials to pass the ISO9001 and ISO13485 certification and to sign relevant procurement and quality agreements. In order to strictly evaluate the quality of our supplier's products, we organize supplier audit annually through questionnaire survey, face-to-face interview and audit to ensure the products they supply meet our requirements for quality. On this basis, we comprehensively evaluate their performances from the aspects of quality pass rate, delivery timeliness, costs and services, and offer instructions to them for improvement as needed.

Given that construction of the supply chain depends heavily on the improvement of the supplier management system, the Group positively carries out training and provides support for our suppliers, in order to improve their capability of quality and safety management, improve the quality of products they supply, and jointly establish a safe and complete supply chain system.

During the Reporting Period, the number of suppliers of the Group was 147 from China, 19 from America, 5 from Europe and 8 from other countries.

PRODUCT QUALITY

Quality System

In accordance with relevant laws, regulations, standards and requirements for medical devices, we established a quality management system and continue to optimize it, under which we are responsible for: conducting the quality system-related work of self-review, internal audit, management review and external audit; carrying out daily maintenance, continuous optimization, tracking and implementation of the quality management system; publicizing laws, regulations and standards relating to quality system to improve the quality awareness of our employees, so as to ensure that operation of the quality management system meets the requirements of ISO 13485 and complies with the laws, regulations and standards for related medical devices quality system in the countries and regions where they are applicable.

Quality Assurance

We are responsible for the quality assurance of the product during its expected life cycle and are responsible for the quality evaluation, quality control, and quality improvement related works, including the product inspection point distribution, establishment and verification of the test method, material evaluation, verification of the product design, verification of the product shelf life, product post-marketing risk management, product manufacturing quality control, inspection method innovation, improvement of the intelligent level of the inspection, and quality cost optimization; we are responsible for addressing and investigating the product quality abnormalities, leading the efforts to identify and address the root causes, and making continuous improvement on product quality; we are responsible for post-marketing supervision of products, including customer complaint feedback analysis, adverse events or affairs. We also ensure that the Company's product post-marketing quality management is in compliance with the regulatory requirements of China and other countries and regions.

Quality Control

We perform on-site product quality control and waste management of reserved samples; build a test system with a capacity of the inspections of raw materials, semi-finished products, and products; ensure that the inspections and identifications performed by the inspection personnel are in strict compliance with the operation instruction book; control the circulation of the standard products; timely provide feedback on any abnormal issues; assist with the investigation of root causes and provide improvement recommendations; support the product improvement and optimization efforts, and provide quality guarantee for the products of the Company.

Quality Risk Management

We believe that the safety of the use of products is a critical issue in the medical device industry. In combination with the relevant quality laws, regulations and ISO14971 (Medical Devices — Application of Risk Management to Medical Devices) system, we have formulated the Product Risk Management Control Procedure, which stipulates the risk management activities required to be performed in each link of the whole life cycle of each product. We require that review checkpoints should be established in the whole life cycle of medical devices to implement the corresponding risk management review, and then risk control measures and relevant emergency-response mechanisms should be implemented based on the quantitative risk analysis results, so as to realize the closed-loop management of risk analysis and risk control measures.

Adverse Events and Complaint Management

The Company has established a sound and reasonable system for managing adverse events and customer complaints, which includes multiple procedure documents and management systems, such as the Control Procedure of Vigilance System, Feedback Control Procedure, Customer Complaints Management Regulation, System of Domestic Adverse Events Monitoring, Re-evaluation and Product Recall, and Procedure and Regulations of Product Vigilance System — EU and Switzerland, Turkey, which are in compliance with the adverse events monitoring regulations in China, the EU, and other countries and regions. Control Procedure of Vigilance System, through the notification, reports, and evaluation of the incidents, as well as the relevant issued information, can help reduce the recurrence of similar accidents and secure the safety of the patients or users, so as to maintain the Company's market reputation. The documents specify the operation mechanism and procedures of our vigilance system in detail. Information input channels for suspected adverse events have been established, such as customer complaints and risk analysis of products within the Company. When receiving suspected adverse event information, it shall be reported, analyzed, investigated, tracked and feedback immediately according to the reporting principle. At the same time, based on the analysis and investigation of the suspected adverse events, we will make judgments and start the initiative and mandatory market safety corrective measures accordingly, and set up the Field Safety Corrective Action (FSCA) emergency team to carry out market safety corrective measures for the suspected adverse events.

The document about our complaint management system is the Customer Complaints Management Regulation. The management system establishes a way to obtain customer complaint information and processing process to analyze and deal with whether the Company's products or services meet the needs of customers, and integrate and manage the complaint information, so as to provide necessary information support for the Company's products and related processes.

Through training, our sales force gains a comprehensive understanding of the Company's complaint feedback process and vigilance system management regulation, and obtains the competency to timely collect and report customer complaints; they also maintain good communication and cooperation with internal and external departments to ensure feedbacks are handled in a timely and efficient manner.

For each complaint, trained personnel will preliminarily judge whether it is a suspected adverse event, and then the professional personnel will double check for confirmation. Once confirmed to be a suspected adverse event, as per the adverse event processing procedure and the local regulations and requirements, this complaint shall be reported to the regulatory department in time, and periodic re-evaluations will be carried out; for non-suspected adverse events, as per the customer complaint processing procedure, the complaint cause analysis shall be performed and periodic summarization of the complaint information shall be implemented.

Through the above measures, the customer complaints and adverse events are brought into an integrated management system, which enables both to be operated in an effective manner, so as to provide a strong guarantee for the product post-marketing management of the Company.

During the Reporting Period, the Company had no product recalls or serious adverse events due to product quality defects.

Quality Culture Building

In 2020, we have organized 18 training courses on medical device regulations and systems, which are listed as follows. These training courses cover a wide range of departments, such as R&D, registration, procurement, production, quality, equipment, engineering, and other departments. Through detailed explanation of regulations, case study, classroom interaction, and examination, the employees' awareness of compliance and the cognition level of quality-related regulations have been effectively improved.

S/N	Training Contents
1	Non-conformity (NC) and Corrective Action and Preventive Action (CAPA) training
2	Training on documents, records and changes
3	Identification, traceability control procedures and vigilance system training
4	System review and management evaluation training
5	Training on professional knowledge and safety protection of animal-derived medical devices
6	Hygienic microbiology basic knowledge training
7	Medical device registration quality management system verification guide training
8	Product life cycle management control program training
9	Registrant system interpretation and application training
10	Inspection checklist training
11	CAPA basic process and Product Lifecycle Management (PLM) filling training
12	ISO13485: 2016 medical device quality management system training
13	Training on five system documents (including personnel evaluation and reevaluation management system)
14	Training on medical device supervision and administration regulation & production quality management standard
15	Quality manual training
16	Document control procedure training
17	Customer property control procedure training
18	Microbiological and chemical testing and sample delivery instruction training

HONESTY AND INTEGRITY

Compliance Marketing

The Group has always adhered to the integrity system and anti-corruption work in a strict way. We strictly comply with all laws and regulations related to bribery, extortion, monopoly, fraud and money laundering, including the *Law of the People's Republic of China Against Unfair Competition*, *Criminal Law of the People's Republic of China*, *Anti-monopoly Law of the People's Republic of China*, and the *United States Foreign Corrupt Practices Act (FCPA)*, etc., and formulated many policy systems, such as the *Code of Business Conduct and Ethics*, *Compliance Manual*, and the *Administrative Regulations on the Honest Practices of Employees* to gradually build sound compliance management system in the pursuit of higher code for ethics of integrity. In accordance with the *Code of Business Conduct and Ethics*, we have established anti-monopoly, gift-taking, campaign contributions and other policies related to the Company.

In the process of marketing publicity and marketing, the Group strictly abides by the relevant laws and regulations of the countries, and resolutely protects the rights and interests of consumers.

We conducted a strict review of the pictures and texts published on the Company's official website and official WeChat platform to ensure the authenticity and accuracy of all contents and to eliminate false advertisement and exaggerated publicity.

The Group did not have any cases of marketing violations in 2020.

ANTI-CORRUPTION

Under the supervision of the Audit Committee, the Internal Audit Department and Compliance Department of the Company are responsible for integrity audit and inspection, and proposal of suggestions on how to deal with the results according to the *Administrative Regulations on the Honest Practices of Employees*. Staff are encouraged to report corruption in violation of the *Code of Business Conduct and Ethics*. After receiving the report, we will investigate and verify the issue in a timely manner. If the incident is true, we will deal with it according to the related rules and regulation. In addition, we undertake to protect whistleblowers' information and prohibiting retaliation against them. If information leakage occurs, we will take immediate measures to protect the whistleblowers and track down the source of the leakage. The Company will seriously investigate the person who is complained or reported. If the incident constitutes a criminal offense, it will be transferred to the judicial authority for handling. Before full investigation of the relevant situation, the Company will still regard the person who is complained and reported as innocent.

The Company has compiled *Policy on Articles for Health Care Professionals (HCP) Education and Patients*, *Measures for Gift Management*, and takes HCP service fee standard, HCP related travel and expense policy as the standard for sales staff to pay the service fee, catering, accommodation and transportation expenses, which is required to be implemented strictly.

The Company will review whether the relevant standards meet the requirements during the contract approval process and conduct flight inspections for some activities. For distributors, the Company will hire a third party to conduct due diligence on them to avoid working with distributors who have committed illegal acts.

INFORMATION SECURITY

The Group undertakes serious measures for protecting IT resources and data privacy of the Company and its stakeholders, including employees, business partners and customers. Our privacy policy and IT policy stipulate the principles and responsibilities on personal data protection, as well as checking information leakage. Employees in high risk positions are required to sign confidentiality agreements. Disciplinary actions are taken against individuals who have violated the policy.

The Company takes the responsibility to ensure that no unauthorised person is able to access confidential information. We conduct information security audit periodically to monitor the effectiveness of our existing measures and raise the security level as needed. To minimise cyber risks, the network at the manufacturing area has been modified independently so that it is isolated from other networks. Security management system is upgraded, with focus on protecting the confidentiality and security of data documents for R&D, supply chain and other key departments. Management systems are in place to control information access to all, including visitors and in meeting rooms. We provide training to employees of all levels to raise their awareness on cybersecurity issues. During the year, the Group was not aware of any noncompliance with laws and regulations having a significant impact on the Group relating to customer privacy matters.

TRADE SECRETS AND INTELLECTUAL PROPERTY PROTECTION

The types of intellectual property right owned by the Group mainly include patents, trademarks and copyrights. We have a great sense of compliance in the protection of trade secrets and intellectual property rights in the medical field, and strictly abide by *Law of the People's Republic of China Against Unfair Competition*, the *Trademark Law of the People's Republic of China* and *Patent Law of the People's Republic of China* and other laws and regulations to specify the guidelines on the management of corporate intellectual property and trade secrets, such as the corporate intellectual property development strategy and *Provisions on the Administration of Trade Secrets* into *Provisions for the Administration of Intellectual Property Work*, *Provisions for the Administration of Trademarks*, *Provisions on the Protection and Administration of Intellectual Property Rights of Technological Innovation Achievements* and other provisions. In addition, we have also made clear provisions on R&D incentives and document management, provided incentive measures for innovation and protection, standardized the intellectual property management system in an orderly way. We signed *Confidentiality and Intellectual Property Ownership Agreement* and *Non-competition Agreement* with relevant employees.

ENVIRONMENTAL MANAGEMENT

The Group incorporates green and sustainable development into its business philosophy, actively promotes environmental management and clean production and strives to reduce the carbon footprint of its own operations, committed to creating an eco-friendly business management and development model.

The Group strictly abides by the *Environmental Protection Law of the People's Republic of China, Environmental Impact Assessment Law of the People's Republic of China*, *Environmental Protection Tax Law of the People's Republic of China* and other environmental laws and regulations, and formulated the *Procedures for Prevention and Control of Air Pollution, Procedures for Prevention and Control of Solid Waste Pollution*, *Procedures for the Organizational Environment* and *Requirements of the Related Parties* and other internal management files, and plans to establish ISO4001:2015 environmental management system in 2022, in order to strive to reduce the environmental impact of its operations.

We make work plans for environmental protection and clean production every year, and divide the overall goals and indicators into details. According to the principle of "Authority equals responsibility", the responsibility for environmental protection and clean production are assigned to everyone.

- Strengthening the environmental pollution monitoring: *The Control Procedures for Objectives, Indicators and Management Schemes* and *Control Procedures for Monitoring and Measurement* are formulated so that relevant production units can regularly monitor, measure and evaluate environmental performance against targets, indicators and operational control requirements, and regularly disclose environmental monitoring information for supervision.

- Strengthening the emergency disposal ability: When all departments handled the discharge and leakage in the process of production or transportation due to accidents or other emergencies occurs, the *Contingency Preparation and Reaction Control Procedure* shall be strictly implemented, emergency measures shall be taken immediately to prevent and control pollution hazards caused by discharge, units and residents that may be affected by pollution hazards shall be notified, and the local government and regulatory authorities shall be promptly reported for investigation and handling.
- Improving the environmental awareness of all staff: We implemented the *Management Procedure of Ability, Training and Awareness Education*, actively carried out environmental protection related training for staff and implemented "three-level" safety education by adding environmental protection related contents for staff to improve their awareness of safety, environmental protection and occupational health, and know the safety risks and control measures of work and working environment.

EMISSIONS MANAGEMENT

Waste Gas Management

We strictly abide by the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* and formulated the *Procedures for Prevention and Control of Air Pollution* to ensure compliance with the emission standards of waste gas pollutants.

Waste gas emissions in our operation are mainly from stationary source emissions in the production process, including preparation of clean and soak solutions as well as the use of laboratory reagent, which are adsorbed by activated carbon and then discharged through the exhaust pipe. In addition, the Company employs a third-party professional agency to conduct exhaust gas testing every year to ensure that emissions meet the standards.

Category	Unit	2020
VOCs	Ton	**0.033**

Waste Water Management

We strictly abide by the *Law of the People's Republic of China on Prevention and Control of Water Pollution* and other relevant laws and regulations on wastewater discharge, formulate the *Procedures for Water Pollution Prevention and Control* to ensure compliance with the discharge of wastewater pollutants.

We discharge the waste water generated in the operation process after corresponding treatment. For example, the self-consumed water of pure water preparation, and the domestic sewage (including the domestic sewage discharged from the living facilities such as office buildings, canteens and toilets) are processed by the sewage treatment facilities.

In addition, the Company employs a third-party professional agency to conduct waste water testing every year to ensure that emissions meet the standards.

Category	Unit	2020
Comprehensive sewage discharge	Ton	**8,328**
Chemical oxygen demand (COD)	Ton	**0.14**
Ammonia nitrogen emissions	Ton	**0.0026**

Wastes Management

As a medical equipment manufacturer, it is an important part of our environmental protection work to properly dispose solid wastes. We strictly abide by the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution*, *Resources Conservation & Recovery Act, Hazardous Waste Management* and other laws and regulations related to solid waste management in our operations, and formulate the *Procedure for Solid Waste Pollution Control* to clarify the ways and processes for waste collection and disposal. When the introduction of new equipment or processes results in the creation of new waste categories, we will analyze and determine their disposal methods to minimize the generation and landfill of solid waste while ensuring compliance with solid waste disposal standard.

The hazardous wastes generated during our production include medical wastes and chemical wastes, and the non-hazardous wastes include general industrial wastes and municipal wastes from work and daily life. For all wastes, we sort and collect them in time and then store them separately in a special place with obvious warning signs.

Disposal of Wastes

Solid Wastes	Hazardous Wastes
• Stored in garbage containers; • Recycled if still useful so as to conserve energy and prevent pollution; • Disposed of in municipal sanitary landfills or burned to generate electricity if not recyclable.	• Stored in a special warehouse for hazardous wastes; • Entrusted to a qualified third party for transfer and recorded in paperwork to ensure traceability of waste movements.

In 2020, the Company's key performance indicators at the solid wastes emission level are shown in the table below:

Category	Unit	2020
Total discharge of hazardous wastes	Ton	**28.43**
Discharge density of hazardous wastes	Kg/Revenue in US$ million	**1,885**
Disposal volume of non-hazardous wastes	Ton	**19.1**
Recovery volume of non-hazardous wastes	Ton	**0.096**
Disposal density of non-hazardous wastes	Kg/Revenue in US$ million	**1,266.9**

Noise Management

We strictly abide by the *Law of the People's Republic of China on the Prevention and Control of Ambient Noise Pollution* and other noise management laws and regulations. We formulated the *Procedures for the Prevention and Control of Noise Pollution* to ensure the compliance of environmental noise emission and reduce and prevent the pollution and harm caused by noise to the environment.

We carry out regular detection of noise in the factory boundary to ensure compliance with the emission standards of noise.

GHG emissions

Category	Unit	2020
Scope 1 GHG emissions	tCO_2e	**4.61**
Scope 2 GHG emissions	tCO_2e	**2,486**
Total GHG Emissions	tCO_2e	**2,490.61**
GHG Emission Intensity	tCO_2e/Revenue in US$ million	**165.21**

ENERGY AND RESOURCE UTILIZATION

Energy Management

We promote efficient energy management to reduce the carbon footprint in our operation. Based on the *Law of the People's Republic of China on Conserving Energy* and other energy-related laws and regulations, we continuously reduce energy consumption and improve energy efficiency through optimizing energy structure, management methods and technologies.

During the reporting period, the energy consumption of the Group are as follows:

Category	Unit	2020
Indirect Energy		
Electricity	kWh	**3,533,412**
Direct Energy		
Natural gas	m^3	**0**
Diesel oil	L	**0**
Gasoline	L	**2,190**
Comprehensive energy consumption	GJ	**436.59**
Comprehensive energy consumption intensity	GJ/Revenue in US$ million	**28.959**

Water Resource Management

We believe that it is an important task for enterprises to improve their environmental performance by improving the efficiency of water use. Based on the *Water Law of the People's Republic of China* and other water-related laws and regulations, we have formulated a water-saving supervision mechanism to strengthen the inspection of equipment running and leaking, carry out water-saving publicity and education, and recycle the use of production cooling water, so as to realize reservation of water resource.

In 2020, the Company's key performance indicators at the level of water resource usage are shown in the table below:

Category	Unit	2020
Total water consumption	Ton	**18,947**
Water consumption intensity	Tons/ Revenue in US$ million	**1,256.78**

Packaging Material Management

Our major packaging materials include plastic film, plastic bags, cartons, cardboard boxes, trays and lidstocks. We reduce the use of packaging materials mainly in terms of promoting new technologies and recycling materials.

During the Reporting Period, packaging materials consumed by the Group are as follows:

Category	Unit	2020
Total amount of packaging materials used in finished products	Ton	**52.39**
Intensity of packaging materials used in finished products	Ton/Revenue in US$ million	**3.48**

CARE FOR EMPLOYEES

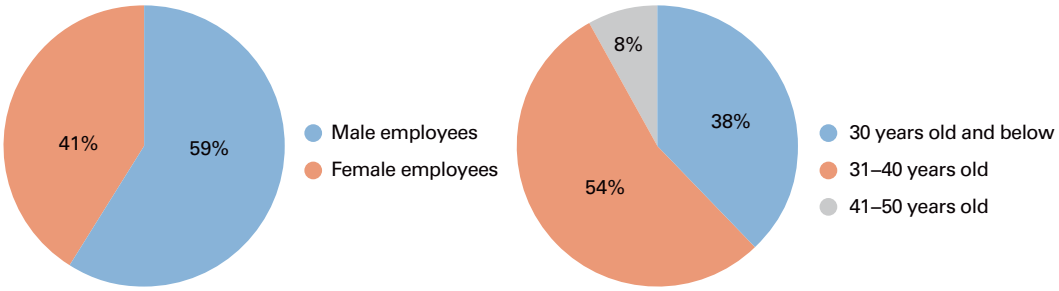
The Group believes that employees are the cornerstone of the sustainable development and success of an enterprise and regards our employees as the most valuable resources. We adhere to labor standards and are committed to providing a legal and compliant working environment for all employees, creating a harmonious and pleasant working atmosphere, and protecting employees' rights and interests. We provide appropriate benefits and compensation, and give our employees hope for future growth, so as to fully bring out the value and potential of each employee.

EMPLOYMENT AND DIVERSITY

We strive to maintain equal and diversified employment opportunities, strictly abide by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China* and other laws and regulations, and create a fair and just employment environment for employees. We have formulated clear *Regulations on Recruitment Management* in the Employee Handbook to ensure fairness and openness in the employment process.

We strictly eliminate child labor and forced labor during the recruitment process. To avoid the use of child labor, identification documents of new hires are checked to ensure that no staff is under the legal age for employment. Labor contracts ensure that all employees reach the legal age for employment. Prompt measures, such as reports to authorities and cancellation of contracts, are taken if child or forced labor is identified.

During the Reporting Period, there are in total 305 employees of the Company who are all Chinese, including 303 formal employees and 2 labor dispatch staff. The detailed staff distribution, percentage and turnover rate are as follows:



		Turnover rate
Total turnover rate		11.77%
Gender	Male	7.4%
	Female	14.8%
Age	30 years old and below	10.2%
	31–40 years old	10.8%
	41–50 years old	1.02%

BENEFITS & CARING

The Company hope that every employee has a big family concept and grows together with the Company. In terms of corporate welfare, we have set up the *Welfare Management Measures* (《福利管理辦法》), which provides employees with a variety of benefits to meet their life needs and improve their quality of life. In addition to national legal benefits, such as five social insurances and one housing fund as well as special post subsidy, we also provide independent corporate benefits, such as supplementary housing provident fund and employee physical examination, etc., so as to take care for employees' lives in an all-round way. We also offer employees a healthy working environment, such as gyms, book bars, personal lounges, etc., which are convenient for employees to adjust status and reduce stress.

Care for Employee

We are committed to creating a caring corporate culture through organizing various activities to enhance the satisfaction and well-being of our employees of the Company. Our trade union prepares solicitude gifts for our employees every holiday and birthday. For female employees, there are special care and benefits on occasions such as fertility and the International Women's Day, etc. For employees with financial difficulties, such as hospitalization, work injuries, family accidents, etc., the Company sends in visits. Especially for employees in major disputes, the Company actively participates in solicitude. The trade union also provides financial assistance to the employees in need of subsidies according to relevant policy.

In the wake of the COVID-19 outbreak, all departments of the Group responded quickly, forming an emergency response working group to take corresponding measures and arrange epidemic prevention work, carrying out daily location tracking of all employees and the physical condition of them as well as their families. During the quarantine as a result of the pandemic, the Company encouraged employees to work from home if conditions permit and motivated employees to strengthen physical exercise and improve immunity. We hosted the home fitness mobilization series activities to encourage employees participate in various home exercises and upload their video online for competition. The activity is to raise awareness of employees' physical fitness, which advocates that exercises can enhance immunity and lower possibility of infection.

After the resumption of work in March, the Company distributed masks, disinfectants and other epidemic prevention materials to employees, and adopted various measures to reduce personnel gathering and close contact, such as taking meals to work stations to reduce gatherings in canteens, and to promote employee carpooling so as to reduce public transportation and commuting.

In addition, we have built a complete communication channel for employees and listened to their suggestions and requirements. We established various employee communication channels, and strengthened the connection among employees as well as between employees and management, encouraging the free airing of views and listening to suggestions.

TALENT DEVELOPMENT

The Company has always regarded talent as its core competitiveness. Human resource strategy has been an indispensable part of the corporate development strategy. With the development and expansion of the business, the Company's demand for talent and requirements are growing, which also shows the importance of talent cultivation and the building of a learning-oriented organization. According to the Company's overall development strategy and human resource planning, we strive to combine the knowledge and skills training of employees together with Company's position requirements, combine the personal growth of employees with career development, and combine talent training with organizational strategy. With years of innovative practice, the Company has formed a systematic training and development frame.

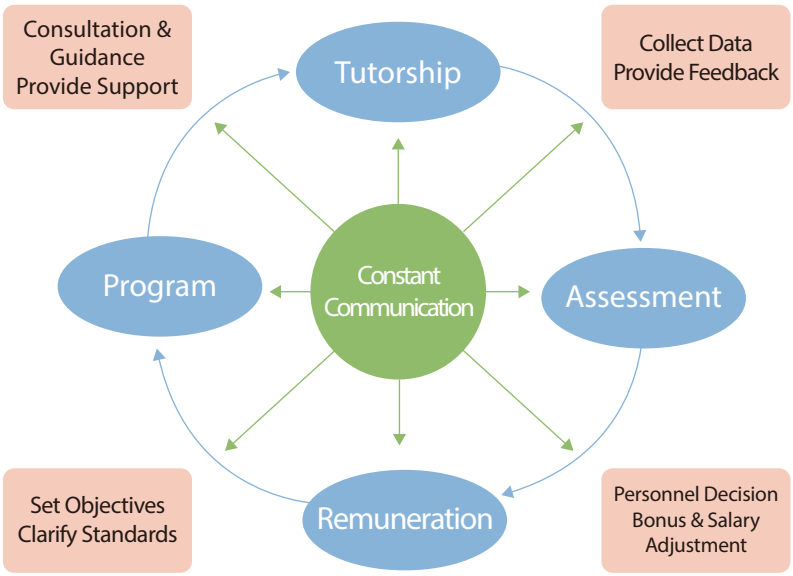
Professional Development

Based on the long-term strategy, the Company formulates the overall strategy of human resource to attract and develop outstanding talents. The Company implements the "two paths and eighteen ladders" career development channel, and defines the development channel of each occupational category and rank. By setting up professional development ranks, the qualification standard is established on each channel. By conducting qualification evaluation and counseling, the Company helps employees to realize their career development. Employees can clearly know their current situation and future development direction.

Performance Management

The Company implements "comprehensive performance management", which emphasizes the consistency of organizational goals and individual goals, emphasizes the simultaneous growth of organizations and individuals to form a "win-win" situation. All aspects of performance management require the joint participation of managers and employees so that the performance of employees can be scientifically evaluated, and the employees' contributions can be recognized. At the same time, the Company standardizes the way of performance management. Each new employee will receive the Employee Handbook, in which the "*Performance Management Measures*" for employee performance management requirements, processes, cycles, rating evaluation and other content is specified.

Comprehensive performance management process



Comprehensive performance management is a PDCA cycle management process. At the beginning of each evaluation period, managers initiate communications with employees to jointly set performance plans according to the performance goals of various departments. During the evaluation period, guidance and communication permeate every aspect of daily work so that managers can mentor on employees' performance in a timely and effective manner through daily work; and during the evaluation, managers and employees work together to sort out the implementation and completion of the various indicators in the performance plan, and managers make a scientific performance evaluation according to the performance plan and completion and with abundant communication; and to carry out accurate diagnosis and guidance for the unfinished projects, to assist employees to achieve performance improvement more efficiently. At the beginning of each evaluation cycle, a performance plan is developed, targeted communication and mentoring are conducted combined with the shortcomings and aspects need to be improved in the last cycle, to look back at the beginning. Through such a cycle, the Company's performance can achieve a step-by-step spiral.

Staff Training

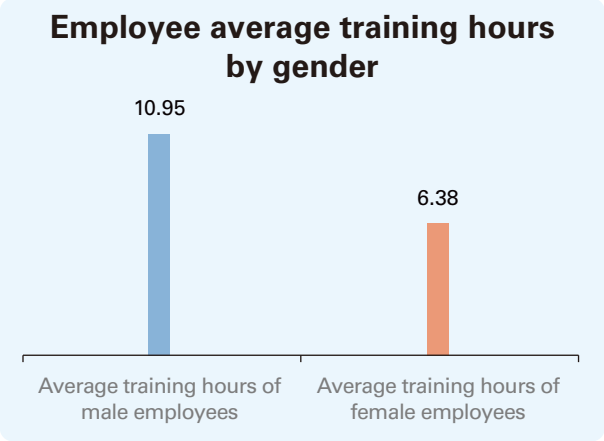
With the learning and development concept of "allowing each employee to master the ability of their superiors and the superiors above them and every primary-level manager have the basic qualities of senior executives", the Company sets up a training system to provide effective training activities for employees of various career development channels combining with the corporate strategy and position requirements.

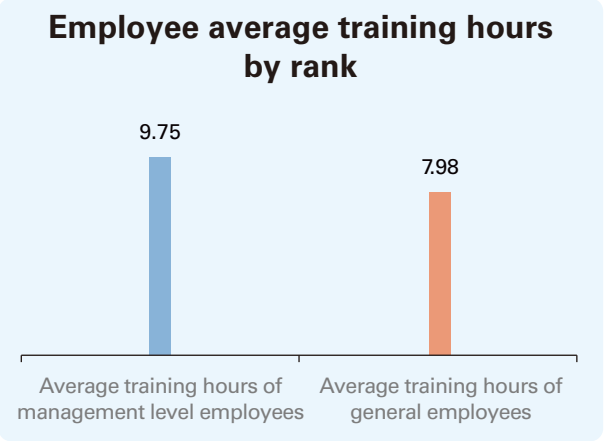
The Company's various types of training are built on its learning platform, which provides a large number of online learning resources for employees, and summarizes and records employees' participation in various training activities.

An online leadership training program for managers is conducted in 2020, including three thematic courses: efficient delegation, flexible and effective incentives, and the essence of teamwork. During the 106-minute course, a total of 39 managers participated, with a 100% completion rate.

In order to promote the accelerated growth and career development of employees, help them to adapt to the needs of corporate culture, working environment and leapfrog development, effectively develop and retain talents, and to achieve common development of employees and the Company, the Company carried out a "mentor" project for the core talents and technical personnel. Through research and interviews, a total of 24 students were paired with 14 mentors. The chairman of the Board, president, vice president and other senior management of the Company took the lead in participating in the project as mentors. Through this program, participants have enriched their business knowledge and skills, expanded their horizons, and improved their performance. While the mentors have better extracted experience and passed it onto others, effectively promoting the cultivation and development of the Company's talents.

During the Reporting Period, the training covers all of our employees, with detailed training data as following:





OCCUPATIONAL HEALTH AND SAFETY

Ensuring the safety of employees is the top priority of the Company. Through the establishment of relevant management systems and occupational disease protection measures, the Company ensures the basic safety and health of employees.

Management System

Establishing a complete occupational safety and health management system is the basis for reducing employee safety risks. We strictly abide by the relevant laws and regulations, such as *Production Safety Law of the People's Republic of China* and the *Occupational Disease Prevention and Control Law of the People's Republic of China*, etc.

Safety management system

Management system construction	Risk control and contingency plans	Training and drills	Safety production goals	Supervision and administration
• Develop EHS guidelines and clarify departmental responsibilities • Set up safety teams and build clear regulatory bodies to ensure the full implementation of safety and health management guidelines • Monitor the operation and make constant improvement of the EHS management regulation and operation rules	• Implementation of Shanghai dual control management: risk classification control, potential hazard detection and management with risk research and commitment announcement • Prepare the *Safety Risk Classification Control Assessment Report* to control the risk generation links, regions and preventive measures • Prepare the *Comprehensive Emergency Plan for Safety Accidents* and the *Special Emergency Plan for Safety Accidents* to take comprehensive preventive measures for safety accidents	• Actively carry out various special safety training and drills to reduce the probability of safety accidents, and strengthen the ability of employees to respond	• Set up annual safety production goals and indicators • No death, serious injury, fire, explosion, poisoning, responsible traffic accidents or other safety accidents • 100% safety training participation rate and 100% pass rate	• Regularly carry out various types of safety inspection activities, and follow up and correct security risks detected • Establish the implementation tracking of safety production target indicators, and comprehensively supervise safety production targets

During the Reporting Period, we kept the safety bottom line, never broke the production safety targets and indicators and finished with no production safety death accident, no serious injury accident, no light injury accident and no production safety accident with serious social impact nor any fire accident.

Category	Measurement	2020
Number of work-related injury accidents	times	0
Working days' loss due to work-related injuries	days	0

Healthy Safety Training & Drill

In order to strengthen our employees' knowledge and skills in the prevention of safety and health hazards in our work places, we actively organize our employees to conduct health and safety-related training and drills, including occupational health training, emergency rescue drills, etc. During the Reporting Period, 230 participation recorded in 89 hours of health and safety-related training and we conducted a total of two safety drills.

Public Welfare

The Company attaches importance to public welfare and provides people in need with hope of life by appealing employees to jointly participate and utilizing the resources of the Company in the medical health sector.

In 2020, the Company organized an employee charity sale and targeted charity donation activity and denoted transfer all the income to Henan Provincial Chest Hospital in order to help a sick child from Lhasa, who suffers from congenital heart disease with Ebstein malformation, tricuspid insufficiency (severe), Atrial Septal Defect (ASD) type II and cardiac function at NYHA class III.

DATA SUMMARY

Environmental Performance

	Unit	2020
Electricity consumption	kWh	**3,533,412**
Natural gas consumption	m^3	**0**
Diesel consumption	Litres	**0**
Gasoline consumption	Litres	**2,190**
Total water consumption	Tonnes	**18,947**
Water consumption intensity	Tonnes/Revenue in US$ million	**1,256.78**
Packaging materials consumption		
Total packaging material used for finished products	Tonnes	**52.39**
Consumption intensity of packaging material used for finished products	Tonnes/Revenue in US$ million	**3.48**
Emissions		
GHG emission		
Scope 1 GHG emission	tCO_2e	**4.61**
Scope 2 GHG emission	tCO_2e	**2,486**
Total GHG emission	tCO_2e	**2,490.61**
GHG emission intensity	tCO_2e/Revenue in US$ million	**165.206**
Air pollutants		
VOC	Tonnes	**0.033**
Wastes		
Total hazardous waste emission	Tonnes	**28.43**
Hazardous waste emission intensity	kg/Revenue in US$ million	**1,885**
Non-hazardous waste disposal	Tonnes	**19.1**
Non-hazardous waste recycling	Tonnes	**0.096**
Intensity of disposed non-hazardous waste	kg/Revenue in US$ million	**1,266.9**

Workforce Demographics

	2020
Total Headcounts	**305**
China	**305**
By Age	
Below 30	**116**
31–40	**165**
40–50	**24**
By Gender	
Male	**124**
Female	**181**
Employee turnover rate	
Total	**11.77%**
By Age	
Below 30	**10.2%**
31–50	**11.8%**
By Gender	
Male	**7.4%**
Female	**14.8%**
Total number of employees trained	**1,074**
Training percentage of male employees trained	**38.96%**
Training percentage of female employees trained	**61.04%**
Training percentage of management level employees trained	**10.35%**
Training percentage of general employee trained	**89.65%**

Applicable Laws and Regulations

Aspect	Laws and Regulations
Environment	Environmental Protection Law of the PRC Law of the PRC on Atmospheric Pollution Prevention and Control Law of the PRC on Water Pollution Prevention and Control Law of the PRC on Prevention and Control of Radioactive Pollution Law of the PRC on the Prevention and Control of Pollution Caused by Solid Waste Law of the PRC on the Prevention and Control of Pollution from Environmental Noise Law of the PRC on Conserving Energy Law of the PRC on the Promotion of Clean Production Integrated Emission Standard of Air Pollutants Integrated Wastewater Discharge Standard
Employment and Labor Standards	Labor Law of the PRC Labor Contract Law of the PRC Social Insurance Law of the PRC Provisions on the Prohibition of Using Child Labor
Occupational Health and Safety	Law of the PRC on the Prevention and Treatment of Occupational Diseases Law of the PRC on Production Safety
Product Responsibility	Law of the PRC on Product Quality Law of the PRC on Protection of Consumer Rights and Interests Patent Law of the PRC
Operation	Antitrust Law of the PRC Advertising Law of the PRC
Anti-corruption	Law of the PRC Against Unfair Competition Criminal Law of the PRC United States Foreign Corrupt Practices Act (FCPA)

Content Guide of Stock Exchange

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
A. Environmental		
Aspect A1	**Emissions**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to exhaust and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emission Management
KPI A1.1	The types of emissions and respective emissions data.	Emission Management
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission Management
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Emission Management
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emission Management
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emission Management
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials. Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Energy and Resources Utilization
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Energy and Resources Utilization
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Energy and Resources Utilization
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Energy and Resources Utilization

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Energy and Resources Utilization
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Energy and Resources Utilization
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Environmental Management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Management
B. Social		
Employment and Labor Practices		
Aspect B1	**Employment**	
General Disclosure	Information on: (a) the policies; and (b) relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Diversity Benefits and Caring
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment and Diversity
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Diversity
Aspect B2	**Health and Safety**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety
KPI B2.1	Number and rate of work-related fatalities.	Occupational Health and Safety

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
KPI B2.2	Lost days due to work injury.	Occupational Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Training refers to vocational training. It may include internal and external courses paid by the employer.	Talent Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Talent Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Talent Development
Aspect B4	**Labor Standards**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Employment and Diversity
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Employment and Diversity
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employment and Diversity
Operating Practices		
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supplier Management
KPI B5.1	Number of suppliers by geographical region.	Supplier Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
Aspect B6	**Product Responsibility**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Quality Trade Secrets and Intellectual Property Protection Information Security
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Quality
KPI B6.2	Number of products and services related complaints received and how they are dealt with.	Product Quality
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Trade Secrets and Intellectual Property Protection
KPI B6.4	Description of quality assurance process and recall procedures.	Product Quality
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Information Security
Aspect B7	**Anti-corruption**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the prevention of bribery, extortion, fraud and money laundering.	Integrity and Honesty
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Integrity and Honesty
Community		
Aspect B8	**Community Investment**	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Public Charity

Independent auditor's report to the shareholders of MicroPort CardioFlow Medtech Corporation
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of MicroPort CardioFlow Medtech Corporation ("the Company") and its subsidiaries ("the Group") set out on pages 98 to 176, which comprise the consolidated statements of financial position as at 31 December 2020, the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matter

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter (continued)

Assessing potential impairment of capitalised development costs

Refer to note 11 to the consolidated financial statements and the accounting policies on pages 116–117

The Key Audit Matter	How the matter was addressed in our audit
The carrying amounts of the Group's capitalised development costs as at 31 December 2020 were RMB233.7 million. Management performed impairment assessments of the Group's capitalised development costs by comparing the carrying values of these assets with their recoverable amounts, which were assessed using the value in use method by preparing discounted cash flow forecasts for each separately identifiable cash-generating unit ("CGU") to which the assets have been allocated. The preparation of discounted cash flow forecasts involved the exercise of significant management judgment, in particular in assessing future revenue growth and future gross margins. We identified the assessment of potential impairment of capitalised development costs as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could be subject to management bias.	Our audit procedures to assess the potential impairment of capitalised development costs included the following: • assessing the methodology adopted by management in its impairment assessment with reference to the requirements of prevailing accounting standards; • evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing the forecasted revenue, forecasted cost of sales and forecasted operating expenses, in the discounted cash flow forecasts with those in financial budgets which were approved by the board of directors and with available industry statistics; • comparing the discounted cash flow forecasts prepared in the prior year with the current year's performance to assess how accurate the prior year's discounted cash flow forecasts were and whether there was any indication of management bias, and making enquiries of management as to the reasons for any significant variations identified; • performing a sensitivity analysis of key assumptions, including future revenue growth rates and future gross margins applied in the discounted cash flow forecasts and considering the resulting impact of changes in the key assumptions to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • considering the reasonableness of the disclosures in the consolidated financial statements in respect of management's impairment assessments of intangible assets with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Au Yat Fo.

KPMG
Certified Public Accountants

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

30 March 2021

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Revenue	3	**103,934**	21,502
Cost of sales		**(58,554)**	(15,200)
Gross profit		**45,380**	6,302
Other net income	4	**14,310**	5,064
Research and development costs		**(96,840)**	(96,701)
Distribution costs		**(51,357)**	(26,105)
Administrative expenses		**(45,220)**	(10,853)
Fair value changes in financial instruments	28(e)	**(64,743)**	(8,649)
Other operating costs	5(c)	**(54,026)**	(1,057)
Loss from operations		**(252,496)**	(131,999)
Finance costs	5(a)	**(146,307)**	(12,523)
Share of profits of a joint venture		**716**	—
Loss before taxation	5	**(398,087)**	(144,522)
Income tax	6(a)	**—**	—
Loss for the year		**(398,087)**	(144,522)
Loss attributable to equity shareholders of the Company		**(398,087)**	(144,522)
Loss per share	9		
Basic and diluted (RMB)		**(0.23)**	(0.08)

The notes on pages 105 to 176 form part of these financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in Renminbi)

	2020 RMB'000	2019 RMB'000
Loss for the year	**(398,087)**	(144,522)
Other comprehensive income for the year, net of nil tax		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation of financial statements of the Company	**12,340**	(12,579)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign subsidiaries	**76,590**	6,352
Other comprehensive income for the year	**88,930**	(6,227)
Total comprehensive income for the year	**(309,157)**	(150,749)
Total comprehensive income for the year attributable to equity shareholders of the Company	**(309,157)**	(150,749)

The notes on pages 105 to 176 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	10	**68,122**	42,767
Intangible assets	11	**234,168**	222,491
Interest in a joint venture	13	**34,007**	35,579
Other financial assets	14	**49,508**	51,673
Other non-current assets	16	**6,408**	9,661
		392,213	362,171
Current assets			
Inventories	15	**67,769**	49,224
Trade and other receivables	16	**39,400**	24,917
Pledged and time deposits		**325**	325
Cash and cash equivalents	17	**612,474**	109,263
		719,968	183,729
Current liabilities			
Interest-bearing borrowings	18	**—**	20,000
Trade and other payables	19	**86,059**	35,331
Contract liabilities	20	**—**	3,567
Lease liabilities	21	**7,202**	7,249
Derivative financial liabilities	25	**60,371**	—
Other financial liabilities	25	**1,278,062**	321,594
		1,431,694	387,741
Net current liabilities		**(711,726)**	(204,012)
Total assets less current liabilities		**(319,513)**	158,159
Non-current liabilities			
Lease liabilities	21	**8,625**	11,380
Deferred income	23	**3,390**	3,480
Derivative financial liabilities	24	**13,656**	11,455
		25,671	26,315
NET (LIABILITIES)/ASSETS		**(345,184)**	131,844

	Note	**2020 RMB'000**	2019 RMB'000
CAPITAL AND RESERVES			
Share capital	27	**60**	62
Reserves		**(345,244)**	131,782
TOTAL (DEFICIT)/EQUITY		**(345,184)**	131,844

Approved and authorised for issue by the board of directors 30 March 2021.

Luo Qiyi
Chairman

Chen Guoming
Director

The notes on pages 105 to 176 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2020
(Expressed in Renminbi)

	Note	Ordinary share capital RMB'000	Preferred share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total equity/(deficit) RMB'000
Balance at 1 January 2019		13,410	—	351,182	—	7,982	(99,195)	273,379
Changes in equity for 2019:								
Loss for the year		—	—	—	—	—	(144,522)	(144,522)
Other comprehensive income		—	—	—	(6,227)	—	—	(6,227)
Total comprehensive income		—	—	—	(6,227)	—	(144,522)	(150,749)
Issuance of ordinary shares	27(c)(i)	45	—	212,939	—	—	—	212,984
Deemed distributions to the shareholder upon the restructuring	27(c)(ii)	(13,410)	—	(351,182)	—	(321,420)	—	(686,012)
Issuance of series B preferred shares	27(c)(iii)	—	17	480,605	—	—	—	480,622
Equity-settled share-based transactions	5(b)	—	—	—	—	1,620	—	1,620
Balance at 31 December 2019 and 1 January 2020		**45**	**17**	**693,544**	**(6,227)**	**(311,818)**	**(243,717)**	**131,844**
Changes in equity for 2020:								
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(398,087)**	**(398,087)**
Other comprehensive income		**–**	**–**	**–**	**88,930**	**–**	**–**	**88,930**
Total comprehensive income		**–**	**–**	**–**	**88,930**	**–**	**(398,087)**	**(309,157)**
Reclassification and re-designation to series D preferred shares	27(c)(iv)	**(2)**	**–**	**(211,707)**	**–**	**–**	**–**	**(211,709)**
Equity-settled share-based transactions	5(b)	**–**	**–**	**–**	**–**	**43,838**	**–**	**43,838**
Balance at 31 December 2020		**43**	**17**	**481,837**	**82,703**	**(267,980)**	**(641,804)**	**(345,184)**

The notes on pages 105 to 176 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 December 2020
(Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Loss before taxation		**(398,087)**	(144,522)
Adjustments for:			
Amortisation and depreciation	5(d)	**24,503**	13,760
Finance costs	5(a)	**146,150**	12,423
Interest income	4	**(5,224)**	(60)
Share of profits of a joint venture	13	**(716)**	—
Exchange gain in relation to the capital contribution		**—**	(3,951)
Fair value changes in financial instruments		**64,743**	8,649
Equity-settled share-based payment	5(b)	**43,560**	1,620
Changes in working capital:			
Increase in inventories		**(18,267)**	(32,144)
Increase in trade and other receivables		**(10,188)**	(14,633)
Increase in trade and other payables		**44,178**	2,290
(Decrease)/increase in deferred income		**(90)**	2,000
Decrease in other non-current assets		**3,254**	8,264
(Decrease)/increase in contract liabilities		**(3,567)**	3,567
Net cash used in operating activities		**(109,751)**	(142,737)
Investing activities			
Payments for the purchase of property, plant and equipment		**(31,612)**	(7,364)
Payments for intangible assets		**(26,607)**	(41,335)
Interest received		**1,797**	60
Payments for the investments in other financial assets		**—**	(7,030)
Net cash used in investing activities		**(56,422)**	(55,669)

	Note	2020 RMB'000	2019 RMB'000
Financing activities			
Capital element of lease payments	17(b)	**(6,567)**	(3,660)
Interest element of lease payments	17(b)	**(812)**	(958)
Loans from related parties	17(b)	**—**	118,605
Repayments of loans from related parties	17(b)	**—**	(193,852)
Proceeds from interest-bearing borrowings	17(b)	**—**	70,000
Repayments of interest-bearing borrowings	17(b)	**(20,000)**	(50,000)
Interest paid for interest-bearing borrowings and loans from related parties	17(b)	**(1,913)**	(1,968)
Capital contribution from ordinary shareholders	27(c)(i)	**—**	212,984
Deemed distributions to the shareholders upon the restructuring	27(c)(ii)	**—**	(686,012)
Proceeds from issuance of series B preferred shares	27(c)(iii)	**—**	480,622
Proceeds from issuance of series C preferred shares	25	**—**	317,398
Proceeds from issuance of series D preferred shares	25	**705,713**	—
Net cash generated from financing activities		**676,421**	263,159
Net increase in cash and cash equivalents		**510,248**	64,753
Cash and cash equivalents at the beginning of the year		**109,263**	50,418
Effect of foreign exchange rate changes		**(7,037)**	(5,908)
Cash and cash equivalents at the end of the year		**612,474**	109,263

The notes on pages 105 to 176 form part of these financial statements.

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current accounting period of the Group. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise MicroPort CardioFlow Medtech Corporation (the "Company") and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The Group conducted the restructuring in 2019. The financial statement has been prepared and presented as a continuation of the financial information of the business with assets and liabilities recognised and measured at their historical carrying amounts prior to the restructuring. The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 December 2020 and 2019 include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and unchanged from 1 January 2019 (or where the Companies were incorporated/established at a date later than 1 January 2019, from the date of incorporation/establishment). The consolidated statements of financial position of the Group as at 31 December 2020 and 2019 have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation/establishment, where applicable.

The Group are principally engaged in the research and development, manufacturing and sales of medical devices treating valvular heart diseases. The Group's business was conducted through Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow") (上海微創心通醫療科技有限公司).

As the Group's operation are primarily located in the PRC and most of the Group's transactions are conducted and denominated in Renminbi ("RMB"), which is the functional currency of MP CardioFlow, the consolidated financial statements are presented in RMB, rounded to the nearest thousand, unless otherwise stated. The functional currency of the Company is United States dollars ("US$") other than RMB.

1 Significant accounting policies (continued)

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

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

— investments in debt and equity securities (see note 1(g)); and

— derivative financial instruments (see note 1(h))

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Going concern

The consolidated financial statements have been prepared assuming the Group will continue as a going concern notwithstanding that the Group recorded net liabilities of RMB345,184,000 as at 31 December 2020, which is primarily due to series C preferred shares and series D preferred shares totaling RMB1,278,062,000 are classified as other financial liabilities and presented as current liabilities in the consolidated statements of financial position (see note 25). The Group also recorded net current liabilities of RMB711,726,000 as at 31 December 2020 (2019: RMB204,012,000). On 4 February 2021, the Company completed its listing on the Main Board of the Stock Exchange of Hong Kong Limited and the series C and series D preferred shares were instantly converted into ordinary shares of the Company and reclassified from the liabilities to the equity and the Group turned into a net current asset position consequently.

(d) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*

1 Significant accounting policies (continued)

(d) Changes in accounting policies (continued)

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

(e) Subsidiaries

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

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(f)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)(ii)).

(f) Associates and joint ventures

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

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

1 Significant accounting policies (continued)

(f) Associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(l)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (see note 1(l)(i)).

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

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

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

1 Significant accounting policies (continued)

(g) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(w)(iii)).

— fair value through other comprehensive income ("FVOCI") — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as at FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(w)(ii).

1 Significant accounting policies (continued)

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(k)) are stated at cost less accumulated depreciation and impairment losses (see note 1(l)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(y)).

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

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

— Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 3 to 5 years from the date of completion;

— Equipment and machinery 5 to 10 years

— Office equipment, furniture and fixtures 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(l)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(l)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

1 Significant accounting policies (continued)

(j) Intangible assets (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Software	3 years
—	Capitalised development costs	10 years

The useful life of capitalised development costs is estimated based on the expected life cycle of the underlying product since the commercialisation. Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

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

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

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

1 Significant accounting policies (continued)

(k) Leased assets (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(i) and 1(l)).

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease term contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16, *Lease*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

1 Significant accounting policies (continued)

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash and cash equivalents, pledged deposits and trade and other receivables).

Other financial assets measured at fair value, including equity securities measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

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

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

1 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

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

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

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

1 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

1 Significant accounting policies (continued)

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

(ii) Impairment of other non-current assets

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

— Property, plant and equipment, including right-of-use assets;

— intangible assets;

— investments in a joint venture; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

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

1 Significant accounting policies (continued)

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

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

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

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

(m) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the moving weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 Significant accounting policies (continued)

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(w)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(l) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(w)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(o)).

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

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(n)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(l)).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(l).

1 Significant accounting policies (continued)

(q) Preferred shares

The preferred shares issued by the Company are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preferred shares issued by the Company are classified as equity if they are non-redeemable by the Company or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred shares capital classified as equity are recognised as distributions within equity.

Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred), or if dividend payments are not discretionary. The liability is recognised and measured in accordance with the Group's policy for interest-bearing borrowings set out in note 1(r) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

Conversion features of preferred shares are classified separately as equity if the option will be settled by exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments. The equity component is the difference between the initial fair value of the preferred shares as a whole and the initial far value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expenses is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(y)).

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

1 Significant accounting policies (continued)

(t) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

1 Significant accounting policies (continued)

(u) Income tax

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

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

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

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

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

1 Significant accounting policies (continued)

(u) Income tax (continued)

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

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

(v) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

1 Significant accounting policies (continued)

(v) Provisions, contingent liabilities and onerous contracts (continued)

(ii) Onerous contracts

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

(w) Revenue and other income

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

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

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

(i) Sale of medical devices

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

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(iv) Government grants

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

1 Significant accounting policies (continued)

(x) Translation of foreign currencies

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

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

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

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

(y) Borrowing costs

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

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

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 Significant accounting policies (continued)

(z) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(aa) Segment reporting

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

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

2 Accounting judgement and estimates

There is no significant effect on the amounts recognised in the consolidated financial statements arising from the judgments.

Notes 26 and 28(e) contain information about the assumptions and their risk factors relating to valuation of fair value of equity-settled share-based payment awards granted and financial instruments. Other significant sources of estimation uncertainty are as follows:

Impairment of capitalised development costs

The Group is required to test intangible capitalised development assets not available for use on an annual basis. Intangible assets are tested whenever events or changes in circumstances indicate that the carrying amount of those assets exceeds its recoverable amount. The recoverable amount is determined based on the higher of fair value less cost to sell and value in use.

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the capitalised development costs not available for use can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of (i) revenue compound growth rate; and (ii) costs and operating expenses.

3 Revenue

(a) Revenue

The Group derives revenue principally from the sales of medical devices through appointed distributors.

For the purpose of making decisions about resources allocation and performance assessment, the Group's management focuses on the operating results of the Group as a whole. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and the timing of revenue recognition is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of medical devices — point in time	**103,934**	21,502

Revenue from each major customer which accounted for 10% or more of the Group's revenue is set out below:

	2020 RMB'000	2019 RMB'000
Customer A	**17,977**	5,827
Customer B	**N/A***	3,781
Customer C	**12,158**	N/A*

* Less than 10% of the Group's revenue in the respective years

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As 31 December 2020, none of the amount of the transaction price was allocated to the remaining performance obligation under the Group's existing contracts (2019: nil).

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for medical devices such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of medical devices that had an original expected duration of one year or less.

3 Revenue (continued)

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, interest in a joint venture and other non-current financial assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in a joint venture and other non-current financial assets.

Revenue from external customers

	2020 RMB'000	2019 RMB'000
The PRC (place of domicile)	**103,934**	21,502

Specified non-current assets

	2020 RMB'000	2019 RMB'000
The PRC (place of domicile)	**302,290**	265,258
North America	**49,508**	51,673
Asia (excluding the PRC)	**34,007**	35,579
	385,805	352,510

4 Other net income

	2020 RMB'000	2019 RMB'000
Government grants (Note)	**16,690**	3,907
Interest income on bank deposits	**5,224**	60
Net foreign exchange (loss)/gain	**(7,604)**	1,097
	14,310	5,064

Note: Government grants recognised in "other net income" included unconditional grants of RMB16,630,000 for the year ended 31 December 2020 (2019: RMB3,707,000) to compensate the Group for its research and development and other activities and conditional grants of RMB60,000 transferred from deferred income as the conditions attaching to the grant were achieved during the year ended 31 December 2020 (2019: RMB200,000) (note 23).

5 Loss before taxation

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

(a) Finance costs

	2020 RMB'000	2019 RMB'000
Interest on interest-bearing borrowings (note 17(b))	**39**	1,407
Interest on loans from related parties	**—**	2,404
Interest on other financial liabilities (notes 17(b) & 25)	**145,299**	7,575
Interest on lease liabilities (note 17(b))	**812**	1,037
Total interest expense on financial liabilities not at fair value through profit or loss	**146,150**	12,423
Others	**157**	100
	146,307	12,523

(b) Staff costs#

	2020 RMB'000	2019 RMB'000
Total equity-settled share-based payment cost	**43,838**	1,620
Less: capitalised into cost of inventories	**(278)**	—
Equity-settled share-based payment expenses recognised in consolidated statement of profit or loss (note 26)	**43,560**	1,620
Defined contribution retirement plans (Note)	**497**	5,102
Salaries, wages and other benefits	**53,038**	39,425
	97,095	46,147

Note: As stipulated by the labor regulations of the PRC, the Group also participates in various defined contribution retirement plans organised by provincial and municipal governments for its employees. The Group is required to make contributions to the retirement plans at approximately 16% of the eligible employees' salaries.

5 Loss before taxation (continued)

(c) Other operating costs

	2020 RMB'000	2019 RMB'000
Listing expenses	**46,504**	—
Other legal and professional fee	**7,221**	—
Restructuring expenses	**—**	1,057
Others	**301**	—
	54,026	1,057

(d) Other items

	2020 RMB'000	2019 RMB'000
Amortisation of intangible assets (note 11)	**15,486**	7,726
Depreciation charge# (note 10)		
— owned property, plant and equipment	**4,061**	1,998
— right-of-use assets	**5,866**	5,523
Less: Capitalised into development costs	**(910)**	(1,487)
	9,017	6,034
	24,503	13,760
Research and development costs	**123,825**	130,460
Less: Amortisation of capitalised development costs	**(15,418)**	(7,709)
Costs capitalised into development costs	**(26,935)**	(33,759)
	81,472	88,992
Cost of inventories# (note 15(b))	**94,186**	36,857
Auditors' remuneration		
— audit services	**3,781**	63
— non-audit services	**955**	—

Cost of inventories includes RMB19,869,000 relating to staff costs and depreciation charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses for the year ended 31 December 2020 (2019: RMB4,103,000).

6 Income tax in the consolidated statements of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2020 RMB'000	2019 RMB'000
Current tax — PRC Corporate Income Tax ("CIT")		
Provision for the year	—	—

(i) Cayman Islands and British Virgin Islands tax

Pursuant to the current rules and regulations of Cayman Islands and British Virgin Islands, the Company and its subsidiaries located in Cayman Islands and British Virgin Islands are currently not subject to any income tax in these jurisdictions.

(ii) Hong Kong profits tax

The Company's subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at 16.5% of the estimated assessable profits. No provision for Hong Kong profit tax has been made for the years ended 31 December 2020 and 2019 as there are no assessable profits during the years ended 31 December 2020 and 2019.

(iii) PRC CIT

Pursuant to the CIT Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25%, except for MP CardioFlow, which is entitled to a preferential income tax rate of 15% as it is certified as "High and New Technology Enterprise" ("HNTE") in 2020. According to Guoshuihan 2009 No. 203, if an entity is certified as an HNTE, it is entitled to a preferential income tax rate during the certified period.

According to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018, effective for the period from 1 January 2018 to 31 December 2020, an additional 75% of qualified research and development expenses incurred is allowed to be deducted from the taxable income.

The CIT law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%.

6 Income tax in the consolidated statements of profit or loss (continued)

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

	2020 RMB'000	2019 RMB'000
Loss before taxation	**(398,087)**	(144,522)
Notional tax on loss before taxation, calculated at the rates applicable to profit in the countries and districts concerned	**(24,488)**	(32,764)
Effect of other non-deductible expenses	**3,666**	9,474
Effect of additional deduction on research and development expenses (note 6(a)(iii))	**(14,825)**	(12,353)
Effect of tax losses not recognised	**35,647**	36,198
Effect of non-taxable revenue	**—**	(555)
Actual tax expenses	**—**	—

7 Directors' emoluments

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

	2020					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment (Note) RMB'000	Total RMB'000
Chairman and non-executive director						
Qiyi Luo (a)	—	—	—	—	**7,302**	**7,302**
Executive directors						
Shouyan Lee (b)	—	**1,063**	—	—	—	**1,063**
Guoming Chen (c)	—	**578**	**494**	—	**2,132**	**3,204**
Luying Yan (c)	—	**622**	**330**	—	**1,665**	**2,617**
Guojia Wu (c)	—	**792**	**396**	—	**1,919**	**3,107**
Non-executive directors						
Yong Li (d)	—	—	—	—	**487**	**487**
Lei Jiang (d)	—	—	—	—	**487**	**487**
Zheng Wang (d)	—	—	—	—	—	—
Junjie Zhang (e)	—	—	—	—	—	—
Xia Wu (e)	—	—	—	—	—	—
	—	**3,055**	**1,220**	—	**13,992**	**18,267**

7 Directors' emoluments (continued)

	2019					
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment (Note) RMB'000	Total RMB'000
Chairman and non-executive director						
Qiyi Luo (a)	—	—	—	—	—	—
Executive directors						
Shouyan Lee (b)	—	128	—	—	—	128
Guoming Chen (c)	—	575	493	—	222	1,290
Luying Yan (c)	—	606	330	—	45	981
Guojia Wu (c)	—	792	397	—	253	1,442
Non-executive directors						
Yu Li	—	550	—	—	(45)	505
Yong Li (d)	—	—	—	—	—	—
Lei Jiang (d)	—	—	—	—	—	—
Zheng Wang (d)	—	—	—	—	—	—
Junjie Zhang (e)	—	—	—	—	—	—
Xia Wu (e)	—	—	—	—	—	—
	—	2,651	1,220	—	475	4,346

Notes:

(a) Qiyi Luo was appointed as non-executive directors of the Company on 5 August 2019 and appointed as the chairman of the board of the Company on 16 January 2020.

(b) Shouyan Lee ("Dr. Lee") was appointed as executive director of the Company on 19 December 2019. He was key management personnel of the Group since December 2019 and his remuneration disclosed above include those for services rendered by him as key management personnel. Subsequently, Dr. Lee resigned on 7 September 2020 and share options granted by the Company (see note 26(a)) to Dr. Lee were lapsed accordingly.

7 Directors' emoluments (continued)

Notes: (continued)

(c) Guoming Chen, Luying Yan and Guojia Wu were appointed as executive directors of the Company on 29 September 2020. They were also employees of the Group during the years ended 31 December 2020 and 2019 and their remunerations disclosed above included the amounts the Group paid to them in their capacity as the employees of the Group before their appointments as executive directors of the Company.

(d) Yong Li, Lei Jiang and Zheng Wang were appointed as non-executive directors of the Company on 5 August 2019 and retired on 29 September 2020.

(e) Junjie Zhang and Xia Wu were appointed as non-executive directors of the Company on 5 August 2019.

The amounts of equity-settled share-based payment represent the estimated value of equity instruments granted to the directors under the Company's share option scheme and other share-based arrangements. The value of these equity instruments is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(t)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued previously where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 26.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, five (2019: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other nil (2019: one) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	**—**	435
Discretionary bonuses	**—**	180
	—	615

The emoluments of the nil (2019: one) individuals with the highest emoluments are within the following bands:

	2020 Number of Individuals	2019 Number of Individuals
Nil to HK$1,000,000	**—**	1

9 Loss per share

The calculation of the basic loss per share during the year ended 31 December 2020 is based on the loss for the year attributable to equity shareholders of the Company divided by the weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the assumption that the restructuring and the share subdivision as disclosed in note 33(i) had been in effective on 1 January 2019, calculated as follows:

(i) Loss for the year attributable to equity shareholders of the Company

	2020 RMB'000	2019 RMB'000
Loss for the year attributable to equity shareholders of the Company	**(398,087)**	(144,522)

(ii) Weighted average number of shares

	2020 '000	2019 '000
Issued shares at the beginning of the year for the purposes of basic loss per share:		
Number of ordinary shares for the purposes of basic loss per share	**1,265,752**	1,265,752
Number of series B preferred shares for the purposes of basic loss per share (note 27(c)(iii))	**484,248**	484,248
	1,750,000	1,750,000
Effect of reclassification and re-designation to series D preferred shares (note 27(c)(iv))	**(36,351)**	—
Weighted average number of shares at the end of the year for the purposes of basic loss per share	**1,713,649**	1,750,000

The calculation of diluted loss per share amount for the year ended 31 December 2020 has not included the potential effects of the deemed conversion of the series C preferred shares, series D preferred shares and share options granted by the Company (note 26(a)) during the year, as they had an anti-dilutive effect on the basic loss per share amount for the year.

10 Property, plant and equipment

(a) Reconciliation of carrying amount

	Leasehold improvements RMB'000	Equipment and machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Right-of-use assets RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2019	165	12,818	1,226	19,636	7,335	41,180
Transfer from construction in progress	838	5,889	1,201	—	(7,928)	—
Additions	—	—	—	6,274	9,929	16,203
Disposals	—	—	(2)	—	—	(2)
At 31 December 2019 and 1 January 2020	**1,003**	**18,707**	**2,425**	**25,910**	**9,336**	**57,381**
Transfer from construction in progress	**9,115**	**5,318**	**441**	**–**	**(14,874)**	**–**
Additions	**–**	**–**	**–**	**4,279**	**31,167**	**35,446**
Disposals	**–**	**–**	**(9)**	**–**	**–**	**(9)**
Modification of lease terms	**–**	**–**	**–**	**(164)**	**–**	**(164)**
At 31 December 2020	**10,118**	**24,025**	**2,857**	**30,025**	**25,629**	**92,654**
Accumulated depreciation and amortisation:						
At 1 January 2019	31	2,985	260	3,819	—	7,095
Charge for the year	91	1,588	319	5,523	—	7,521
Written back on disposals	—	—	(2)	—	—	(2)
At 31 December 2019 and 1 January 2020	**122**	**4,573**	**577**	**9,342**	**–**	**14,614**
Charge for the year	**1,580**	**2,017**	**464**	**5,866**	**–**	**9,927**
Written back on disposals	**–**	**–**	**(9)**	**–**	**–**	**(9)**
At 31 December 2020	**1,702**	**6,590**	**1,032**	**15,208**	**–**	**24,532**
Net book value:						
At 31 December 2020	**8,416**	**17,435**	**1,825**	**14,817**	**25,629**	**68,122**
At 31 December 2019	881	14,134	1,848	16,568	9,336	42,767

10 Property, plant and equipment (continued)

(b) Right-of-use assets

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

	2020 RMB'000	2019 RMB'000
Properties leased for own use, carried at depreciated cost	**14,817**	16,568

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

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	**5,866**	5,523
Interest on lease liabilities (note 5(a))	**812**	1,037
Expense relating to short-term leases (note 30(c))	**124**	—

During the year ended 31 December 2020, additions to the right-of-use assets were RMB4,279,000 (2019: RMB6,274,000). This amount included the capitalised lease payments payable under the new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 17(c) and 21, respectively.

The Group leases manufacturing plants, warehouses and office buildings under leases expiring in no more than four years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

11 Intangible assets

	Capitalised development costs RMB'000	Software RMB'000	Total RMB'000
Cost			
At 1 January 2019	196,376	154	196,530
Additions	33,759	43	33,802
At 31 December 2019 and 1 January 2020	**230,135**	**197**	**230,332**
Additions	**26,679**	**484**	**27,163**
At 31 December 2020	**256,814**	**681**	**257,495**
Accumulated amortisation and impairment:			
At 1 January 2019	—	115	115
Amortisation charge for the year	7,709	17	7,726
At 31 December 2019 and 1 January 2020	**7,709**	**132**	**7,841**
Amortisation charge for the year	**15,418**	**68**	**15,486**
At 31 December 2020	**23,127**	**200**	**23,327**
Net book value:			
At 31 December 2020	**233,687**	**481**	**234,168**
At 31 December 2019	222,426	65	222,491

Included in intangible assets were an amount of RMB102,638,000 that are not yet available for use as of 31 December 2020 (2019: RMB75,959,000). These intangible assets were solely related to capitalised development costs.

Majority of amortisation of intangible assets is recognised in research and development costs.

(Expressed in Renminbi unless otherwise indicated)

11 Intangible assets (continued)

(a) Impairment test

The amortisation of VitaFlow® related capitalised development costs commenced in July 2019, when the registration certificate of VitaFlow® was approved by the National Medical Products Administration.

The capitalised development costs not yet available for use as at 31 December 2020 were related to VitaFlow® II.

The capitalised development costs not yet available for use are tested annually based on the recoverable amount of the cash generating unit to which the intangible asset is related. As these development costs support each of the product, their respective cash-generating unit ("CGU") is at the product level.

The recoverable amount of each CGU was determined based upon the value-in-use calculations.

The cash flow projections are based on the financial budgets approved by the directors of the Company. The revenue forecasts of VitaFlow® II were based on management's expectations of the timing of the commercialisation, productivity and the market size of related products. Management estimates VitaFlow® II will have a 10-year useful life commencing from the approval for commercialisation with higher rates of revenue growth in the earlier years and declining revenue during the remaining years of the estimated useful life. Gross profit margin ratio is estimated based on the Group's current level, taking into account the impact of cost improvements. Management also considered the gross profit margin ratio of similar products from comparable companies in estimating the gross profit margin ratio in the forecast. The discount rates used are pre-tax and reflect specific risks relating to the relevant products.

The key assumptions used in the value-in-use calculations of each CGU are as follows:

	2020	2019
VitaFlow® II		
Revenue from the commercialisation to the peak sales (% annualised compound growth rate)	**58%**	65%
Revenue for the remaining useful life (% annualised compound growth rate)	**-18%**	-32%
Gross profit margin ratio	**60%–80%**	69%–78%
Pre-tax discount rate	**27.4%**	29.3%

(Expressed in Renminbi unless otherwise indicated)

11 Intangible assets (continued)

(b) Impact of possible changes in key assumptions

The recoverable amount of the CGU of VitaFlow® II is estimated to exceed the carrying amount of the CGU at 31 December 2020 by RMB1,108,734,000 (2019: RMB451,543,000).

Considering there was still sufficient headroom based on the assessment, the directors does not believe that a reasonably possible change in key assumptions would cause the carrying amount of each CGU to exceed its respective recoverable amount.

The recoverable amount of each CGU would equal its carrying amount if each key assumption was to change as follows with all other variables held constant:

	2020	2019
VitaFlow® II		
Revenue from the commercialisation to the peak sales (% annualised compound growth rate)	**38%**	52%
Revenue for the remaining useful life (% annualised compound growth rate)	**-42%**	-55%
Gross profit margin ratio	**24%–44%**	44%–53%
Pre-tax discount rate	**112.3%**	80.3%

12 Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group. The class of shares held is ordinary unless otherwise indicated.

			Proportion of ownership interest		
Name of company	**Place of incorporation/ establishment**	**Particulars of registered and paid-up capital**	**As at 31 December 2020**	As at 31 December 2019	**Principal activities**
MP CardioFlow (上海微創心通醫療科技有限公司) (Note)	The PRC	RMB840 million	**100%**	100%	Research and development manufacturing and sale of medical devices treating valvular heart diseases

Note: This subsidiary is a wholly foreign-owned enterprise.

(Expressed in Renminbi unless otherwise indicated)

13 Interest in a joint venture

The following list contains the particulars of a joint venture, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of joint venture	**Form of business structure**	**Place of incorporation**	**Particulars of issued and paid-up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Rose Emblem Ltd. ("Rose Emblem")	Incorporated	British Virgin Islands	US$ 10,000,000	51%	—	51%	Investment holding

In September 2018, the Group and Witney Global Limited ("Witney"), entered into a subscription and shareholders agreement with Rose Emblem, pursuant to which, the Group and Witney subscribed 51% and 49% interests in Rose Emblem. As the approval of the resolutions in relation to the relevant activities of Rose Emblem shall require both approval from the Group and the Witney, the directors of the Company determined that the investment in Rose Emblem is a joint venture, which is accounted for under the equity method.

The principal activity of Rose Emblem is investing in ValCare Inc. ("ValCare") via holding its preferred shares. ValCare is based in Israel and engaged in the development of the mitral valve repair devices. The investment in ValCare is classified as financial assets measured at FVPL on Rose Emblem's financial statements.

In January 2019, MP CardioFlow granted a put option to Witney (the "Witney Put Option") in connection with Witney's investments in ValCare and 4C Medical Technologies, Inc. ("4C Medical", see note 14). The Witney Put Option is considered as a derivative financial liability (see note 24).

13 Interest in a joint venture (continued)

Summarised financial information of Rose Emblem and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2020 RMB'000	2019 RMB'000
Gross amounts of Rose Emblem		
Non-current assets	**66,705**	69,762
Current liabilities	**25**	—
Equity	**66,680**	69,762
Profit for the year	**1,404**	—
Other comprehensive income	**(4,486)**	970
Total comprehensive income	**(3,082)**	970
Reconciled to the Group's interests in Rose Emblem		
Gross amounts of Rose Emblem's net assets	**66,680**	69,762
Group's effective interest	**51%**	51%
Group's share of Rose Emblem's net assets and carrying amount of the Group's interest in Rose Emblem	**34,007**	35,579

14 Other financial assets

	2020 RMB'000	2019 RMB'000
Financial assets measured at FVPL		
— Unlisted equity securities outside Hong Kong	**49,508**	51,673

In September 2018, the Group and Witney, entered into a subscription and shareholders agreement with 4C Medical, pursuant to which, the Group and Witney subscribed and purchased preferred shares of 4C Medical. 4C Medical is a research and development company engaged in the development of the mitral and tricuspid valve devices and the main operation is based in the United States. The investment in 4C Medical is classified as financial assets measured at FVPL. Valuation techniques and significant assumptions for determining the fair value of the investments in 4C Medical was set out in note 28(e).

In January 2019, the Group granted the Witney Put Option in connection with Witney's investment in ValCare (see note 13) and 4C Medical which is recognised as a derivative financial liability (see note 24).

The movements of carrying amount of the investment in 4C Medical is set out in note 28(e).

15 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2020 RMB'000	2019 RMB'000
Raw materials	**29,083**	27,773
Work in progress	**27,738**	15,703
Finished goods	**10,948**	5,748
	67,769	49,224

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Cost of inventories sold	**58,554**	15,200
Write down of the inventories	**3,880**	200
Cost of inventories directly recognised as research and development costs and other expenses	**31,752**	21,457
	94,186	36,857

16 Trade and other receivables and other non-current assets

	2020 RMB'000	2019 RMB'000
Current trade and other receivables		
Trade receivables	**4,664**	—
Value-added tax recoverable	**21,807**	21,347
Other debtors	**3,684**	184
Deposits and prepayments	**9,245**	3,386
	39,400	24,917
Other non-current assets		
Value-added tax recoverable	**5,555**	9,058
Deposits	**853**	603
	6,408	9,661

All trade receivables are due from third party customers and collected as of the date of this report.

All of the current trade and other receivables are expected to be recovered or recognised as expense within one year.

As at 31 December 2020, value added tax recoverable amounting to RMB5,555,000 (2019: RMB9,058,000) were recognised as other non-current assets as they are expected to be deducted from future value added tax payables arising on the Group's revenue which are not expected to be generated within the next 12 months from the end of the reporting period.

Aging analysis

As of the end of the reporting period, the aging analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 months	**4,664**	—

17 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents

	2020 RMB'000	2019 RMB'000
Cash at bank	**612,474**	109,263

As at 31 December 2020, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB587,456,000 (2019: RMB90,922,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 (note 18)	Loans from related parties RMB'000 (note 19)	Other financial liabilities RMB'000 (note 25)	Lease liabilities RMB'000 (note 21)	Total RMB'000
At 1 January 2020	**20,000**	**1,874**	**321,594**	**18,629**	**362,097**
Changes from financing cash flows:					
Repayments of interest-bearing borrowings	**(20,000)**	**—**	**—**	**—**	**(20,000)**
Interest paid for interest-bearing borrowings	**(39)**	**(1,874)**	**—**	**—**	**(1,913)**
Proceeds from issuance of preferred shares	**—**	**—**	**705,713**	**—**	**705,713**
Capital element of lease payments	**—**	**—**	**—**	**(6,567)**	**(6,567)**
Interest element of lease payments	**—**	**—**	**—**	**(812)**	**(812)**
Total changes from financing cash flows	**(20,039)**	**(1,874)**	**705,713**	**(7,379)**	**676,421**

17 Cash and cash equivalents and other cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000 (note 18)	Loans from related parties RMB'000 (note 19)	Other financial liabilities RMB'000 (note 25)	Lease liabilities RMB'000 (note 21)	Total RMB'000
Exchange adjustments	**—**	**—**	**(97,111)**	**—**	**(97,111)**
Other changes:					
Increase in lease liabilities from entering into new leases during the year	**—**	**—**	**—**	**4,279**	**4,279**
Modification of lease terms	**—**	**—**	**—**	**(164)**	**(164)**
Lease payments capitalised into intangible assets	**—**	**—**	**—**	**(350)**	**(350)**
Reclassification and re-designation from ordinary shares to series D preferred shares	**—**	**—**	**211,709**	**—**	**211,709**
Unpaid transaction costs in relation to series D financing	**—**	**—**	**(9,142)**	**—**	**(9,142)**
Interest charge (note 5(a))	**39**	**—**	**145,299**	**812**	**146,150**
	39	**—**	**347,866**	**4,577**	**352,482**
At 31 December 2020	**—**	**—**	**1,278,062**	**15,827**	**1,293,889**

17 Cash and cash equivalents and other cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000 (note 18)	Loans from related parties RMB'000 (note 19)	Other financial liabilities RMB'000 (note 25)	Lease liabilities RMB'000 (note 21)	Total RMB'000
At 1 January 2019	—	76,359	—	16,317	92,676
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings	70,000	—	—	—	70,000
Repayments of interest-bearing borrowings	(50,000)	—	—	—	(50,000)
Loans from related parties	—	118,605	—	—	118,605
Repayments of loans from related parties	—	(193,852)	—	—	(193,852)
Interest paid for interest-bearing borrowings	(1,407)	(561)	—	—	(1,968)
Proceeds from issuance of preferred shares	—	—	317,398	—	317,398
Capital element of lease payments	—	—	—	(3,660)	(3,660)
Interest element of lease payments	—	—	—	(958)	(958)
Total changes from financing cash flows	18,593	(75,808)	317,398	(4,618)	255,565

17 Cash and cash equivalents and other cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000 (note 18)	Loans from related parties RMB'000 (note 19)	Other financial liabilities RMB'000 (note 25)	Lease liabilities RMB'000 (note 21)	Total RMB'000
Exchange adjustments	—	(1,081)	(3,379)	—	(4,460)
Other changes:					
Increase in lease liabilities from entering into new leases during the year	—	—	—	6,274	6,274
Lease payments capitalised into intangible assets	—	—	—	(381)	(381)
Interest charge (note 5(a))	1,407	2,404	7,575	1,037	12,423
	1,407	2,404	7,575	6,930	18,316
At 31 December 2019	20,000	1,874	321,594	18,629	362,097

(c) Total cash outflow for leases

	2020 RMB'000	2019 RMB'000
Within investing cash flows	**350**	381
Within financing cash flows	**7,379**	4,618
	7,729	4,999

All these amounts relate to the lease rentals paid.

18 Interest-bearing borrowing

As of the end of the reporting period, the interest-bearing borrowing were repayable as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**—**	20,000

As at 31 December 2019, the bank facility amounting to RMB50,000,000, which the Group withdrew loan in amount of RMB20,000,000 were unsecured and guaranteed by Shanghai MicroPort Medical (Group) Co., Ltd. ("Shanghai MicroPort Medical") (上海微創醫療器械 (集團) 有限公司), a fellow subsidiary of the Group. The interest-bearing borrowing of RMB20,000,000 as of 31 December 2019 was fully repaid in January 2020. The above guarantee provided by Shanghai MicroPort Medical on the Group's interest-bearing borrowings has been released as of the date of this report.

19 Trade and other payables

	2020 RMB'000	2019 RMB'000
Trade payables due to		
— third party suppliers	**14,645**	11,647
— related parties	**898**	2,501
	15,543	14,148
Loans and interests due to related parties	**—**	1,874
Accrued payroll	**15,074**	10,638
Other payables and accrued charges	**55,442**	8,671
	86,059	35,331

19 Trade and other payables (continued)

All of the above balances classified as current liabilities are expected to be settled within one year.

As of the end of the reporting period, the aging analysis of the trade payables based on invoice date is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 month	**15,231**	13,449
Over 1 month but within 3 months	**224**	86
Over 3 months but within 6 months	**—**	377
Over 6 months but within 1 year	**15**	194
Over 1 year	**73**	42
	15,543	14,148

20 Contract liabilities

	2020 RMB'000	2019 RMB'000
Advanced receipts from customers for sales of medical devices	**—**	3,567

Movements in contract liabilities

	2020 RMB'000	2019 RMB'000
At the beginning of the year	**3,567**	—
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(3,567)**	—
Increase in contract liabilities as a result of receiving advance payments during the year	**—**	3,567
At the end of the year	**—**	3,567

21 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period.

	2020		2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**7,202**	**7,380**	7,249	7,397
After 1 year but within 2 years	**6,972**	**7,526**	5,839	6,301
After 2 years but within 5 years	**1,653**	**1,925**	5,541	6,301
	8,625	**9,451**	11,380	12,602
	15,827	**16,831**	18,629	19,999
Less: Total future interest expenses		**(1,004)**		(1,370)
Present value of lease liabilities		**15,827**		18,629

As at 31 December 2020, lease liabilities include the lease payable of RMB8,617,000 (2019: RMB13,299,000) due to Shanghai MicroPort Medical (see note 30(b)(iv)).

22 Income tax in the consolidated statements of financial position

In accordance with the accounting policy set out in note 1(u), the Group has not recognised deferred tax assets in respect of cumulative tax losses attributable to a subsidiary of RMB405,708,000 at 31 December 2020 (2019: RMB263,122,000) due to the unpredictability of future taxable profits in the relevant tax jurisdiction and entity.

As at 31 December 2020, the tax losses incurred by PRC subsidiaries of RMB405,708,000 will expire in the period from 2026 to 2030.

23 Deferred income

	Note	**Government subsidies for research and development projects RMB'000**
At 1 January 2019		1,480
Additions		2,200
Government grant recognised as other income	4	(200)
At 31 December 2019 and 1 January 2020		**3,480**
Additions		**760**
Transfers to other payables		**(790)**
Government grant recognised as other income	4	**(60)**
At 31 December 2020		**3,390**

24 Derivative financial liabilities

In January 2019, the Group granted a put option to Witney (the "Witney Put Option") in connection with investments on ValCare (note 13) and 4C Medical (note 14) which the Group and Witney made together, pursuant to which, in certain events, including the sales of ValCare and 4C Medical to a third party at a price no less than three times of the original purchase price of ValCare and 4C Medical has not occurred before the fifth anniversary of closing of investments in ValCare and 4C Medical, Witney has the right to require the Group to purchase any or all of the investments in ValCare and 4C Medical held by Witney at a price equal to the original purchase price plus interests at the 3-month London Interbank Offered Rate ("LIBOR") in US$ plus 1% by cash.

Witney Put Option is recognised as a derivative financial liability. As at 31 December 2020, the fair value of the Witney Put Option was RMB13,656,000 (2019: RMB11,455,000). Valuation techniques and significant assumptions adopted for determining the fair value of the Witney Put Option was set out in note 28(e).

25 Other financial liabilities

In 2019, the Company completed a series C financing and issued a total of 11,250,000 series C preferred shares to Qianyi Investment I L.P. at a cash consideration of US$45 million.

In April 2020, the Company completed a series D financing, pursuant to which, (i) the Company issued a total of 8,977,273 series D preferred shares at an aggregated cash consideration of US$100 million to several investors (the "2020 Pre-IPO Investors") and (ii) Shanghai MicroPort Limited ("SHBVI", the immediate controlling party of the Company) sold 2,693,182 ordinary shares of the Company to 2020 Pre-IPO Investors at a cash consideration of US$30 million. These 2,693,182 ordinary shares previously held by SHBVI were converted to Company's series D preferred shares upon the completion of the series D financing.

Significant terms of the series C preferred shares and series D preferred shares are outlined below:

Liquidation preference

In the event of any liquidation of the Company (such as liquidation, dissolution or winding up), the holders of the series C and series D preferred shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the ordinary shares, an amount equals to the original issue price.

Redemption rights

Series C preferred shares shall be redeemable by the Company upon the occurrence of certain contingent events, with the main conditions being: (i) a qualified public offering does not occur before 18 October 2023, or (ii) the Company fails to accomplish certain business commitments (the "Business Commitments"), at an amount equal to the original purchase price of series C preferred shares plus per annum interest of 15% calculated on a compound basis.

Series D preferred shares shall be redeemable by the Company upon the occurrence of certain contingent events, with the main conditions being: (i) a qualified public offering does not occur before 18 October 2023 or (ii) the Company has received the redemption requests from the holders of other preferred shares, at an amount equal to the original purchase price of series D preferred share plus per annum interest of 15% calculated on a compound basis.

Conversion feature

Each preferred share shall be convertible into such number of fully paid ordinary shares at any time at the option of the holder after the respective original issue date of series D preferred shares and series C preferred shares. The initial conversion ratio for series D preferred shares and series C preferred shares to ordinary shares is 1:1. Such initial conversion ratio shall be subject to adjustment (including but not limited to dividends, share splits and combinations, capital reorganisation or reclassification).

Series D Adjustment

Pursuant to the shareholders' agreement in relation to the series D financing, under certain conditions, the Company shall issue additional series D preferred shares to the 2020 Pre-IPO Investors (the "Series D Adjustment"). This is a separate component from the conversion feature.

25 Other financial liabilities (continued)

Presentation and Classification

The redemption obligations give rise to financial liabilities, which are measured at the highest of those amounts that could be payable, and on a present value basis. The conversion feature is recognised as an equity component as series C preferred shares and series D preferred shares can be converted into ordinary shares where the number of shares to be issued is fixed.

The financial liabilities arising from series C preferred shares and series D preferred shares are measured at the transaction price at initial recognition, and subsequently at amortised cost at an effective interest rate of 15%. There is no residual amount allocated to equity for the conversion feature.

The movements of other financial liabilities during the year ended 31 December 2020 are set out in note 17(b).

As at 31 December 2020, considering that (i) achieving the Business Commitments is beyond the control of the Group; and (ii) series D preferred shares shall be redeemable by the Company if the Company has received the redemption requests from the holders of other preferred shares, the Company does not have an unconditional right to defer redemption of series C and series D preferred shares for at least twelve months after 31 December 2020. Therefore, the series C preferred shares and the series D preferred shares were both classified as current other financial liabilities in the consolidated statement of financial position.

The Series D Adjustment is recognised as a derivative financial liability and is measured at fair value through profit or loss. As at 31 December 2020, the fair value of the Series D Adjustment was RMB60,371,000. Valuation techniques and significant assumptions adopted for determining the fair value of Series D Adjustment were set out in note 28(e).

26 Equity-settled share-based transaction

(a) Share options granted by the Company (equity-settled)

In March 2020, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which, the board of the directors may authorise, at their discretion, the issuance of share options to (i) the executives and employees of the Group and (ii) the directors and employees of MicroPort Scientific Corporation ("MPSC", the ultimate controlling party of the Group) and its subsidiaries other than the Group who have contributed or will contribute to the development of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

26 Equity-settled share-based transaction (continued)

(a) Share options granted by the Company (equity-settled) (continued)

(i) The terms, conditions and fair values at the grant date of the grants are as follows:

	Number of options	Fair value RMB'000	Weighted average fair value per share option RMB	Exercise price US$
Options granted to executives and employees of the Group	3,328,750	81,138	24.34	3.2
Options granted to directors and employees of MPSC and its subsidiaries	807,000	19,519	24.34	3.2
	4,135,750			

The above share options granted to the executives and employees of the Group are expected to vest in installments over an explicit vesting period of one to five years. Each installment is accounted for as a separate share-based compensation arrangement.

The above share options granted to the directors and employees of MPSC and its subsidiaries have no vesting conditions and the grant-date fair value of these share options were immediately recognised as share-based payment costs at the grant date.

The contractual life of above options is ten years.

(ii) The number and weighted average exercise prices of share options are as follows:

	2020	
	Weighted average exercise price US$	Number of options
Outstanding at the beginning of the year	—	—
Granted during the year	**3.20**	**4,135,750**
Forfeited during the year	**3.20**	**(540,303)**
Outstanding at the end of the year	**3.20**	**3,595,447**
Exercisable at the end of the year	—	—

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from March 2021 through March 2030. As at 31 December 2020, the weighted average remaining contractual life for the share options granted under Share Option Scheme was 9.25 years.

(Expressed in Renminbi unless otherwise indicated)

26 Equity-settled share-based transaction (continued)

(a) Share options granted by the Company (equity-settled) (continued)

(ii) The number and weighted average exercise prices of share options are as follows: (continued)

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. Back-solve method was used to determine the equity fair value of the ordinary shares of the Company and the estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions

	31 March 2020
Fair value at measurement dates	**US$3.34–US$3.56**
Share price	**US$6.01**
Exercise price	**US$3.20**
Expected volatility	**36.27%**
Option life	**10 years**
Expected dividend yield	**0.00%**
Risk-free interest rate	**0.68%**

(b) Share options granted by the ultimate controlling party (equity-settled)

MPSC granted certain share options to the employee of the Group. Each option gives the holder the right to subscribe for one ordinary share of MPSC, while the Group did not have an obligation to settle such transaction.

Up to 31 December 2020, MPSC has granted 1,022,000 share options in aggregation to the employee of the Group. These share options are vested in installments over an explicit vesting period of one to seven years. Each installment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

26 Equity-settled share-based transaction (continued)

(b) Share options granted by the ultimate controlling party (equity-settled) (continued)

(i) The number and weighted average exercise prices of share options are as follows:

	2020		2019	
	Weighted average exercise price RMB'000	**Number of options**	Weighted average exercise price RMB'000	Number of options
Outstanding at the beginning of the year	**3.30**	**742,000**	3.21	822,000
Exercised during the year	**3.08**	**(452,000)**	—	—
Forfeited during the year	**—**	**—**	3.12	(80,000)
Outstanding at the end of the year	**3.44**	**290,000**	3.30	742,000
Exercisable at the end of the year	**3.44**	**290,000**	3.30	742,000

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from January 2021 through December 2022. As at 31 December 2020, the weighted average remaining contractual life for the share options granted was 1.82 years (2019: 3.25 years).

(ii) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as MPSC. Changes in the subjective input assumptions could materially affect the fair value estimate. Expected dividend yield is based on historical dividends.

The service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

The fair value of the share options granted was recognised as equity-settled share-based payments expenses over the vesting period with a corresponding increase in capital reserve.

The total expenses recognised in the consolidated statement of profit or loss for the share options granted by ultimate controlling party are nil for the year ended 31 December 2020 (2019: RMB70,000).

26 Equity-settled share-based transaction (continued)

(c) Employee share purchase plan (the "ESPP") (equity-settled)

In 2015, the Group has adopted an ESPP, pursuant to which, the employee of the Group established an entity (the "Employee Entity"), which is to invest in the Group. The employee participated in the ESPP have purchased equity interests in the Employee Entity at the amounts specified in the relevant agreements, with service condition terms that require them to transfer out their equity interest in Employee Entity at a price no higher than their original investment amount should they terminate their employments with the Group within 3 years from the investment date. Accordingly, the Group granted equity instruments to its employees and accounted for it as equity-settled share-based payments.

The total expenses recognised in the consolidated statement of profit or loss for the ESPP granted to the Group's employees are RMB957,000 for the year ended 31 December 2020 (2019: RMB1,550,000).

(d) Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss:

	2020 RMB'000	2019 RMB'000
Cost of sales	**1,734**	152
Research and development costs	**12,042**	921
Distribution costs	**4,815**	395
Administrative expenses	**24,969**	152
	43,560	1,620

27 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's equity between the beginning and the end of the year are set out below.

		Ordinary Share capital	Preferred share capital	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 10 January 2019, date of the incorporation		—	—	—	—	—	—	—
Changes in equity for 2019:								
Loss and total comprehensive income		—	—	—	—	(12,579)	(7,574)	(20,153)
Issuance of ordinary shares	27(c)(i)	45	—	212,939	—	—	—	212,984
Deemed distributions to the shareholder upon the reorganisation		—	—	—	(455,873)	—	—	(455,873)
Issuance of series B preferred shares	27(c)(iii)	—	17	480,605	—	—	—	480,622
Balance at 31 December 2019 and 1 January 2020		**45**	**17**	**693,544**	**(455,873)**	**(12,579)**	**(7,574)**	**217,580**
Changes in equity for 2020								
Loss and total comprehensive income		**—**	**—**	**—**	**—**	**12,340**	**(258,446)**	**(246,106)**
Reclassification and re-designation to series D preferred shares	27(c)(iv)	**(2)**	**—**	**(211,707)**	**—**	**—**	**—**	**(211,709)**
Equity-settled share-based transactions		**—**	**—**	**—**	**42,881**	**—**	**—**	**42,881**
Balance at 31 December 2020		**43**	**17**	**481,837**	**(412,992)**	**(239)**	**(266,020)**	**(197,354)**

(b) Dividends

The directors of the Company did not propose the payment of any dividend during the year ended 31 December 2020 (2019: nil).

27 Capital and reserves (continued)

(c) Share capital

Authorised

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 January 2019 with authorised share capital of US$50,000 divided into 500,000,000 ordinary shares with par value of US$0.0001 each.

On 2 August 2019, the authorised share capital of the Company was US$50,000 divided into (i) 463,287,617 ordinary shares with par value of US$0.0001 each, (ii) 24,212,383 series B preferred shares with par value of US$0.0001 each, and (iii) 12,500,000 series C preferred shares with par value of US$0.0001 each.

After several changes, as of 31 December 2020, the authorised share capital of the Company was US$50,000 divided into 500,000,000 shares with par value of US$0.0001 each, consisting of (i) 452,867,162 ordinary shares, (ii) 24,212,383 series B preferred shares, (iii) 11,250,000 series C preferred shares, and (iv) 11,670,455 series D preferred shares.

Issued and fully paid

		Ordinary share		**Series B preferred share**	
	Note	**No. of share '000**	**RMB'000**	**No. of share '000**	**RMB'000**
Balance at 10 January 2019, date of the incorporation		—	—	—	—
Issuance of ordinary shares	27(c)(i)	63,288	45	—	—
Issuance of series B preferred shares	27(c)(iii)	—	—	24,212	17
Balance at 31 December 2019 and 1 January 2020		**63,288**	**45**	**24,212**	**17**
Reclassification and re-designation to series D preferred shares	27(c)(iv)	**(2,693)**	**(2)**	**—**	**—**
Balance at 31 December 2020		**60,595**	**43**	**24,212**	**17**

(i) In July 2019, SHBVI subscribed for 56,625,716 shares issued by the Company at a total consideration of US$27,000,000 (equivalent to RMB191,374,000). The consideration was fully paid in August 2019.

In September 2019, the Company issued an aggregated 6,661,901 ordinary shares to certain shareholder at a total consideration of RMB21,610,000. Such capital contribution was designated by the Company to directly inject into MP CardioFlow. The difference between the share capital and the consideration is recognised in the share premium of the Group.

27 Capital and reserves (continued)

(c) Share capital (continued)

Issued and fully paid (continued)

(ii) In April 2019 and August 2019, MicroPort CardioFlow International Corp. Limited entered into an equity purchase agreement with the existing shareholders of MP CardioFlow to acquire the 100% of the equity interests in MP CardioFlow with a total consideration equivalent to RMB686,012,000.

(iii) In August 2019, the Company issued an aggregated 24,212,383 series B preferred shares at a total consideration of US$68,369,000 (equivalent to RMB480,622,000).

The series B preferred shares are considered as equity instruments because the redemption obligations included in the share purchase agreement are redeemed by SHBVI or other entities controlled by MPSC, while not by the Group.

(iv) As disclosed in note 25, SHBVI sold 2,693,182 ordinary shares of the Company to the 2020 Pre-IPO Investors and these ordinary shares were reclassified and re-designated to series D preferred shares. The difference between (i) the initial carrying amount of series D preferred shares in amount of US$30,000,000 (equivalent to RMB211,709,000) and (ii) the carrying amount of ordinary share capital transferred of RMB2,000 has been debited to the share premium of the Company.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Act of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Company and certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 1(x).

(iii) Capital reserve

The capital reserve primarily comprises the following:

— the fair value of the actual or estimated number of unexercised share options granted to executives and employees of the Group in accordance with the accounting policy adopted for share-based payments in note 1(t)(ii);

— the historical book value of the share capital and share premium of MP CardioFlow when the 100% equity interests of MP CardioFlow were transferred to the Group under the restructuring, less consideration the Group has paid to acquire the 100% equity interests of MP CardioFlow under the restructuring; and

— the liabilities of the Group waived by related parties.

27 Capital and reserves (continued)

(e) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity and redeemable preferred shares recognised as financial liabilities as at the end of each of the reporting period and "debt" as including interest-bearing borrowings and lease liabilities. On this basis, the amount of capital employed at 31 December 2020 was RMB932,878,000 (2019: RMB453,438,000) and the debt-to-capital ratio is 1.7%, (2019: 8.5%).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

28 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are state-owned banks or reputable commercial banks for which the Group considers to have low credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The management has assessed that during the year ended 31 December 2020, trade and other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of each reporting date is adopted by management. The management of the Company expect the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote and loss allowance provision for trade and other receivables was immaterial.

28 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2020 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Trade and other payables	**86,059**	**—**	**—**	**—**	**86,059**	**86,059**
Lease liabilities	**7,380**	**7,526**	**1,925**	**—**	**16,831**	**15,827**
Other financial liabilities	**1,375,362**	**—**	**—**	**—**	**1,375,362**	**1,278,062**
	1,468,801	**7,526**	**1,925**	**—**	**1,478,252**	**1,379,948**

	As at 31 December 2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing borrowings	20,595	—	—	—	20,595	20,000
Trade and other payables	35,115	216	—	—	35,331	35,331
Lease liabilities	7,397	6,301	6,301	—	19,999	18,629
Other financial liabilities	346,128	—	—	—	346,128	321,594
	409,235	6,517	6,301	—	422,053	395,554

28 Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings, loans from/to related parties and redeemable preferred shares. The Group's interest-bearing financial instruments at variable rates as at 31 December 2020 are primarily the cash at bank except for fixed deposits, and the cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. The Group's exposure to interest rate risk is not significant.

The Group's interest rate profile as monitored by management is set out below.

	2020		2019	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Net fixed rate instruments:				
Deposits with banks	**1.75%**	**325**	1.75%	325
Cash at banks	**2.03%**	**406,000**	—	—
Lease liabilities	**5.23% – 5.37%**	**(15,827)**	5.37%	(18,629)
Other financial liabilities	**15.00%**	**(1,278,062)**	15.00%	(321,594)
		(887,564)		(339,898)
Net variable rate instruments:				
Interest-bearing borrowings	**—**	**—**	4.35%	(20,000)
Cash at banks	**0.1% – 0.35%**	**206,474**	0.1% – 0.35%	109,263
		206,474		89,263
		(474,616)		(250,635)

28 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk

The Group is exposed to currency risk primarily from (i) purchases which give rise to payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros and US$. (ii) Cash at bank of the PRC subsidiaries that are denominated in US$, whose functional currency is RMB.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in RMB)			
	2020		2019	
	Euros	**US$**	Euros	US$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and cash equivalents	**—**	**8,901**	—	70,269
Trade and other payables	**(2,859)**	**(1,291)**	(2,576)	(854)
Loans from related parties	**—**	**—**	—	(1,134)
Derivative financial liabilities	**—**	**(13,656)**	—	(11,455)
Net exposure arising from recognised assets and liabilities	**(2,859)**	**(6,046)**	(2,576)	56,826

28 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and accumulative losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and accumulated losses**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses
		RMB'000		RMB'000
Euros (against RMB)	**3%**	**(86)**	3%	(77)
	(3)%	**86**	(3)%	77
US$ (against RMB)	**3%**	**(181)**	3%	1,705
	(3)%	**181**	(3)%	(1,705)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for the years ended 31 December 2020 and 2019.

28 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an external valuer to perform valuations for the financial instruments, including unlisted equity securities, Witney Put Option and Series D Adjustment. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at each reporting date, and is reviewed and approved by the Group's management.

28 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2020	Fair value measurements as at 31 December 2020 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities (note 14)	**49,508**	**—**	**—**	**49,508**
Financial liabilities:				
Derivative financial instruments				
— Series D Adjustment (note 25)	**(60,371)**	**—**	**—**	**(60,371)**
— Witney Put Option (note 24)	**(13,656)**	**—**	**—**	**(13,656)**

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities (note 14)	51,673	—	—	51,673
Financial liability:				
Derivative financial instrument				
— Witney Put Option (note 24)	(11,455)	—	—	(11,455)

(Expressed in Renminbi unless otherwise indicated)

28 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of each of the reporting period in which they occur.

	Valuation techniques	**Significant unobservable inputs**
Series D Adjustment	Equity allocation model	Expected probability of event of 70% (Note a)
Unlisted equity securities	Equity allocation model	Expected probability of event of 50% and expected volatility of 36%, taking into account the historical volatility of the comparable companies (Note b)
Witney Put Option	Black-Scholes model	Expected probability of event of 50% and expected volatility of 40%, taking into account the historical volatility of the comparable companies (Note c)

Note a As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have decrease/increase the Group's loss by RMB757,000/RMB757,000.

Note b As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increase/decrease the Group's loss by RMB1,068,000/RMB1,068,000 and an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's loss by RMB42,000/RMB213,000.

Note c As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 5% would have increased/decreased the Group's loss by RMB1,366,000/RMB1,366,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB1,321,000/RMB1,334,000.

28 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2020 in the balance of these Level 3 fair value measurements are as follows:

	Financial assets	Financial liabilities
	RMB'000	RMB'000
At 1 January 2019	41,275	—
Exchange adjustments	562	—
Additions	7,030	—
Changes in fair value recognised in profit or loss during the year	2,806	(11,455)
At 31 December 2019 and at 1 January 2020	**51,673**	**(11,455)**
Exchange adjustments	**(3,410)**	**3,416**
Changes in fair value recognised in profit or loss during the year	**1,245**	**(65,988)**
At 31 December 2020	**49,508**	**(74,027)**

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 2019.

29 Commitments

Commitments in respect of property, plant and equipment, research and development costs and intangible assets outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020	2019
	RMB'000	RMB'000
Contracted for	**21,324**	1,168
Authorised but not contracted for	**168,228**	—
	189,552	1,168

30 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid individuals as disclosed in note 8, is as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	**3,055**	2,651
Discretionary bonuses	**1,220**	1,220
Equity-settled share-based payment expenses	**5,716**	475
	9,991	4,346

(b) Financing arrangement with related parties

(i) In July 2019, the Group repaid the loans of US$11,100,000 (equivalent to RMB75,432,000) borrowed from MPSC, the ultimate controlling party of the Group.

(ii) In August 2019, MPSC provided a short-term loan of US$3,200,000 to the Group for the purpose of the reorganisation with an interest rate at approximately 4.78% per annum. The loans were repaid to MPSC in November 2019.

(iii) Shanghai MicroPort Medical and its related parties signed Renminbi Cash Pool Management Agreement (the "Agreement") with the Bank of China ("BOC"). According to the Agreement, Shanghai MicroPort Medical and its related parties allow BOC to transfer the balance or overdraft of their respective bank accounts into Shanghai MicroPort Medical designated cash pooling account before the end of each business day, as entrusted loans to or from Shanghai MicroPort Medical. The effective annual interest rates charged on the entrusted loans to or from Shanghai MicroPort Medical was 2%. MP CardioFlow participated in this Agreement in 2016 and borrowed the loan of RMB95,924,000 in total from Shanghai MicroPort Medical in 2019, which have been fully settled in 2019.

(iv) the Group entered into lease contracts in respect of certain leasehold properties from Shanghai MicroPort Medical for its operation. At the commencement date of these leases, the Group recognised right-of-use assets and lease liabilities in amount of RMB560,000 for the year ended 31 December 2020 (2019: RMB6,274,000).

(v) During the year ended 31 December 2020, the finance cost arising from financing arrangements in (i) to (iv) charged to the consolidated profit or loss is RMB546,000 (2019: RMB3,129,000).

30 Material related party transactions (continued)

(c) Other transactions with related parties

Particulars of the Group's other transactions with related parties during the year ended 31 December 2020 are as follows:

Name of party	**Relationship**
MPSC	Ultimate controlling party of the Group
Shanghai MicroPort Medical	Fellow subsidiary of the Group
AccuPath Medtech (Jiaxing) Co., Ltd. ("AccuPath") (脈通醫療科技 (嘉興) 有限公司)	Fellow subsidiary of the Group
Innovational Holding LLC ("MPI")	Fellow subsidiary of the Group
Shanghai Anzhu Medtech Co., Ltd. ("Anzhu") (上海安助醫療科技有限公司)	Fellow subsidiary of the Group
MicroPort Medical B.V. ("MPMBV")	Fellow subsidiary of the Group

	2020 RMB'000	2019 RMB'000
Purchase of goods from Shanghai MicroPort Medical	**40**	7,154
Purchase of goods from AccuPath	**681**	681
Purchase of goods from MPI	**586**	—
Service fee charged by Shanghai MicroPort Medical	**3,547**	11,092
Service fee charged by Anzhu	**630**	298
Service fee charged by MPMBV	**37**	—
Short-term operating lease charges by Shanghai MicroPort Medical	**124**	—
Payment on behalf of the Group by MPSC	**8**	—
Guarantee issued by Shanghai MicroPort Medical in respect of the Group's bank loans	**—**	70,000

31 Company-level statement of financial position

	Note	2020 RMB'000	2019 RMB'000
Non-current asset			
Investment in a subsidiary		**1,162,996**	538,475
Current assets			
Other receivables		**3,260**	—
Cash and cash equivalents		**19,258**	699
		22,518	699
Current liabilities			
Other payables		**44,435**	—
Derivative financial liabilities	25	**60,371**	—
Other financial liabilities	25	**1,278,062**	321,594
		1,382,868	321,594
Net current liabilities		**(1,360,350)**	(320,895)
Total assets less current liabilities		**(197,354)**	217,580
NET (LIABILITIES)/ASSETS		**(197,354)**	217,580
CAPITAL AND RESERVES	27		
Share capital		**60**	62
Reserves		**(197,414)**	217,518
TOTAL (DEFICIT)/EQUITY		**(197,354)**	217,580

32 Immediate and ultimate controlling parties

As at 31 December 2020, the directors consider the immediate parent to be Shanghai MicroPort Limited, which is incorporated in British Virgin Islands and does not produce financial statements available for public use.

As at 31 December 2020, the directors consider the ultimate controlling party is MicroPort Scientific Corporation, which is incorporated in Cayman Islands. MicroPort Scientific Corporation is listed on the Main Board of The Stock Exchange of Hong Kong Limited and produces financial statements available for public use.

33 Non-adjusting events after the reporting period

(i) On 15 January 2020, a share subdivision was approved by the shareholders of the Company, pursuant to which, each issued and unissued share capital was subdivided to twenty shares of the corresponding class with par value US$0.000005 each. Consequently, the issued share capital of the Company consisted of (i) 1,211,888,700 ordinary shares, (ii) 484,247,660 series B preferred shares, (iii) 225,000,000 series C preferred shares, and (iv) 239,410,660 series D preferred shares.

(ii) On 4 February 2021, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"). Upon the completion of the Listing, (i) all preferred shares issued by the company were converted into the ordinary shares of the company; (ii) the Company issued 205,620,000 ordinary shares at the price of HK$12.2 per share and received the gross proceeds of HK$2,508.6 million.

(iii) On 5 February 2021, the over-allotment options in connection with the Listing were exercised by the underwriters of the Company, pursuant to which, an aggregate of 30,843,000 additional ordinary shares of the Company were issued at HK$12.2 per share on 10 February 2021.

(Expressed in Renminbi unless otherwise indicated)

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2020 and which have not been adopted in the Underlying Financial Statements. These include the following:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform — Phase 2*	1 January 2021
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous contracts — cost of fulfilling a contract*	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2022
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.


MicroPort
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