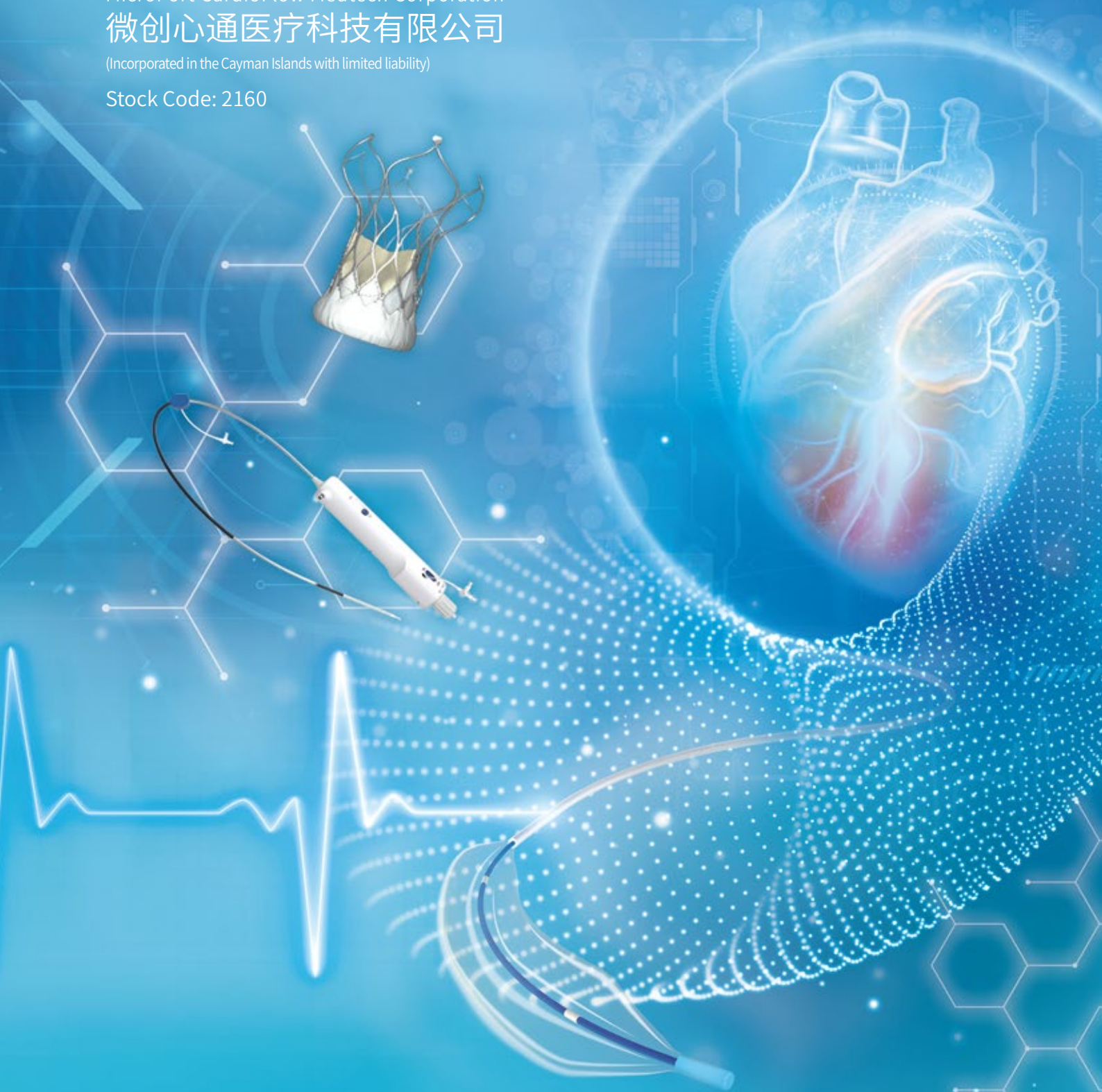
MicroPort 心通医疗

MicroPort CardioFlow Medtech Corporation

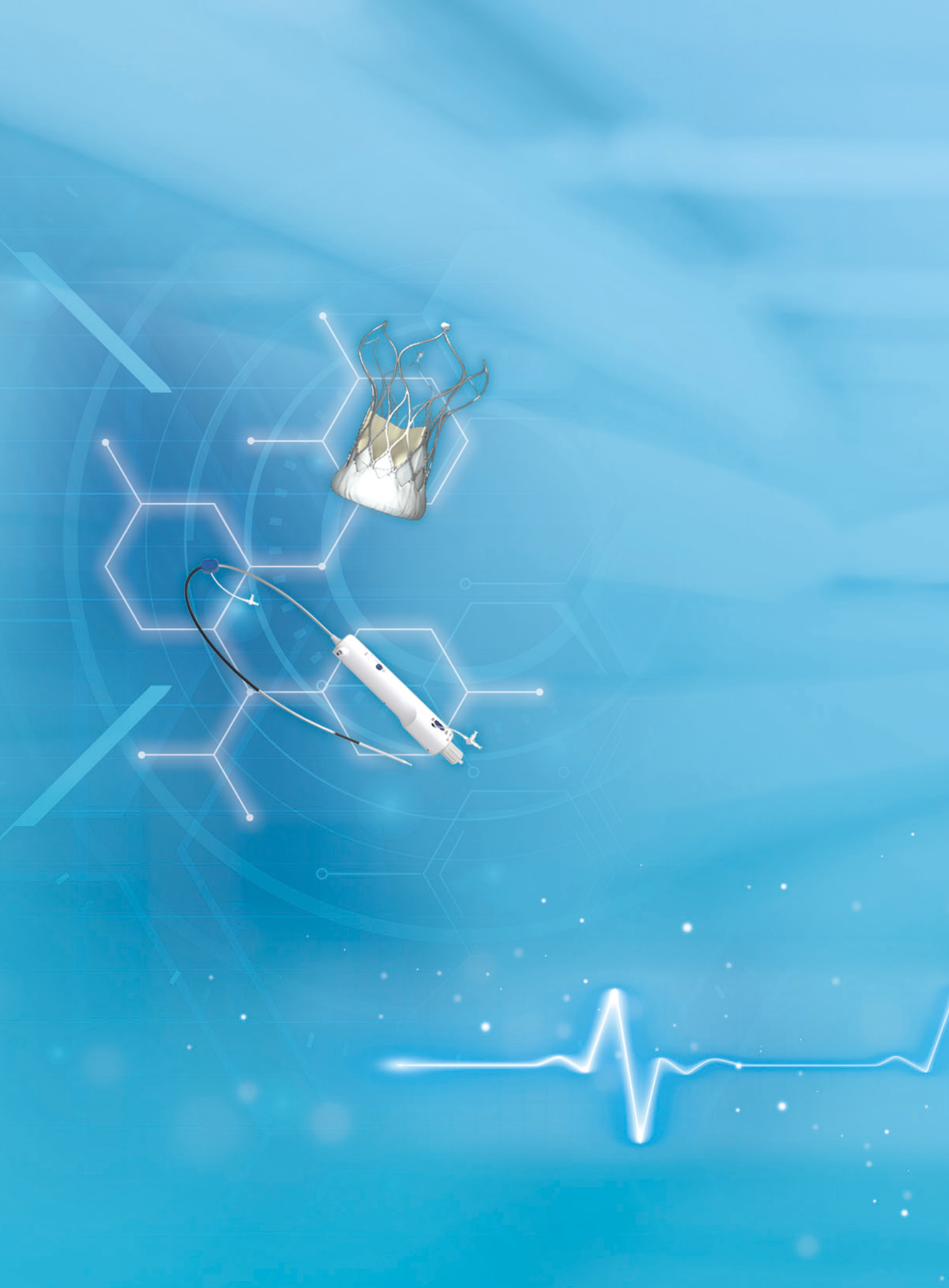
微创心通医疗科技有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2160



2021 Annual Report



CONTENTS

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

"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
"AGM"	the annual general meeting to be held on Wednesday, June 22, 2022 at 10:00 a.m. at No. 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai, China or any adjournment thereof
"Alwide® Plus"	Alwide® Plus balloon catheter
"aortic valve"	the valve that prevents blood flowing back from aorta to left ventricle
"Articles of Association" or "Articles"	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
"Auditor's Report"	the auditor's report prepared by KPMG
"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
"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
"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
"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$"	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 commenced 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
"Milford Haven"	Milford Haven Global Limited, a limited liability company incorporated in the British Virgin Islands and a wholly-owned subsidiary of MicroPort
"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
"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
"Pingzhi Partnership"	Shanghai Pingzhi Enterprise Management Consulting Center (Limited Partnership) (上海屏至企業管理諮詢中心（有限合夥）), a limited partnership established in the PRC
"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 surgical aortic valve replacement
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of our Company
"Renminbi" or "RMB"	the lawful currency of the PRC
"Reporting Period"	the year ended December 31, 2021

"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
"Shanghai Shield"	Shanghai MicroPort Shield Medtech Co., Ltd. (上海微盾醫療科技有限公司)
"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 Award Scheme"	the share award scheme adopted by our Company on March 30, 2021, as amended from time to time
"Share Option Scheme"	the share option scheme adopted by our Company on March 13, 2020, as amended from time to time
"SMOs"	site management organizations, which provide 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
"TTVR"	transcatheter tricuspid valve repair, a catheter-based technique to implant a new tricuspid valve in an interventional procedure that does not involve open-chest surgery
"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)" or "US$"	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 Liberty™"	unless the context indicates otherwise, "VitaFlow Liberty™" refers to the VitaFlow Liberty™ transcatheter aortic valve implantation system, which comprises of a PAV, a motorized delivery system and the tip-preshaped super stiff guidewire Angelguide®

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
Ms. Sun Zhixiang
Dr. Ding Jiandong *(appointed on August 27, 2021)*
Dr. Jiang Hualiang *(resigned on August 27, 2021)*

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. Ding Jiandong *(appointed on August 27, 2021)*
Dr. Jiang Hualiang *(resigned on August 27, 2021)*

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Dr. Luo Qiyi *(Chairman)*
Ms. Sun Zhixiang
Dr. Ding Jiandong *(appointed on August 27, 2021)*
Dr. Jiang Hualiang *(resigned on August 27, 2021)*

REGISTERED OFFICE

Tricor Services (Cayman Islands) Limited
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 BANKS

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

COMPANY PROFILE

OVERVIEW

We are a medical device company in China focusing on the R&D and commercialization of innovative transcatheter and surgical solutions for structural heart diseases. Our mission is to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases through continuous innovation. Deeply rooted in the vast, rapid-growing and substantially underpenetrated structural heart diseases medical device market, our product portfolio consists of three in-house developed and commercialized products — VitaFlow®, VitaFlow Liberty™ (including the procedural accessories as their offerings), and Alwide® Plus, and various TAVI products, TMV products, TTV products, surgical valve products and procedural accessories at different development stage.

OUR MISSION

Our mission is to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases.

Our Vision

Our vision is to build a people centric enterprise ranking as a global leader of evolving and emerging medical technologies.

OUR PIPELINE

We have established a comprehensive and innovative product pipeline covering TAVI products, TMV products, TTV products, surgical valve products and procedural accessories, and are dedicated to providing total solutions to physicians and patients for the treatment of structural heart diseases.

CHAIRMAN'S STATEMENT

Dr. Luo Qiyi
Chairman

In 2021, despite the continued impact of the COVID-19 pandemic, transcatheter aortic heart valve implantation has been developing rapidly in China. With the constantly increasing recognition and education of physicians and patients, the number of TAVI procedures in 2021 increased by 100% compared with 2020, showing an explosive growth. Meanwhile, the world has made important progress in numerous technical aspects in the interventional treatment of other structural heart diseases such as mitral valve and tricuspid valve. Going forward, with the accelerating aging population, growing health awareness of people, deepening education of physicians and patients, enlarging reimbursement coverage of government medical insurance and increasing affordability of patients, the demand for treatment of structural heart diseases will be further released and the scope of clinical applications will be further expanded.

Our mission is to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases through continuous innovation. In 2021, leveraging on the continuous increase in sales of VitaFlow® and the rapid penetration of the second-generation product VitaFlow Liberty™ since its launch, a total sales revenue of RMB 200.8 million is recorded, representing a year-on-year growth of 93.2%, maintaining constant rapid growth in revenue. In 2021, by leveraging on unique product design and excellent clinical performance through the strong combination of the two commercialized products VitaFlow® and VitaFlow Liberty™ including the procedural accessories as their offerings, as well as the continuous business expansion of the Total Solutions team, the coverage of domestic hospitals has been further expanded. The market share of the Group has also increased significantly.

As of 31 December 2021, TAVI procedures using VitaFlow® and VitaFlow Liberty™ had been performed at over 300 hospitals in China, most of which were Class IIIA hospitals located in tier-one and tier-two cities, and we have successfully established a leading market share in over 180 of these hospitals. Leveraging on the resources and advantages of the MicroPort® Group in the field of cardiac and cardiovascular diseases, we are committed to providing physicians and patients with structural heart diseases comprehensive medical solutions, including disease diagnosis and evaluation, surgery and product education, suggestions on treatment, training on surgery and use of devices, recommendation on procedural accessories, assistance during operation and postoperative follow-up. As of the end of the Reporting Period, our Total Solutions team has expanded to 130 employees. In terms of overseas market expansion, since VitaFlow® successfully completed its first overseas commercial implantation in Argentina, 6 hospitals have performed TAVI procedures using VitaFlow®. The second-generation product, VitaFlow Liberty™, was successfully registered in Argentina and applied for CE registration, which further promoted the

Group's globalisation strategy. In the future, with the advancement of overseas clinical registration of products and leveraging on the global visibility of the MicroPort® brand and overseas sales network, we will further expand our overseas business coverage and benefit more patients around the world.

In terms of R&D, we continue to optimise our product pipeline. In addition to the commercialised TAVI products, we also continue to promote the development of several TAVI products, namely TMV products, TTV products, surgical valve products and procedural accessory products which are at different stages of development. We are strategically committed to providing a comprehensive medical solution for structural heart diseases. Meanwhile, we continue to strengthen our relations with global strategic partners and work together to develop, collaborate and license new TMV and TTV products. We have been profoundly involved in the field of structural heart diseases with higher standards and better practice, continue to be committed to innovation and R&D of world-leading technologies, to create a technological innovation system integrating production, education and research, and to provide high-quality products and services to the global market, which will give the strongest driving force for the sustainable development of the Company.

In terms of production and operation, the Company has been actively expanding its production capacity to meet the growing demand for product supply. The Company has also achieved significant progress in reducing cost and increasing efficiency, resulting in a huge increase of 15.4 percentage points to 59.1% in the gross profit margin of our products.

In 2021, the Group was awarded the title of the third batch of national "Little Giant" enterprises with the feature of specialisation, refinement, uniqueness and innovation (國家專精特新「小巨人」資質) and the first prize of 2021 Shanghai Key Product Quality Research Achievement Award. As of the date of this Report, VitaFlow Liberty™ has received 2022 Red Dot Design Award: Product Design in Germany (德國紅點產品設計大獎), proving the Group's innovation capability, advanced technology and industry position has been widely recognised by the society.

In the new year, we will, as always, continue to expand our business coverage, accelerate R&D and innovation, advance international strategies, focus on reducing costs and increasing efficiency, and consolidate corporate governance. We devote to the world's leading provider for total solutions to treat structural heart diseases, and bring the world's cutting edge structural heart diseases treatment products and technologies to more countries and benefit more patients.

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

A summary of the results and of the assets and liabilities of the Group for the last four* 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,			
	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**200,813**	103,934	21,502	—
Gross profit	**118,701**	45,380	6,302	—
Loss before taxation	**(182,651)**	(398,087)	(144,522)	(60,263)
Loss for the year and attribute to equity shareholders of the Company	**(183,264)**	(398,087)	(144,522)	(60,263)
Loss per share — Basic and diluted (in RMB)	**(0.08)**	(0.23)	(0.08)	(0.04)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,			
	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**762,193**	392,213	362,171	324,784
Current assets	**2,599,799**	719,968	183,729	77,346
Total assets	**3,361,992**	1,112,181	545,900	402,130
Non-current liabilities	**101,084**	25,671	26,315	13,539
Current liabilities	**164,434**	1,431,694	387,741	115,212
Total liabilities	**265,518**	1,457,365	414,056	128,751
Total equity/(deficit)	**3,096,474**	(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.

BUSINESS REVIEW

Overview

We are a medical device company in China focusing on the R&D and commercialization of innovative transcatheter and surgical solutions for structural heart diseases. Our mission is to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases through continuous innovation. Deeply rooted in the vast, rapid-growing and substantially underpenetrated structural heart diseases medical device market, our product portfolio consists of three in-house developed and commercialized products — VitaFlow®, VitaFlow Liberty™ (including the procedural accessories as their offerings), and Alwide® Plus, and various TAVI products, TMV products, TTV products, surgical valve products and procedural accessories at different development stage.

In 2021, as various new technologies and new products for structural heart diseases have sprung up, there has been a growing awareness of these diseases among physicians and patients in China, along with an increasing number of qualified physicians and hospitals, indicating that China has ushered in a rapid development stage of interventional therapy for structural heart diseases. Going forward, with the growing awareness of structural heart diseases, accelerating aging population, increasing expertise among physicians and growing awareness among patients, enlarging reimbursement coverage of government medical insurance and increasing affordability of patients, the demand for treatment of structural heart diseases will be further released and the scope of clinical applications will be further expanded.

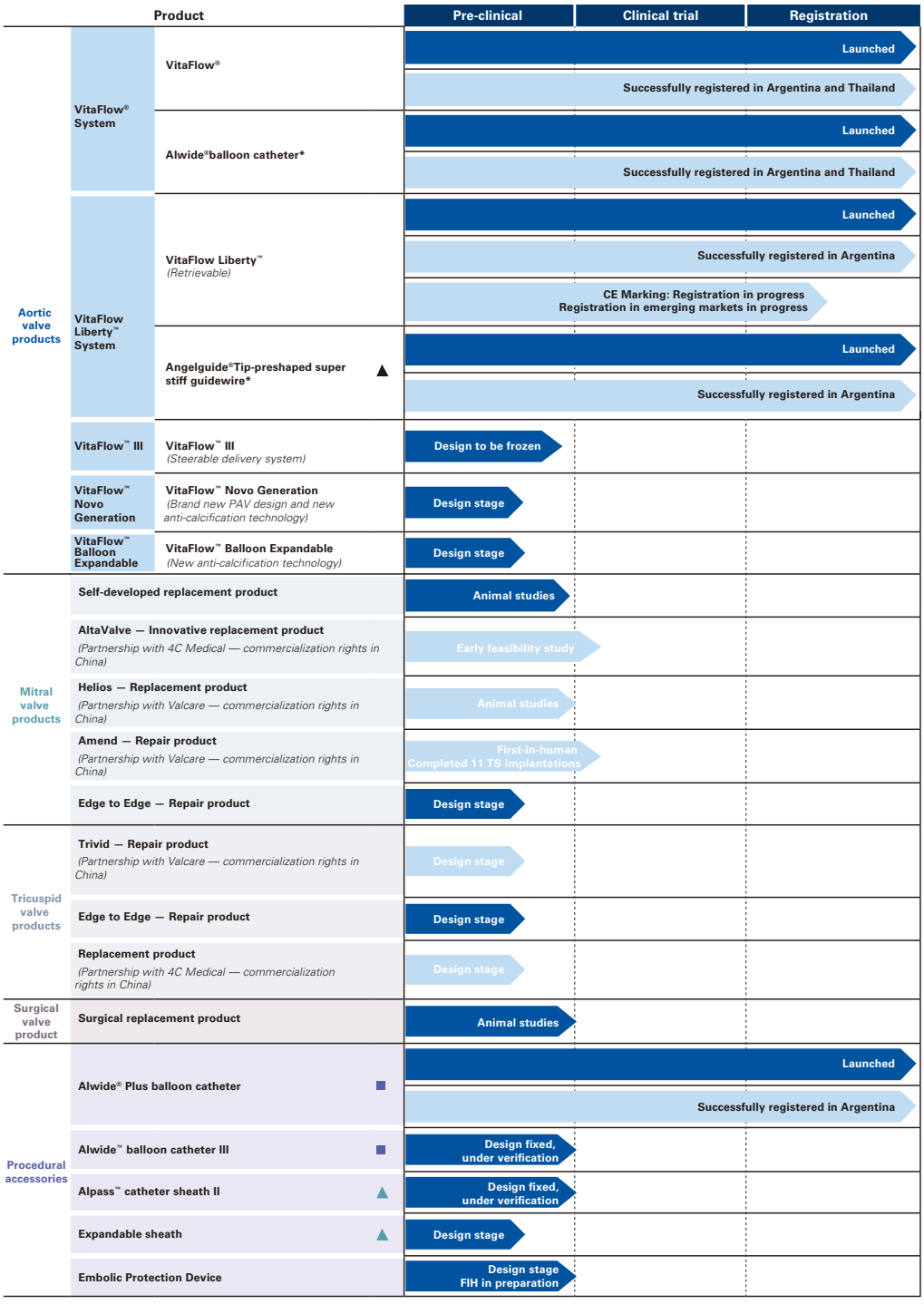
In 2021, the Group achieved sustained and rapid growth in revenue, mainly due to the rapid growth in sales volume of VitaFlow®, as well as the rapid market penetration of VitaFlow Liberty™, since its launching. Relying on the product portfolio featured with unique product design and excellent clinical performance, and thanks to the continuous efforts of our marketing and sales team, our hospital coverage has been further expanded, and we have captured a leading market share in certain provinces and cities and many core hospitals in China, resulting in a significantly increased market share in China. Meanwhile, the Group has formulated a strategic R&D roadmap covering TAVI products, TMV products, TTV products, surgical valve products and procedural accessories, which have been carried out in an efficient and orderly manner, providing continuous momentum for the Group's rapid and healthy development. In addition, during the Reporting Period, we have achieved continuous commercial implantations for VitaFlow® in Argentina, submitted VitaFlow Liberty™ for CE Mark registration and obtained the registration of VitaFlow Liberty™ in Argentina, thus further propelling our progress towards globalization. With the advancement of overseas clinical registration of products, leveraging on the global visibility of the "MicroPort®" brand and the existing sales network of the MicroPort® Group, we will continue to extend our overseas business footprints and lay a solid foundation for the realization of a global business roadmap.

Our Pipeline

Our in-house developed product portfolio consists of three commercialized TAVI products — VitaFlow®, VitaFlow Liberty™ (including the procedural accessories as their offerings), and Alwide® Plus, and various TAVI products, TMV products, TTV products, surgical valve products and procedural accessories at different development stages.

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 comprises of the products that we developed in house and collaborate with our business partners as of the date of this annual report:



China status Global status

■ 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 Exempted 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 offered as part of VitaFlow® or VitaFlow Liberty™ system and are not registered as standalone product

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 accessory is our first-generation Alwide® balloon catheter, which is 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. In 2021, we obtained the 60 months follow-up results of the clinical trial which showed the all-cause mortality rate was 18.2%, and the rate of major stroke was only 2.1%.

We started to commercialize VitaFlow® in China in August 2019. In July 2020 and November 2020, VitaFlow® was registered in Argentina and Thailand, respectively. In August 2021, VitaFlow® started to achieve commercial implantation in Argentina.

VitaFlow Liberty™

VitaFlow Liberty™ is our second-generation TAVI product. VitaFlow Liberty™ consists of a PAV, a motorized delivery system and a tip-preshaped super stiff guidewire Angelguide®. The PAV adopts the same design with VitaFlow®. Compared with VitaFlow®, the key upgrade lies in the unique and innovative structure of the delivery system, that guarantees retrieval of the PAV and provides optimized pass performance, which help to pass the anatomical abnormalities. It is equipped with the only commercialized motorized handle worldwide, enabling deployment and retrieval of the PAV being conducted in a stable, accurate and fast manner. A physician may retrieve the PAV for three times if it is not placed accurately at the designated position during deployment of the PAV, provided that 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. In addition, Angelguide® features high guidewire rail support and smooth transition in order to reduce the risk of vascular damage and enhance the accuracy of deployment.

In August 2021, VitaFlow Liberty™ obtained the NMPA approval for registration and started to commercialize in China in September 2021. In December 2021, VitaFlow Liberty™ was registered in Argentina and submitted its registration application of CE Mark. We are also in the process of registration application or preparation for VitaFlow Liberty™ in other emerging markets that recognize the NMPA marketing approval, such as Brazil, Colombia, Mexico, Thailand, and South Korea, etc. We also plan to apply for the registration of VitaFlow Liberty™ in other regions and countries that recognize the CE Mark after obtaining the CE Mark.

Third-Generation TAVI Product

Our third-generation TAVI product, which is currently in the design phase, inherits all the advantages of VitaFlow Liberty™. Its delivery system will feature with adjustable bending function designed to help physicians increase the accuracy of positioning, and the profile will be further reduced. The third-generation TAVI product will provide physicians with excellent user-friendly experience, further improving surgical efficiency, releasing fault tolerance, increasing precision and accuracy. We have completed the design optimization of several improvement points so far.

We may not be able to successfully develop and commercialize the third-generation TAVI product.

Novo Generation TAVI Product

We are designing a novo generation TAVI product that is completely different from the VitaFlow® series products. This product adopts a short stent, equips with technical features such as strong support force, dry valve, equal diameter release, adjustable bending, low profile and full retrieval. It will focus on safety, efficacy and usability upgrade, providing physicians and patients with unprecedented revolutionary products. We are currently conducting in vivo validation in animal experiments to optimize our design.

We may not be able to successfully develop and commercialize the new generation TAVI product.

TAVI Balloon Expandable Product

We are designing a TAVI product for the treatment of aortic stenosis with balloon dilatation using short stent, straight tube, dry valve and steerable technology. We are currently conducting in vivo validation in animal experiments to optimize our design.

We may not be able to successfully develop and commercialize TAVI balloon expandable product.

Transcatheter Mitral Valve Replacement ("TMVR") Products

We are designing and developing transseptal and transapical TMVR products for the treatment of patients with mitral regurgitation, and we are currently advancing in-human clinical trials of our TMVR product candidates. The product is featured with self-expanding, low subvalvular height and dry valve technology.

We may not be able to successfully develop and commercialize TMVR products.

Transcatheter Mitral Valve Repair ("TMVr") Products

We are designing mitral valve repair products for the treatment of patients with mitral regurgitation. We are currently advancing long-term in vivo animal validation in the design development phase.

We may not be able to successfully develop and commercialize TMVr products.

Surgical Valve

We are designing surgical biological valve products for the treatment of patients undergoing prosthetic mitral and aortic valve replacements. We are currently advancing long-term in vivo animal validation in the design development phase.

We may not be able to successfully develop and commercialize surgical valve products.

Research and Development

R&D is crucial to our growth. We have been practicing our mission "to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases", deeply involved in the field of structural heart diseases with higher standards and better practices, continued to be committed to innovation and world-leading R&D of structural heart diseases treatment technology, to create a technological innovation system integrating production, education and research, to provide high-quality products and services for the global market, and to provide the most powerful driving force for the Company's sustainable development.

We have built a core R&D team with key technology expertise in areas including, among others, biological material, structure design and processing technique, currently comprised of over 80 staff. The team constantly focuses on the R&D of new technology and materials related to the group that has the potential to be applied to our product portfolio. For the development of new products, we have established several cross-functional project teams which contain personnel from project management, R&D, process, procurement, quality, registration, clinical trial, to work toward development of new products through professional work of each function and cooperation of all parties. 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 structural heart diseases worldwide.

Intellectual Properties

As of December 31, 2021, we owned 106 patents in China, including 25 invention patents, 74 utility models and seven industry designs. As of the same date, we also had 122 pending patent applications in China, including 100 invention patents, 21 utility models and one industry design. To facilitate our strategy to enter overseas markets, we also owned 79 patents in Japan, Switzerland, Portugal, United Kingdom, Italy, Germany, France, Spain, America, South Korea, Australia and Brazil, among others. All of the patents that we owned or applied for are related to technologies of our products or product candidates and are self-developed by our in-house R&D team.

Supply Chain

We have 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. Our production facilities and equipment are in compliance with U.S., European and Chinese GMP regulations and adhere to strict production quality control standards. In August 2021, VitaFlow Liberty™ was approved by the NMPA for registration, and we achieved mass production and delivery of VitaFlow Liberty™ within the month of approval, realizing the seamless connection to the demand of end users.

Meanwhile, 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 expected to commence production in 2022, in order to support the rapid development of our future operation. When the new manufacturing facility commences operation, it will help us rapidly expand our production capacity, while also accelerate our pace of automated production and achieve our smart manufacturing strategies, laying a solid foundation for product supply assurance, cost reduction and efficiency enhancement.

In face of the continuous spread of COVID-19 pandemic and the rising price of bulk commodities over the past two years, through close communication and collaboration with global suppliers based on the concept of win-win cooperation, we have been reducing our purchase price while maintaining a stable supply of raw materials. On the manufacturing side, we have established an advanced quality control system and further introduced the concept of lean manufacturing. We continue to strengthen the construction of our lean system, which bring positive impact to generate substantial increase in the gross profit margin of our products.

Commercialization

We have established a dedicated in-house team with professional medical background to promote our medical solutions. Led by Mr. Zhao Liang, First Vice President of Total Solutions, the team aims to promote the Group's innovative transcatheter and surgical solutions for structural heart diseases. Leveraging on the resources and advantages of MicroPort® group in the field of cardiac and cardiovascular disease treatment, which brings the synergies in the aspects of market access, operation support, first-line promotion, market expansion, medical education, international business, amongst others, into full play, the team is committed to providing structural heart diseases patients and physicians with comprehensive medical solutions including disease diagnosis and evaluation, surgery and product education, suggestions on treatment, training on surgery and use of devices, recommendation on procedural accessories, assistance during operation and postoperative follow-up. As of the end of the Reporting Period, our Total Solutions team had more than 130 full-time employees.

We sell our products to hospitals through distributors and ultimately use them to treat our patients. We select distributors with extensive experience and resources in selling medical devices across the country for cooperation, they will be provided with professional training and assessed strictly, and continue to build their all-round capabilities in marketing, sales and support during operation, making them to become a powerful support to our Total Solutions team.

By the end of the Reporting Period, we had commercialized VitaFlow® and VitaFlow Liberty™ in China, and VitaFlow® in Argentina. We focus on penetrating into core TAVI hospitals as a key of our market strategies. As of the date of this annual report, there are more than 300 hospitals in China using VitaFlow® and VitaFlow Liberty™ for TAVI procedures, most of which are Class IIIA Hospitals located at tier-one and tier-two cities. Among these hospitals, we have successfully captured a leading market share in more than 180 hospitals among them. As of the same date, six hospitals in Argentina performed TAVI procedures using VitaFlow®.

We actively participate in domestic and international medical conferences and industry exhibitions in the cardiac or cardiovascular fields. These activities provide us with great opportunities to introduce VitaFlow® and VitaFlow Liberty™ to physicians, especially to get them familiarized with our unique designs and competitive advantages such as the bovine pericardium leaflets, the double-layer PET skirt and the motorized delivery system and to enhance our brand recognition globally. During the Reporting Period, we continued to jointly organize the "VitaFlow® Elite Competition" with Youth club of Asia Pacific Structural Heart Disease to encourage more physicians to independently perform TAVI procedures using VitaFlow®.

We also have a medical training team under our Total Solutions team, which are all comprised of licensed physicians, through the organization of seminars and training courses in hospitals qualified to perform TAVI surgery in China, to help training physicians who lack TAVI experience to become qualified TAVI operators. We also invite experienced TAVI practitioners, especially leading physicians in this area, to participate in the training process, aiming to increase the number of qualified TAVI practitioners and contribute to the accelerated growth of the Chinese market.

In 2021, we vigorously promote the screening of grass-roots patients, and continue to increase the penetration rate of TAVI procedures in China by educating physicians and patients in grass-roots hospitals and helping more TAVI patients to receive diagnosis and treatment.

Significant Investments, Material Acquisitions and Disposals during the Reporting Period

On May 24, 2021, MP CardioFlow entered into a joint venture agreement with Milford Haven and Pingzhi Partnership in relation to the proposed formation of the joint venture, Shanghai Shield. The total registered share capital of the Shanghai Shield is RMB50.0 million, of which Milford Haven made a capital contribution of RMB25.0 million, MP CardioFlow made a capital contribution of RMB17.5 million and Pingzhi Partnership made a capital contribution of RMB7.5 million accounting for 50%, 35% and 15% of the total registered share capital of the Shanghai Shield respectively. Please refer to the announcement of the Company dated May 24, 2021 for details.

Pursuant to the series C preferred stock purchase agreement (the "**Stock Purchase Agreement**") dated November 4, 2021 entered into among 4C Medical, the Company and other co-investors, the Company has agreed to, subject to the terms and conditions of the Stock Purchase Agreement, make a follow-on investment of up to US$25.0 million in 4C Medical (the "**Follow-on Investment**"). As a material inducement of the Follow-on Investment, 4C Medical also agreed to, among others, grant the Company the exclusive commercial rights for 4C Medical's pre-clinical stage tricuspid product in mainland China, Hong Kong, Macau and Taiwan. Please refer to the announcement of the Company dated November 5, 2021 for details.

Save as disclosed above, the Company had no other significant investments, material acquisitions and/or disposals of subsidiaries, associates and/or joint ventures during the Reporting Period.

Events after the Reporting Period

Alwide® Plus, the second-generation product of the Company's Alwide® balloon catheter independently developed by the Company, was successfully registered in Argentina. Please refer to the announcement of the Company dated March 7, 2022 for details.

The extraordinary general meeting of the Company held on March 17, 2022 has approved an amendment of increasing the existing scheme mandate limit of the Share Option Scheme. Please refer to the circular of the Company dated February 28, 2022 for details.

Save as disclosed above, 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

We are of the view that the effect of the COVID-19 pandemic on our business was relatively limited in year 2021, considering that:

- The COVID-19 pandemic did not have a material effect on the registration of VitaFlow Liberty™. VitaFlow Liberty™ obtained the NMPA approval in August 2021, completed the registration application of CE Mark and was also successfully registered in Argentina in December 2021.

- The COVID-19 pandemic did not have a material effect on our manufacturing activities. In 2021, no working hour was lost in production due to COVID-19 pandemic and our production capacity was sufficient to meet the continuous and growing demands of 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. We had not experienced any shortage of raw materials that had a material and adverse impact on our operations in 2021. 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 we had arranged telephone follow-up interviews for all the patients enrolled and onsite follow-up inspections for substantially all the patients.

- 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.

However, the continued uncertainty in the development of global pandemic and the emergence of different variants of COVID-19 virus may have potential negative impact on the Group's business. The Group has implemented comprehensive measures to minimize impact of the COVID-19 pandemic to our business operations, including but not limited to implementing risk management measures, adjusting our research plans and status of clinical trials, providing alternative methods for safety and efficacy assessment and engaging in online meetings with all parties participating in clinical trial and registration work to track progress and identify any issues that may arise. The Group will continue to monitor the pandemic situation and react actively to such impact.

Employees and Remuneration

As of December 31, 2021, the Group had a total of 451 full time employees (2020: 305 employees), of which 20% were R&D staff and 28% were marketing and sales staff. We entered into employment contracts with employees in accordance with Labor Contract Law of the PRC, and agree on matters such as tenure, scope of work and work location, labor remuneration, working hours, labor protection, insurance benefits, confidentiality and intellectual property rights.

We provide employees with competitive remuneration, including wages, allowances, bonuses, statutory benefits (pension insurance, medical insurance, labor injury insurance, unemployment insurance, maternity insurance and housing provident fund), company supplementary benefits (supplementary medical insurance, commercial insurance, various holidays and employee care), and long-term incentives.

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 believe that with the positive clinical trial results of VitaFlow® and VitaFlow Liberty™, we will have an advantage in the TAVI leading hospitals in China. We will continue to recruit more sales and marketing personnel with experience in or knowledge of structural heart diseases and expand our distributor network to cover other hospitals that has either existing TAVI capabilities or the potential to perform TAVI procedures to further increase the penetrate rate in hospitals.

- **Further advance development of next-generation products.** We will rapidly advance the R&D of the third-generation self-expanding TAVI product, the novo generation TAVI product and the 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 cardiac 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 cardiac surgery will enable us to gain advantages to promote our products in the cardiac surgery department.

- **Conduct long-term postoperative follow-ups and market surveillance.** We will continue to conduct postoperative follow-up evaluations post-TAVI procedure, as well as post-marketing prospective, multi-center clinical trial for treating severe aortic regurgitation, to further monitor the long-term safety and efficacy of VitaFlow®, and to provide evidence and support for the use of TAVI on patient with sole aortic regurgitation. 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 plan to collaborate with global enablers, including medical device companies, research institutes, hospitals and distributors, to advance our international strategy. We have submitted CE Mark registration application for VitaFlow Liberty™, and selected Europe and other emerging markets as key overseas markets, promoted the overseas registration and commercialization of VitaFlow Liberty™, leveraged on the global recognition of the "MicroPort®" brand and the existing sales network of the MicroPort® Group, to advance the overseas coverage of our products.

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 products to enhance our brand awareness globally.

Rapidly advance our TMV pipeline and other product candidates

Capitalizing our market position and extensive know-how in structural heart diseases, we will continue our focus on the development of other pipeline products to expand our product portfolio, including TMV pipeline products, TTV pipeline products, surgical valve products and next-generation procedural accessories designated to strengthen our position in structural heart diseases medical device market.

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

We will search for products and technologies with great clinical potential based on our deep and unique understanding and investigation of structural heart diseases, explore opportunities for cooperation with third parties and conduct prudent evaluation, in order to expand product portfolios through acquisitions, cooperation or licensing.

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

Going forward, we will continue to strengthen the construction of the talent system and implement full life cycle management of interventional devices in the planning and pre-research stage of new products by preposition of supply chain to accelerate the development process of new products through close cooperation with the R&D team, to give more outputs in design for assembly and design for manufacturability during product design, to ensure the smooth transition between new product R&D and mass production, to further improve our product quality and production efficiency, and to continuously lower our manufacturing costs.

FINANCIAL REVIEW

Overview

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, our revenue was mainly generated from the sales of our commercialized products, VitaFlow® and VitaFlow Liberty™.

For the year ended December 31, 2021, the Group's revenue significantly increased by 93.2% from RMB103.9 million for the year ended December 31, 2020 to RMB200.8 million in 2021, primarily attributable to the enhanced market recognition of VitaFlow® and the commercialization of VitaFlow Liberty™ since its launch in September 2021.

Cost of Sales

During the Reporting Period, our cost of sales was mainly related to the manufacturing of VitaFlow® and VitaFlow Liberty™. Our cost of sales increased by 40.1% from RMB58.6 million for the year ended December 31, 2020 to RMB82.1 million for the year ended December 31, 2021, primarily because of the increase of raw materials costs, staff costs and overhead expenses as a result of the increase in sales volumes of VitaFlow® and VitaFlow Liberty™.

Gross Profit and Gross Profit Margin

Our gross profit increased by 161.5% from RMB45.4 million for the year ended December 31, 2020 to RMB118.7 million for the year ended December 31, 2021, and the gross profit margin increased by 15.4 percent points from 43.7% for the year ended December 31, 2020 to 59.1% for the year ended December 31, 2021, primarily due to our cost saving strategies for our raw materials and the economies of scale we achieved in line with our business growth.

Other Net Income

For the year ended December 31, 2021, we recorded RMB23.9 million in other net income, compared to RMB14.3 million for the year ended December 31, 2020, primarily due to an increase of interest income on bank deposits.

Research and Development Costs

Our R&D costs increased by 56.1% from RMB96.8 million for the year ended December 31, 2020 to RMB151.1 million for the year ended December 31, 2021, primarily due to (i) an increase of RMB13.3 million in staff cost; (ii) an increase of RMB12.9 million in third-party contracting costs; and (iii) an increase of RMB20.5 million on cost of materials and consumables used, all of which were related to our continuous efforts to invest on the new and on-going R&D projects. The following table provides information regarding the breakdown of the R&D costs of the Company for the years indicated:

	For the year ended December 31,	
	2021	2020
	(RMB in thousands)	
Staff costs	**33,509**	20,176
Depreciation and amortization	**26,216**	16,902
Third-party contracting costs	**36,357**	23,455
Share-based compensation expenses	**11,495**	12,042
Cost of materials and consumables used	**38,936**	18,451
Others	**4,619**	5,814
Total	**151,132**	96,840

Distribution Costs

Our distribution costs increased by 126.5% from RMB51.4 million for the year ended December 31, 2020 to RMB116.4 million for the year ended December 31, 2021, primarily due to (i) an increase in market development expenses, as we increased our sales and marketing activities during the Reporting Period to promote VitaFlow® and VitaFlow Liberty™; and (ii) an increase in staff costs to support our sales and marketing activities.

Administrative Expenses

Our administrative expenses decreased by 21.7% from RMB45.2 million for the year ended December 31, 2020 to RMB35.4 million for the year ended December 31, 2021, primarily due to the decrease of the share-based compensation expenses due to the Share Option Scheme.

Fair Value Changes in Financial Instruments

The fair value gains in financial instruments was RMB23.4 million for the year ended December 31, 2021, which mainly arose from (i) the gains from the increase in fair value of our investment in 4C Medical; and (ii) the fair value gains from the decrease in derivative financial liabilities on the valuation of the put option granted to Witney Global Limited (the "**Witney Put Option**").

Other Operating Costs

Our other operating costs decreased from RMB54.0 million for the year ended December 31, 2020 to RMB22.3 million for the year ended December 31, 2021. This decrease was primarily due to the decrease in listing expenses in relation to the Global Offering, and partially offset by an increase in donations.

Finance Costs

Our finance costs decreased from RMB146.3 million for the year ended December 31, 2020 to RMB19.9 million for the year ended December 31, 2021. This decrease was primarily attributable to the decrease of interest expenses on other financial liabilities due to the conversion of series C preferred shares and series D preferred shares into ordinary Shares of the Company upon the completion of the Global Offering.

Share of losses of associates

Our share of losses of associates increased from nil for the year ended December 31, 2020 to RMB3.5 million for the year ended December 31, 2021, which was primarily attributable to the losses incurred by 4C Medical and Shanghai Shield.

Inventories

Our inventories increased from RMB67.8 million as of December 31, 2020 to RMB82.7 million as of December 31, 2021, reflecting the anticipation of the increasing market demands of our products.

Trade and Other Receivables

Our trade and other receivables primarily consist of (i) trade receivables; (ii) value-added tax recoverable, representing value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables; and (iii) deposits and prepayments to suppliers and service providers.

Our trade and other receivables increased from RMB39.4 million as of December 31, 2020 to RMB113.5 million as of December 31, 2021. This increase was primarily due to the increase in trade receivables in line with the increase of sales.

Interests in Associates

Our interest in associates as of December 31, 2021 was RMB176.7 million, mainly represented the investment on 4C Medical and Shanghai Shield.

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 RMB86.1 million as of December 31, 2020 to RMB126.8 million as of December 31, 2021, primarily due to the increase in trade payables to third party suppliers.

Derivative Financial Instruments

Our derivative financial instruments decreased from RMB74.0 million as of December 31, 2020 to RMB7.9 million as of December 31, 2021, primarily due to (i) the decrease of RMB60.4 million of the derivative financial liabilities for the issuance of additional series D preferred shares upon the exercise of the Series D Adjustment in January 2021; and (ii) the decrease of RMB5.7 million for the fair value changes on derivative financial liabilities of Witney Put Option.

Lease Liabilities

Our lease liabilities increased from RMB15.8 million as of December 31, 2020 to RMB125.6 million as of December 31, 2021, which were primarily due to the new facility we leased. We recognize lease liabilities with respect to all leases, except for short-term leases.

Capital Expenditure

Our capital expenditure amounted to RMB116.6 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, 2021, 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, 2021, a portion of the Group's bank balances 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, trade and 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, 2021.

Contingent Liabilities

As of December 31, 2021, 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 make adjustments to the capital structure in light of changes in economic conditions.

Liquidity and Financial Resources

Our cash and cash equivalents increased significantly from RMB612.5 million as of December 31, 2020 to RMB2,211.6 million as of December 31, 2021, primarily attributable to the cash and cash equivalents received in Global Offering. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Company believes that it has sufficient funds to satisfy our working capital and capital expenditure requirements for 2022.

Borrowings and Gearing Ratio

We did not have any borrowings as of December 31, 2021 and 2020. As of December 31, 2021, the gearing ratio of the Group (calculated as total lease liabilities divided by total equity as of the same date) increased to 4.1%, compared to 1.7% as of December 31, 2020, which was mainly due to the increase on the lease liabilities we recognized during the Reporting Period.

Net Current Assets

The Group's net current assets as of December 31, 2021 were RMB2,435.4 million, as compared to the net current liabilities of RMB711.7 million as of December 31, 2020. Such increase was mainly attributable to (i) the cash proceeds received from Global Offering; and (ii) the conversion of all the preferred shares issued by the Company to ordinary Shares upon the completion of the Global Offering.

Charge on Asset

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

BOARD OF DIRECTORS

Dr. Luo Qiyi (羅七一), aged 59, 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 300 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 38, 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 41, 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 18 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 48, 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 17 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 44, 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 15 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, a non-executive director of Chemclin Diagnostics Co., Ltd. (科美診斷技術股份有限公司), a company listed on the Shanghai stock exchange from 9 April 2021 (stock code: 688468) since September 2019 and a non-executive director of Suzhou Nanomicro Technology Company Limited (蘇州納微科技股份有限公司), a company listed on the Shanghai stock exchange from 23 June 2021 (stock code: 688690) since November 2019.

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 40, 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 11 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 has been a non-executive director of MicroPort NeuroTech Limited (微創腦科學有限公司) since November 2021.

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 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.

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 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.

Ms. Sun Zhixiang (孫志祥), aged 54, 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.

Dr. Ding Jiandong (丁建東), aged 57, is an independent non-executive Director of our Company. He was appointed as an independent non-executive Director of our Company on August 27, 2021 and is primarily responsible for supervising and providing independent judgment to our Board.

Dr. Ding has been serving as a professor of Fudan University (復旦大學) since May 1998. His main research field is biomedical materials. He has been serving as the chairman of the board of directors of Shanghai Fu Ning Technology Co., Ltd. (上海複凝科技有限公司) and its subsidiary, Shanghai Fu Ning Biomaterials Co., Ltd (上海複凝生物材料有限公司), both of which are engaged in the research and development of biomedical materials, since January 2017 and August 2018, respectively.

Dr. Ding obtained his bachelor's degree in biophysics and master's degree in polymer chemistry and physics from Fudan University in China in June 1988 and June 1991, respectively, and received his on-the-job doctoral degree in polymer chemistry and physics from Fudan University in China in January 1995.

Dr. Ding was awarded the "Science and Technology Prize of China Youth" by the China Association for Science and Technology (中國科學技術協會) in January 1997. His work on biochemical materials was awarded the "First-Place Prize of Natural Science" by the Ministry of Education of the People's Republic of China (中華人民共和國教育部) in January 2014, and won the Gold Medal at the International Exhibition of Inventions of Geneva in March 2021.

Except as otherwise disclosed in this annual report, none of our Directors held a position of director in any other listed companies during the three years prior to the date of this annual report, 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 38, 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 41, 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 48, is an executive Director and a Vice President of our Company. Please refer to "Board of Directors — Mr. Wu Guojia" for his biography.

Mr. Zhao Liang (趙亮), aged 42, is the First Vice President of Total Solutions of our Company. He is responsible for promotion of the Company's total solutions of structural heart diseases.

Mr. Zhao was appointed as our First Vice President of Total Solutions on October 1, 2021 when he joined our Group. Prior to joining us, he joined MicroPort Group in 2006 and has over 15 years of experience in the promotion and sales management of cardiovascular medical devices, and possess expertise in promotion strategy, market and channel expansion, team management, etc. Prior to joining the Company, Mr. Zhao Liang was first vice president of China regional sales and marketing of interventional cardiology of MicroPort Group.

Mr. Zhao obtained his bachelor's degree in economic management from Nanjing University in 2002.

Mr. Jeff Lindstrom, aged 56, is the Vice President (R&D) of our Company.

Mr. Lindstrom has over 20 years R&D experience in the minimally invasive interventional medical device industry. Prior to joining the Group, he served as senior director of engineering in Edwards Lifesciences Corporation (New York Stock Exchange ticker symbol: EW) since 2012, where he was responsible for developing the R&D strategy, directing and managing the R&D activities, overseeing the full product development lifecycle, leading the development and commercialization of the electro-mechanical transcatheter heart valve system and leading the development and clinical evaluation of the embolic protection system. From 2008 to 2012, he served as R&D director of The Spectranetics Corporation. From 1998 to 2006, he served as R&D manager of Abbott Vascular (formerly known as Guidant Corporation).

Mr. Lindstrom obtained his bachelor's degree in chemical engineering from Illinois Institute of Technology in the United States in 1996. He also obtained the certificate of general management from UCLA Anderson School of Management in the United States in 2016. He owns six patents relating to the cardiovascular medical devices.

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 a bachelor of arts and bachelor of business administration (double degree) from Zhengzhou University (鄭州大學) in China in July 2002. She obtained a master's degree of corporate governance from the Open University of Hong Kong (currently known as Hong Kong Metropolitan University) in 2021. She has been an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute since 2021.

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 eight 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 (now knows as The Hong Kong Chartered Governance Institute) 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.

DIRECTORS' REPORT

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, 2021.

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, 2021 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
Ms. Sun Zhixiang
Dr. Ding Jiandong *(appointed on August 27, 2021)*
Dr. Jiang Hualiang *(resigned on August 27, 2021)*

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 structural heart diseases. Our mission is to provide trustworthy and universal access to state-of-the-art total solutions to treat structural heart diseases.

RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the consolidated statement of profit or loss on page 110 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 in 2021 and our sales currently mainly rely on two products, VitaFlow® and VitaFlow Liberty™, 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 2021, 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 2021 is provided in the "Environment, Social and Governance Report" from page 73 to page 104 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, 2021, 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, 2021, the Group had 451 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 and the Share Award Scheme to provide incentives for certain employees. Please refer to the section headed "Share Incentive Schemes" in this annual report for further details.

For the year ended December 31, 2021, 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. 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. For commercial manufacturing of VitaFlow®, the bovine pericardium are imported from one qualified supplier in Australia, where bovine pericardium has not been affected by bovine spongiform encephalopathy, while for our R&D activities and the commercial manufacturing of VitaFlow Liberty™, part of the bovine pericardium are from the same Australian supplier and the rest are from Chengdu Xintuo Biotechnology Company Limited, a wholly-owned subsidiary of the Company. Our nitinol components are mainly procured from Germany.

For the year ended December 31, 2021, purchases from the Group's five largest suppliers amounted to RMB90.5 million (2020: RMB67.4 million), accounting for approximately 29.5% (2020: 41.3%) 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, 2021 amounted to RMB28.8 million (2020: RMB25.0 million), accounting for approximately 9.4% (2020: 15.3%) 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, 2021, the Group did not experience any significant disputes with its suppliers.

MAJOR CUSTOMERS

We currently have three in-house developed commercialized products, VitaFlow®, VitaFlow Liberty™, and Alwide® Plus. During the Reporting Period, substantially all of our revenues were generated from the sale of VitaFlow® (in China and Argentina) and VitaFlow Liberty™ (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 products were sold through distributors. As of the date of this annual report, we had 25 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, 2021, revenue from the Group's five largest customers amounted to RMB130.3 million (2020: RMB53.5 million), accounting for approximately 64.9% (2020: 51.4%) of the Group's total revenue amount in the same year. The Group's largest customer for the year ended December 31, 2021 amounted to RMB48.7 million (2020: RMB18.0 million), accounting for approximately 24.2% (2020: 17.3%) 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, 2021, 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 the 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 Reporting Period are set out in the "Environmental, Social and Governance Report" from page 73 to page 104 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 four financial years, as extracted from the audited consolidated financial statements, is set out on page 11 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 Group for the year ended December 31, 2021 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, 2021 are set out in note 27 to the consolidated financial statements.

DONATION

For the year ended December 31, 2021 the Group made charitable donations of RMB15.0 million.

DEBENTURE ISSUED

The Group did not issue any debenture for the year ended December 31, 2021.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Share Award 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, 2021.

DIVIDENDS

The Board did not recommend the distribution of a final dividend for the year ended December 31, 2021.

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, 2021. 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, 2021, 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, 2021 are set out in the consolidated statement of changes in equity on page 114 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.

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.

Except the independent non-executive Director, Dr. Ding Jiandong, who signed a letter of appointment with the Company for an initial term of three years with effect from August 27, 2021, 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

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, 2021.

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, 2021.

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, 2021.

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 December 31, 2021, 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 Shares and underlying Shares of the Company

Name of Directors/ Chief Executive	Nature of interest	Number of Shares/underlying Shares in respect of the options granted under the Share Options 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%
Dr. Ding Jiandong	Beneficial owner	30,000	0.00%

Save as disclosed above, 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 December 31, 2021, 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
Shanghai MicroPort[(1)]	Beneficial Interest	1,078,650,680	44.88%
Shanghai Huahao[(2)]	Beneficial Interest	191,681,040	7.97%
CICC Kangrui[(3)]	Beneficial Interest	181,592,220	7.56%

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.

Save as disclosed above, 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 INCENTIVE SCHEMES

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) Maximum entitlement of each eligible person

No option shall be granted to any eligible person if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the eligible person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of Shares in issue at such time, unless: (a) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules in force from time to time, by ordinary resolution of the Shareholders in general meeting, at which the eligible person and his close associates (or his associates if the eligible person is a connected person) abstained from voting; (b) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the information 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 disclose the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant), the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4); and (c) the number and terms (including the subscription price) of such options are fixed before the general meeting of the Company at which the same are approved.

(f) Subscription Price and Consideration for the Option

The price at which each Share subject to an option may be subscribed for on the exercise of that option shall be a price solely determined by the Board and notified to an eligible person and shall be at least the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date of such option(s) (the "**Offer Date**"), which must be a business day; (b) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of the Shares. No consideration is required upon acceptance of the grant of options.

(g) 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.

(h) Outstanding Options Granted as of December 31, 2021

As of December 31, 2021, the aggregate number of outstanding options granted under the Share Option Scheme is 15,741,060 Shares, representing approximately 0.65% of the total issued share capital of our Company as of December 31, 2021. The status of the share options granted up to December 31, 2021 is as follows:

Name	Position	Number of Shares underlying the granted options as of December 31, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the reporting Period	Exercise Price	Number of Shares underlying the granted options as of December 31, 2021	Date of grant	Vesting period	Exercise period	Closing Price of the Company Immediately before the date of grant of share options	Closing Price of the Company Immediately before the exercise date of share options (Note)
Directors and senior management of our Company													
Dr. Luo Qiyi	Non-executive Director and Chairman of our Board	6,000,000	—	—	—	—	US$0.16	6,000,000	March 31, 2020	March 31, 2020–March 31, 2025	March 31, 2021–March 30, 2030	N/A	N/A
Mr. Chen Guoming	Executive Director and President	5,000,000	—	—	—	—	US$0.16	5,000,000	March 31, 2020	March 31, 2020–March 31, 2025	March 31, 2021–March 30, 2030	N/A	N/A
Ms. Yan Luying	Executive Director and Vice President	4,000,000	—	—	—	—	US$0.16	4,000,000	March 31, 2020	March 31, 2020–March 31, 2025	March 31, 2021–March 30, 2030	N/A	N/A
Mr. Wu Guojia	Executive Director and Vice President	4,000,000	—	—	—	—	US$0.16	4,000,000	March 31, 2020	March 31, 2020–March 31, 2025	March 31, 2021–March 30, 2030	N/A	N/A
Subtotal		19,000,000	—	—	—	—		19,000,000					
Director of MicroPort													
Dr. Chang Zhaohua	Chairman and Chief Executive Officer	6,000,000	—	—	—	—	US$0.16	6,000,000	March 31, 2020	March 31, 2020–March 31, 2025	March 31, 2021–March 30, 2030	N/A	N/A

	Number of Shares underlying the granted options as of December 31, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the reporting Period	Exercise Price	Number of Shares underlying the granted options as of December 31, 2021	Date of grant	Vesting period	Exercise period	Closing Price of the Company Immediately before the date of grant of share options	Closing Price of the Company Immediately before the exercise date of share options (Note)
Employees of the Group and MicroPort												
	46,908,940	—	6,554,073	—	7,763,060	US$0.16	32,591,807	March 31, 2020	March 31, 2020– March 31, 2025	March 31, 2021– March 30, 2030	N/A	HK$13.79
	—	8,000,000	—	—	830,000	HK$13,72	7,170,000	March 31, 2021	March 31, 2021– March 31, 2026	March 31, 2022– March 30, 2031	HK$13.72	N/A
	—	3,100,000	—	—	—	HK$6.406	3,100,000	October 4, 2021	October 4, 2021– October 4, 2026	October 4, 2021 to October 3, 2031	HK$6.07	N/A
Subtotal	46,908,940	11,100,000	6,554,073	—	8,593,060		42,861,807					
Total	71,908,940	11,100,000	6,554,073	—	8,593,060		67,861,807					

Note: The share price of the Company disclosed is the weighted average closing price of the Shares immediately before the exercise dates of share options during the period.

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, 2021 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 Incentive Schemes" 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.

One-off Connected Transactions

Zhangjiang Property Lease Agreement

Our Company have entered into a property lease agreement ("**Zhangjiang Property Lease Agreement**") with Shanghai MicroPort Medical, pursuant to which, Shanghai MicroPort Medical agreed to, lease to us a premise with a total gross area of approximately 2,906.95 sq.m. (the "**Zhangjiang Leased Premise**"), as our office building for the purposes of operations and our production premise for manufacturing our products. Details of the Zhangjiang Property Lease Agreement are set out below:

Date of the agreement	Term of the lease	Landloard	Tenant	Location of the Premise	Total Area
January 1, 2020	From January 1, 2020 to December 31, 2022	Shanghai MicroPort Medical	MP CardioFlow	No. 1601 Zhangdong Road, Zhangjiang Hi-Tech Park, Pudong New District, Shanghai	2,906.95 sq.m.

Our Group recognized a right-of-use asset on the statement of financial position in connection with the lease of the Zhangjiang Leased Premise from the Retained MicroPort Group. Therefore, the lease of the Zhangjiang Leased Premise from Shanghai MicroPort Medical under the Zhangjiang Property Lease Agreement is regarded as an acquisition of a capital asset of our Group and a one-off connected transaction entered into by our Group prior to the Listing, rather than a continuing connected transaction, for the purposes of the Listing Rules. Accordingly, the reporting, announcement, annual review, circular and independent shareholders' approval requirements in Chapter 14A of the Listing Rules will not be applicable to it.

Formation of Joint Venture

On May 24, 2021, MP CardioFlow entered into a joint venture agreement with Milford Haven and Pingzhi Partnership in relation to the proposed formation of Shanghai Shield. The total registered share capital of Shanghai Shield is RMB50.0 million, of which Milford Haven made a capital contribution of RMB25.0 million, MP CardioFlow made a capital contribution of RMB17.5 million and Pingzhi Partnership made a capital contribution of RMB7.5 million accounting for 50%, 35% and 15% of the total registered share capital of Shanghai Shield respectively. Please refer to the announcement of the Company dated May 24, 2021 for details.

As of the date of this annual report, Milford Haven is a wholly-owned subsidiary of MicroPort, the controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the formation of Shanghai Shield constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) in respect of the Group's total contribution to Shanghai Shield exceeds 0.1% but is less than 5%, the formation of Shanghai Shield is subject to the reporting and announcement requirements, but exempted from the circular, independent financial advice and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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. The aggregate transaction amount incurred in accordance with the Master Service Procurement Agreement for the year ended December 31, 2021 was RMB7,008,000.

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 procured 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 RMB39,000,000 respectively. The aggregate transaction amount incurred in accordance with the Master Service Procurement Agreement for the year ended December 31, 2021 was RMB485,000.

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, 2021.

The auditors have reviewed the above continuing connected transactions and provided the Board of directors with a confirmation in accordance with Rule 14A.56 of the Listing Rules that nothing has caused them to believe that the continuing connected transactions (i) had not been approved by the Board; (ii) were not in accordance with the Company's pricing policies; (iii) were not entered into in accordance with the agreement governing them; and (iv) had exceeded the annual cap.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors and auditors 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 and Securities Affairs department 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, 2021, 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, 2021 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, 2021.

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, 2021.

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

Save for the 6,342,000 Shares of the Company purchased through the trustee of the Share Award Scheme at cash consideration of HK$49,870,630 on the Stock Exchange for the Share Award Scheme, 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, 2021.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration for the year ended December 31, 2021. 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, 2021.

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 had used the net proceeds from the Global Offering for the following purposes:

	Amount of net proceeds for the relevant use	Percentage of total net proceeds	Actual amount of proceeds utilized as of December 31, 2021	Amount of proceeds unutilized as of December 31, 2021	Percentage of proceeds from the global offering expected to be used by December 31, 2022
	HK$ million	Percentage	HK$ million	HK$ million	Percentage
VitaFlow Liberty™					
— the ongoing R&D activities, clinical trial and product registration of VitaFlow Liberty™	423.9	15.6%	82.0	341.9	
— the ongoing sales and marketing activities of VitaFlow Liberty™ in China and overseas	391.3	14.4%	21. 6	369. 7	
Subtotal	**815.2**	**30.0%**	**103.6**	**711.6**	**2.6%–5.2%**
VitaFlow®	**92.4**	**3.4%**	**5.7**	**86.7**	**0.4%–0.7%**
The remaining products					
— fund the research, preclinical, clinical trial and commercialization of VitaFlow™ III, and VitaFlow™ Balloon Expandable	190.2	7.0%	3.1	187.1	
— the ongoing and planned R&D of our TMV product candidates	312.5	11.5%	18.2	294.3	
— the ongoing and planned R&D of our TTVR product candidates, surgical valves and procedural accessories	163.0	6.0%	1.8	161.2	
— fund the planned commercialization activities after receiving the relevant regulatory approvals	67.9	2.5%	—	67.9	
Subtotal	**733.6**	**27.0%**	**23.1**	**710.5**	**2.8%–4.0%**

	Amount of net proceeds for the relevant use	Percentage of total net proceeds	Actual amount of proceeds utilized as of December 31, 2021	Amount of proceeds unutilized as of December 31, 2021	Percentage of proceeds from the global offering expected to be used by December 31, 2022
	HK$ million	Percentage	HK$ million	HK$ million	Percentage
Fund the expansion of our product portfolio through collaboration with global enabler	407.6	15.0%	164.9	242.7	1.5%–1.8%
Expand our production capacity and strengthen our manufacturing capabilities for VitaFlow® and VitaFlow Liberty™	396.7	14.6%	32.4	364.3	3.7%–7.4%
Working capital and general corporate purposes	271.7	10.0%	68.2	203.5	0.7%–1.1%
Total	2,717.2	100.0%	397.9	2,319.3	11.7%–20.2%

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$315.0 million to HK$550.0 million, accounting for approximately 11.7% to 20.2% of the net proceeds of the global offering, will be utilized by December 31, 2022 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.

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 17, 2022 to Wednesday, June 22, 2022, 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 22, 2022. 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 16, 2022.

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

Hong Kong
March 29, 2022

GENERAL

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the financial year ended December 31, 2021.

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, and 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 Board of the Company comprises the following Directors as of December 31, 2021:

Executive Directors:

Mr. Chen Guoming (President)
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. Ding Jiandong
Ms. Sun Zhixiang

The biographical details of the current Directors are set out in the section headed "Profiles of Directors and Senior Management" on pages 27 to 33 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 until terminated in accordance with the terms and conditions stated in the letter.

Appointment and Re-Election of Directors

During the Reporting Period, Dr. Jiang Hualiang has resigned and Dr. Ding Jiandong was appointed as the independent non-executive directors of the Company with effect from August 27, 2021.

Code Provision B.2.2 states that every director, including those appointed for a specific term, should be 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.

Hence, Mr. Chen Guoming, Mr. Wu Guojia, Ms. Yan Luying and Dr. Ding Jiandong shall retire from office and being eligible, and will offer themselves for re-election pursuant to Article 16.19 of the Articles of Association at the 2022 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 C.1.4 of the Code during the year of 2021, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. The Company has distributed training materials prepared by the legal advisor of the Company to all Directors and all Directors confirmed reading the training materials. The training materials 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, and the amendments of 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.

The Board held four meetings during the period from the Listing Date to December 31, 2021. The attendance records of each member at the Board Meeting during the year ended December 31, 2021 are set out below:

Name of Members concerned	Attendance/Number of meetings held during the term of office of the Board member
Dr. Luo Qiyi *(Chairman)*	4/4
Mr. Chen Guoming	4/4
Ms. Yan Luying	4/4
Mr. Wu Guojia	4/4
Mr. Zhang Junjie	4/4
Ms. Wu Xia	4/4
Mr. Jonathan H. Chou	4/4
Dr. Jiang Hualiang *(resigned on August 27, 2021)*	3/3
Dr. Ding Jiandong *(appointed on August 27, 2021)*	1/1
Ms. Sun Zhixiang	4/4

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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 to up December 31, 2021.

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)*
Dr. Jiang Hualiang *(resigned on August 27, 2021)*
Dr. Ding Jiandong *(appointed on August 27, 2021)*
Ms. Sun Zhixiang

All the three members are independent non-executive Directors, and 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.

The Audit Committee oversees the internal control system and risk management system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year under review, the Audit Committee reviewed the Group's annual results and annual report for the year ended 31 December 2020, interim results and interim report for the first half year of 2021, the financial reporting and compliance procedures, the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors.

The Audit Committee held 3 meetings during the period from the Listing Date to December 31, 2021. The attendance records of each member at the Audit Committee meetings during the year ended December 31, 2021 are set out below:

Name of Members concerned	Attendence/Number of meetings held during the term of office of the Audit Committee member
Mr. Jonathan H. Chou *(Chairman)*	3/3
Dr. Jiang Hualiang	3/3
Dr. Ding Jiandong	0/0
Ms. Sun Zhixiang	3/3

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

Two of the three members are independent non-executive Directors.

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.

During the year under review, the Remuneration Committee reviewed and made recommendations to the Board on the year-end bonus of senior management and the related remuneration policy pursuant to Code Provision E.1.2 (c)(ii) of Part 2 of the CG Code.

The Remuneration Committee held 2 meetings during the year ended December 31, 2021. The attendance records of each member at the Remuneration Committee meetings during the year ended December 31, 2021 are set out below:

Name of Members concerned	Attendence/Number of meetings held during the term of office of the Remuneration Committee member
Ms. Sun Zhixiang *(Chairwoman)*	2/2
Dr. Luo Qiyi	2/2
Mr. Jonathan Chou	2/2

The remuneration of the members of senior management by band for the year ended December 31, 2021 is set out below:

Remuneration to the senior management by bands (RMB)	Number of senior management
0–1,000,000	1
3,000,001–4,000,000	3
Total	4

Details of the remuneration of the Directors and senior management for the year ended December 31, 2021 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 *(resigned on August 27, 2021)*
Dr. Ding Jiandong *(appointed on August 27, 2021)*
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.

During the period from the Listing Date to December 31, 2021, two Nomination Committee meetings was held at which the Remuneration Committee reviewed the Board composition, made recommendation to the Board on the proposed re-election of retiring Directors at the forthcoming annual general meeting and made recommendation of the appointment of Dr. Ding Jiandong as independent non-executive Director of the Company.

The attendance records of each member at the Nomination Committee meetings during the year ended December 31, 2021 are set out below:

Name of Members concerned	Attendance/Number of meetings held during the term of office of the Nomination Committee member
Dr. Luo Qiyi *(Chairman)*	2/2
Dr. Jiang Hualiang	2/2
Dr. Ding Jiandong	0/0
Ms. Sun Zhixiang	2/2

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.

Among the 451 employees of our Group as at December 31, 2021, 209 are males (46.34%) and 242 are females (53.66%). The Board is satisfied with the gender diversity of our employees. We will continue to ensure there is gender diversity when recruiting staff and emphasize training of talented employees from underrepresented genders and provide them with long-term development opportunities.

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, 2021.

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 annually. 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, Dr. Ding Jiandong and Ms. Sun Zhixiang.

- 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.

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.

The Audit Committee considered that the above-mentioned risk management and internal control measures are effective and adequate. 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 105 to 109 in this annual report.

For the year ended December 31, 2021, the fees for audit services and non-audit services rendered by external auditor, KPMG were as follows:

Audit Services	**Fees (RMB'000)**
Auditors	
KPMG	1,535

The audit service performed by KPMG related to the audit services provided during the year ended December 31, 2021.

Non-audit Services	**Fees (RMB'000)**
Auditors	
KPMG	7

During the year ended December 31, 2021, non-audit services performed by KPMG are primarily in relation to tax related services.

JOINT COMPANY SECRETARY

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 16 years of 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 eight years of experience in providing company secretarial and compliance services to private and listed companies.

Both Ms. Li and Ms. Chan are associates of the Hong Kong Chartered Governance Institute, and have undertook no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

AMENDMENTS OF THE ARTICLES OF ASSOCIATION

For the year ended December 31, 2021, no change had been made to the Articles of Association of the Company.

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 be 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 annual report takes into account the significant changes that have occurred since the end of 2021 to the date of approval of this report.

By Order of the Board
MicroPort CardioFlow Medtech Corporation
Dr. Luo Qiyi
Chairman
Hong Kong
March 29, 2022

2021 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

This report is the second Environmental, Social and Governance (hereinbelow referred to as "**ESG**") Report issued by MicroPort CardioFlow Medtech Corporation (hereinbelow referred to as"**CardioFlow**", "**we**" or the "**Company**"), the main purpose of which is to disclose information related to the environmental, social and governance performance of the Company and its subsidiaries (collectively referred to as the "**Group**").

BASIS OF PREPARATION

This report is prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited (the hereinbelow referred to as the"**Stock Exchange**").

REPORTING CYCLE

This report covers the work done during the financial year from 1 January 2021 to 31 December 2021 (the "**Reporting Period**").

REPORTING SCOPE AND BOUNDARY

The policies and information provided in this report cover the Company and its subsidiaries, and the reporting scope is consistent with that of the annual report. Historical information quoted in this report is the final statistical information. Unless otherwise specified, the financial information in this report is denominated in RMB.

INFORMATION RELIABILITY ASSURANCE

The information and cases in this report are mainly derived from the Group's statistical reports and relevant documents. The Board of the Company 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.

REPORT CONFIRMATION AND APPROVAL

This report was approved by the Board on 29 March 2022 upon confirmation by the management.

1. SUSTAINABILE DEVELOPMENT

1.1 Sustainable Development Philosophy

Long-term and stable development is critical to continuously provide innovative medical solutions to patients. While striving to develop itself into a global leading people-oriented emerging high-tech medical group, CardioFlow regards sustainable development as the core of business development, incorporates ESG concepts into business strategies, and uses it to guide daily decision-making and operation. We make every effort to maximize the value for our employees, customers, shareholders, environment and to society, and become a responsible corporate citizen for sustainable development.

ESG Governance

In order to implement the sustainable development concept of the Company, CardioFlow established an ESG management platform and an ESG implementation structure. The highest decision-making body and responsible body of the ESG management platform are the Board, which is responsible for supervising various ESG-related matters, regularly reviewing the performance of the ESG management system and approving the annual ESG report. CardioFlow has established an ESG work team composed of our major departments. With direct participation of the department heads and designated personnel to conduct work related to ESG management and reporting, the ESG work team reports to the Board on a regular basis. As the body designated for the implementation of ESG strategies, the ESG work team ensures the implementation of ESG matters in the daily work of major departments under the leadership and supervision of the Board. The guiding principles of our ESG implementation structure is the vision and value of CardioFlow, and the ESG work team implements ESG matters that are of concern to stakeholders in the operation of major departments.

BOARD STATEMENT

Board Responsibilities

Through regular meetings, the Board reviews and approves the Company's sustainable goals, supervises and reviews the Company's ESG-related policies, management, performance, and progress, as well as reviewing and approving the disclosure of ESG-related performance.

Execution of ESG Work

CardioFlow has established an ESG work team composed of our major departments with direct participation of department heads to integrate ESG elements into daily operations.

ESG Risk Governance

The ESG work team is responsible for identifying, managing, supervising and controlling various risks, and providing risk analysis and decision support to the Board. The Board considers and approves the risk assessment and corresponding measures, sets objectives, supervises and reviews the progress towards our goals.

Material ESG issues

In order to formulate ESG strategies, CardioFlow maintains close communication with internal and external stakeholders, and identifies and evaluates major ESG issues. We have discussed and approved the ESG issues that being identified, and will formulate relevant ESG strategies, objectives and management strategies based on the topics, keep abreast of the international ESG development trends and peer performance in a timely manner, and regularly review the progress of related work. The 2021 ESG materiality analysis of CardioFlow can be found in the "Materiality Analysis".

1.2 Communication with Stakeholders

We maintain close contact with stakeholders and have established multiple communication channels, so that we can take stakeholders' expectations and demands as important guidance when formulating the Company's ESG strategies and objectives. The major stakeholders of CardioFlow include customers (global distributors, hospitals, doctors), patients, suppliers, employees, shareholders, regulatory authorities, media, etc. Through frequent regular and ad-hoc communication with stakeholders, including online and offline meetings, interviews, opinion surveys and business visits, we incorporate the opinions and suggestions from stakeholders into our ESG risk assessment process.

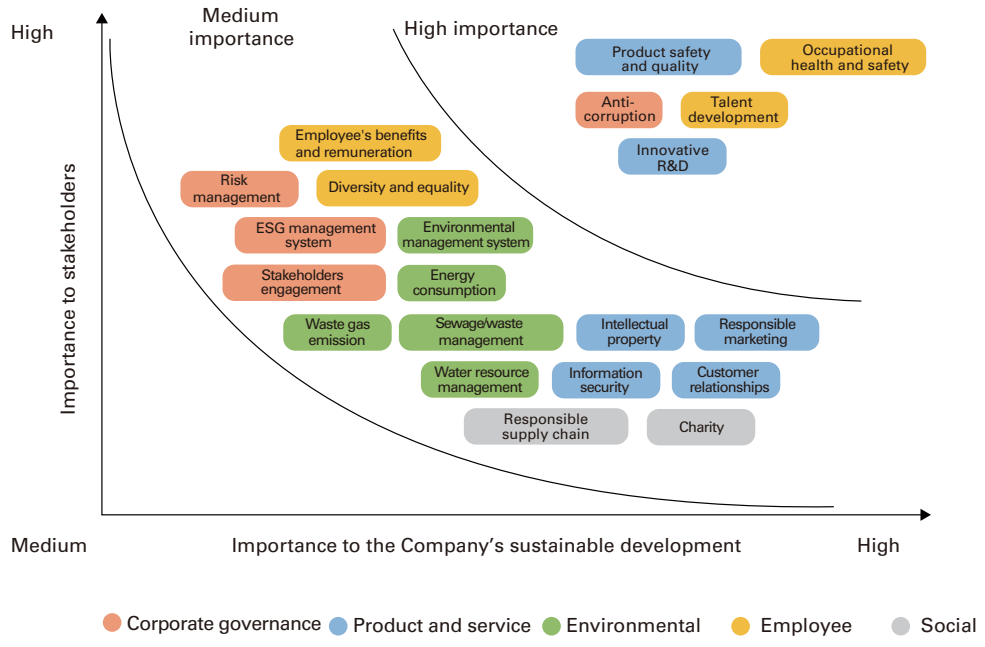
Category of stakeholders	Related parties	Issues of concern	Communication channels
Government and regulatory authorities	National and local governments, market regulatators, tax regulators, environmental protection regulators, industry regulators, etc.	Risk management Environmental management system Anti-corruption Product safety and quality Energy consumption Climate change Waste exhaust emissions Sewage/waste management Water resources management	Site visits to institution Official correspondence Policy implementation Information disclosure
Shareholders and investors	Shareholders and potential investors who make equity investments in the Company	Talent development Product safety and quality Intellectual property right Innovative R&D	Investor relations website[1] General meeting Information disclosure Correspondence Conference calls Reception of visitors Roadshow
Customers	Global distributors, hospitals, physicians and surgeons	Information security Product safety and quality Customer service Responsible marketing	Distributor meetings Customer survey Technical seminar Customer service hotline Customer satisfaction survey
Employees	Company's employees	Talent development Employee's remuneration and benefits Diversity and equality Occupational health and safety	Staff management committee Employee activities Employee survey Employee training Internal publications

[1] https://ir.cardioflowmedtech.com/cn/investor-relations

Category of stakeholders	Related parties	Issues of concern	Communication channels
Suppliers	Raw material suppliers	Product safety and quality Responsible supply chain	Supplier assessment Supplier exchange and training
Community and media	Local communities, public, media, etc.	Community Contribution Product safety and quality Product Carbon Footprint Climate Change	Volunteer service Community activities Media communication and interviews

1.3 Materiality Analysis

With reference to the requirements of the Environmental, Social and Governance Reporting Guide of the Stock Exchange and taking into account the current situation of the Company and the industry as well as the feedback from stakeholders, we identified a total of 23 ESG issues that can be classified into five categories, namely corporate governance, product and service, environment, employees and social, and evaluated their materiality based on their importance to the Company's sustainable development and the importance to stakeholders. After evaluation, four topics are identified as highly important, and which will be specifically disclosed and explained in this report.



2. RESPONSIBLE OPERATION AND INTERNAL CONTROL

2.1 Practice of Business Ethics

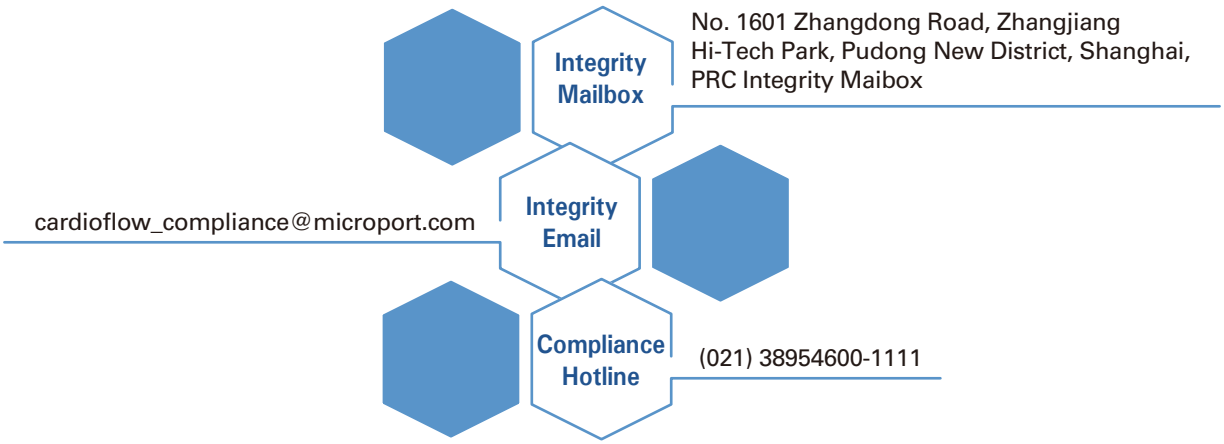
CardioFlow has always adhered to a "zero tolerance" attitude towards corruption. We strictly comply with the Anti-Unfair Competition Law of the People's Republic of China, the Anti-Monopoly Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and other laws and regulations. We also comply with internal systems such as the Code of Business Conduct and Ethics and the Policies on Employee Honest Practices, which clearly stated the Company's code of conduct in fair competition, data privacy, anti-corruption and anti-bribery, trade compliance, personal integrity and other aspects. We encourage all employees, management personnel and directors of the Company, distributors, contractors and suppliers to act honestly and morally, and practice the corporate ethics of honesty, trustworthiness and compliance.

In order to facilitate supervision and encourage compliant behaviors, the Company has set up whistle-blowing channels, including integrity mailbox, integrity email and compliance hotline. If violations are found, they will be handled in accordance with corresponding procedures. At the same time, the Company undertakes the responsibility to protect the privacy and personal safety of the whistleblowers, and strictly prohibits any retaliation against the whistleblowers. For employees who make complaints and provide evidence, the Company strictly requires relevant personnel to comply with the Company's confidentiality rules to ensure that there is no information leakage.

According to the Company's Internal Audit Polices, all kinds of fraud investigations will be carried out by internal auditors, professional fraud investigators, legal advisors and other experts. After completing the necessary fraud investigation procedures, the Company will consider the severity of fraud behavior in terms of its nature and money involved, and issue an audit report. At the same time, based on the investigation results, the Company will formulate measures to strengthen internal control and design appropriate procedures to provide guidance for the Company to inspect similar fraud behaviors in the future.

In order to enhance the compliance awareness of our employees, we also provide employees and directors with specific training related to business ethics, including anti-corruption and other related topics.

During the Reporting Period, the Company did not have any corruption lawsuits.



2.2 Intellectual Property Protection

Intellectual property protection is the core driving force for the Company to maintain its own innovation achievements, promote technology advancement and enhance market competitiveness. During the Reporting Period, we obtained the GB/T29490-2013 Intellectual Property Management System Certification, the scope of which includes the research and development of heart valve medical devices (valve prosthesis, delivery system and related accessories), and the management of intellectual property rights for the production and sales of Class III transcatheter aortic valve system.

CardioFlow strictly comply with the Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China and other laws and regulations, and has formulated relevant intellectual property protection policies, including the Provisions for the Administration of Intellectual Property Work, Administration of Intellectual Property Rights of Technological Innovation Achievements and other provisions, which regulates the Company's internal intellectual property management system and requires staff of the Company at all levels to actively protect the Company's intellectual property rights.

As of the end of the Reporting Period, CardioFlow held a total of 407 patents and 100 trademarks. During the Reporting Period, 43 patents and 10 trademarks were newly granted.

2.3 Adhering to Marketing Compliance

The Company strictly complies with the Advertising Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, and other marketing and advertising related laws and regulations in the places where it operates to ensure that the advertising content related to the Company's products are provided in a consistent, truthful and timely manner. In order to enhance the corporate image, expand the market influence of the Company, build a communication bridge with customers, and deliver more valuable information, CardioFlow has formulated and implemented the Media Platform Press Release System that provides detailed classification for media release platforms and articles of the Company and standardizes the marketing process.

We strictly review the authenticity of advertising and promotion information. We have also formulated different approval procedures for immaterial information and material information. We actively consult with legal experts, our internal departments will meet regularly to maintain contact with the legal department, and we follow the feedback from legal department to improve marketing compliance. We also take feedback and opinions from doctors to continuously improve the content of product promotion. During the Reporting Period, the Company was not involved in any complaints or legal proceedings related to misleading or deceptive information to consumers.

2.4 Maintaining Information Security

We strictly abide by the laws and regulations on network information security management such as the Data Security Law of the People's Republic of China and the Personal Information Protection Law of the People's Republic of China, and have established internal systems and regulations such as the Information Security Management Policy, the Information Asset Management Measures, and the Employee Information Security Code. By standardizing information collection, information use and information protection, we have added an important barrier to the personal privacy of users to ensure the legality and compliance of user privacy management.

We have adopted a series of information security protection measures, including encrypting employee computers and company files, and setting up different personal access rights to important documents to ensure the Company's information security and customer privacy security; At the same time, we continue to update and optimize the security management system to ensure the safe operation of the Company.

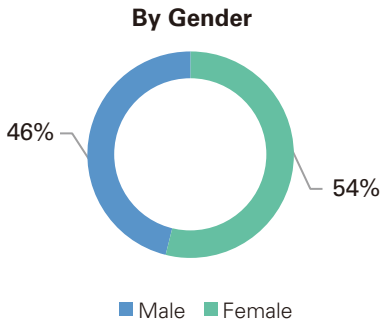
3. BEING PEOPLE-ORIENTED AND GATHERING TALENTS

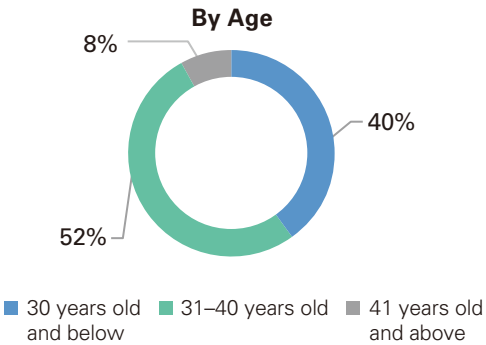
Adhering to the core value of "people-oriented", CardioFlow is well aware that the enterprise and its employees can empower each other, and an enterprise cannot grow without the hard work and dedication of its employees. We are committed to establishing a compliant and harmonious labor relationship, creating a safe and comfortable working environment for all employees, and protecting their rights and interests. We have established and improved the talent training system and performance management system, provided employees with diversified remuneration and benefits, and established multi-channel to communicate with employees so as to grow and improve together with employees.

3.1 Protection of Employees' Rights

CardioFlow regards employees as valuable resources of the Company, emphasizes the concept of employment in compliance with laws and regulations, and strictly abides by the *Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China*, the *Provisions on the Prohibition of Using Child Labor* and other relevant laws and regulations to ensure an equal and open recruitment process. We have formulated clear regulations on recruitment management in the *Employee Handbook*, which prohibit any form of discrimination, harassment or infringement of the dignity of others. We strictly prohibit child labor and forced labor and strictly comply with employment laws. If child labor or forced labor is found, the Company will take timely measures to maintain a legitimate employment environment.

As at the end of the Reporting Period, CardioFlow had a total of 451 full-time employees, of which 450 were Chinese employees and one was foreign employee. The detailed staff distribution and turnover rate are as follows:





		Turnover rate
Total turnover rate		26%
By Gender	Male	12%
	Female	14%
By Age	30 years old and below	11%
	31–40 years old	13%
	41 years old and above	2%
By Region	People's Republic of China	26%

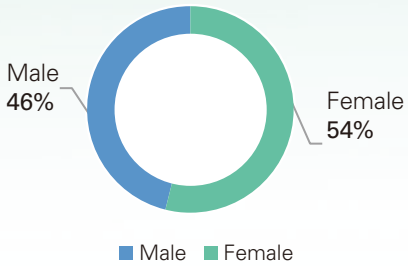
3.2 Promoting Talent Development

The establishment of a sound talent development system will lay a solid foundation for the Company to achieve high-quality development. CardioFlow attaches great importance to talent cultivation and has formulated the overall human resources strategy to achieve sustainable development of the Company. The Company has established a "two-way, 18-level" talent development path and a "one-point, two-way, and three-level" talent strategy. The Company has designed the development path for various positions and ranks, and established qualification standards according to the level of career development, and helped employees understand their own job positioning and clarify their career planning and development direction through qualification assessment. At the same time, the Company has formulated a mentorship program based on the talent strategy with the characteristics of CardioFlow. Under the program, experienced staff will provide guidance and training to new staff, which has effectively trained and retained talents for the Company. It and has accelerated the sharing of implicit and explicit knowledge and formed a stable knowledge value chain within the Company, realizing the common development of employees and the Company.

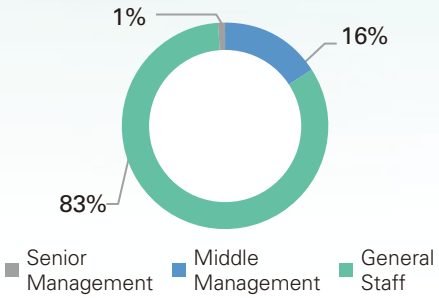
Mentoring project
In order to help employees better fit into CardioFlow family, master professional skills and to achieve leapfrog development, the Company continued the mentoring program during the Reporting Period, each program lasts for 6 months, producing a total of 54 learning reports and corresponding knowledge points. We invited senior managers and above of the Company to serve as mentors to provide "mentoring" training to core talents and technical personnel. The training is mainly in the form of topic discussion, case analysis, practical business operation, exams, etc. 10 mentors are responsible for teaching skills related to the daily operation of respective positions, and at the same time, they need to pay attention to the all-round development of 18 trainees. With the rich life and industry experience of the mentors, they will provide training to the trainees according to their talents, so as to implement the modern training concept of whole-process training and all-round training, with an aim to help trainees become outstanding backbone talents.

During the Reporting Period, the training of employees of CardioFlow is as follows:

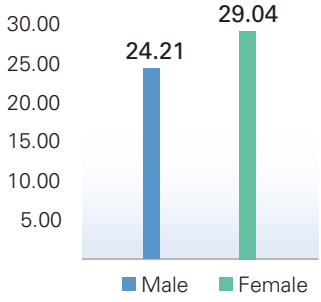
Trainee breakdown in percentage by gender



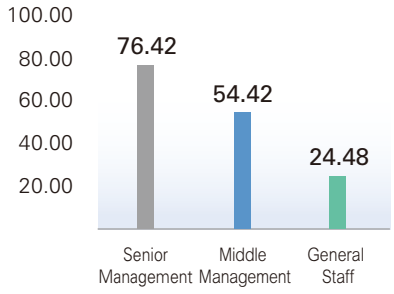
Trainee breakdown in percentage by ranking of the staff



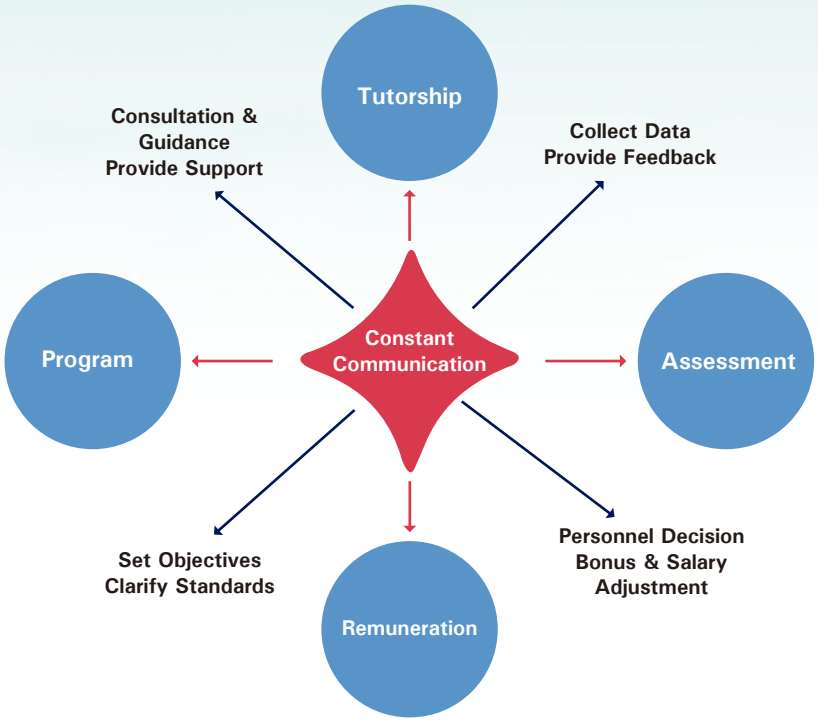
Trainee's average training hours by gender



Trainee's average training hours by ranking of the staff



In order to achieve corporate strategic objectives and strengthen team building, the establishment of a sound performance management system is an indispensable part of corporate development. The Company standardizes the performance management methods, distributes the Employee Handbook to every new employee, and stipulates the employee performance management requirements, process, cycle, level evaluation etc. in the "*Performance Management Measures*". At the same time, CardioFlow has established a "comprehensive performance management" method, focusing on maintaining the consistency between personal goals and organizational goals, and emphasizing the construction of a "mutual achievement" model for organizational development and personal growth. The comprehensive performance management method follows the PDCA cycle, which divides employee performance management into four stages: planning, counseling, evaluation and compensation, and requires managers and employees to participate together in all aspects. At the beginning of the assessment period, managers and employees will communicate continuously to clarify performance goals and jointly set performance plans. Throughout the assessment period, managers provide targeted guidance to employees according to their performance progress, and provide necessary support for employees to achieve significant performance improvement. At the end of the assessment period, managers provide feedback based on the results of performance assessment of each employee, review the performance plan and performance standards of the past cycle with employees, make corresponding remuneration distribution, and propose improvement plans for deficiencies to lay a foundation for employees to better complete their work. In addition, when formulating the performance plan at the beginning of each assessment cycle, managers will communicate with employees based on the results of the previous assessment, so that the Company can achieve better performance through such a cycle.



3.3 Care for Employees

CardioFlow has always put the health and safety of employees first, providing a safe, healthy and comfortable working environment for employees as our first priority. The Company strictly complies with the *Production Safety Law of the People's Republic of China*, the *Occupational Disease Prevention and Control Law of the People's Republic of China* and other laws and regulations and has formulated an internal system for employee safety management to further protect employees' health and ensure production safety. The Company has formulated safety management guidance documents for various positions according to the nature and characteristics of various positions, such as *Special Equipment Management, Chemical Use Management, Contingency Preparation and Reaction Control Procedure*, etc., to enhance employees' crisis response capabilities and ensure the safety of each employee.

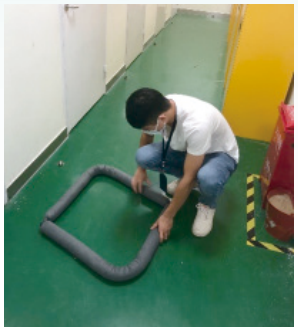
Safety and Health

CardioFlow attaches great importance to the occupational health of employees. In order to prevent occupational health hazards, the Company complies with the requirements of the *Occupational Disease Prevention and Control Law of the People's Republic of China* and organizes annual occupational health examinations for employees in order to protect them from occupational disease hazards, and to ensure that employees can know their own health conditions in a timely manner. During the Reporting Period, the Company organized body check for a total of 89 front-line staff, and no abnormal condition was found. In addition, the Company provides corresponding protective equipment for all employees in positions that are exposed to occupational disease hazards, for example, we provide activated carbon masks for employees in positions that involve the use of chemical and maintaining 24-hour fresh air supply and independent exhaust air ventilation system to ensure timely extraction of harmful gases.

Safety Management Measures
In order to ensure the production safety of our employees, CardioFlow has carried out a series of safety improvement to its production equipment: 1. Leakproof pallet: According to the requirements of the new *Solid Waste Prevention and Control Law of the PRC*, the Company has upgraded and improved the existing hazardous waste warehouse, replacing the original ground pallet with leakproof pallet, which suits the Company's actual hazardous waste storage conditions while complying with the requirements of national regulations; 2. Explosion-proof cabinet: In order to ensure the chemicals can be temporarily stored in a reliable condition, the Company has installed additional chemical explosion-proof cabinet in the second half of year 2021 to ensure the safety of the temporary chemical storage area; 3. Flammable gas detector: As volatile combustible, such as ethanol, is stored in temporary chemicals storage area, for safety reason, flammable gas detectors were installed at the beginning of 2021 for real-time monitoring to ensure that any leakage or other emergencies can be detected and dealt in a timely manner; 4. Unloading platform: As our staff need to walkup stairs when moving saline and other items during daily operation, there may be risk of falling down or tripped over. During the Reporting Period, improvement has been carried out to an unloading platform, trucks can unload directly at this platform to avoid the above risks.

In order to enhance employees 'safety awareness and reduce safety risks, the Company regularly organizes safety drills, safety training and other practical safety activities to improve employees' self-protection ability and emergency response ability. During the Reporting Period, the Company formulated various safety production indicators and safety training programs, and gradually carried out relevant trainings, such as chemical use, occupational health, hazardous waste recycling, PPE use and safe use of electricity according to the plan. At the same time, the Company organized employees to watch safety videos and annual safety education videos via our common learning platform. For new employees, the Company strictly implements national requirements, conducts three-level safety education for new employees, and requires all employees to pass the examination before they can officially perform their work.

In addition, during the Reporting Period, the Company organized a number of safety drills to help employees improve their emergency response and escape ability.

Safety drill
Emergency response drill for hazardous chemical leakage: The Company organized an emergency response drill for hazardous chemical leakage in the hazardous chemical warehouse. The Company conducted various practical drill, such as hazardous chemical leakage, protective equipment, leakage disposal and site restoration, and conducted on-site review and discussion after the completion of the drill to strengthen employees' knowledge of correct handling of hazardous chemical leakage emergencies and improve our ability to organize rescue. 
Escape drill: The Company conducts fire drills according to the formulated plans to help employees familiarize themselves with the functions of the Company's fire fighting equipment, enhance employees' fire safety awareness and fire emergency response ability, and improve the mutual coordination and cooperation of all departments of the Company. 

During the Reporting Period, CardioFlow did not record any work-related fatalities, and no work-related fatalities was occurred in the past three years (including the Reporting Year). During the Reporting Period, CardioFlow did not record any work-related injury, and have organized 347 safety training and 2 safety drills.

Caring for Employees

CardioFlow cares about its employees. In order to enhance employees' sense of belonging and strengthen corporate cohesion, CardioFlow has established a comprehensive welfare system. The Company issues gift cards, gift boxes, fruits and other benefits to employees on statutory holidays and employee's birthdays, as well as to employee who are getting married or having babies. At the same time, the Company has established specific subsidy system for designated staff, such as providing clinical subsidies for operation and stage employees. We pay close attention to the personal needs of our employees, and provide welfare benefits from the perspective of employees, so as to lay a solid foundation for caring for employees.

In order to enrich employees' spiritual life and enhance communication between departments, the Company organizes various activities for our employees every year to let them have a relax time away from hustle and bustle of work. During the Reporting Period, the Company held a total of 14 activities for our staff. The Company also organizes themed activities for every festival to celebrate the festive season together with our staff.

Employee Activities

Father's Day Cake Making

Christmas

Archery

CardioFlow has established a comprehensive staff communication system to listen to the suggestions and requests of our staff. We have established different channels to communicate with our employees to strengthen horizontal and vertical communication internally and to foster closer connection between the Company and staff. During the Reporting Period, the Company conducted a company-wide anonymous employee satisfaction survey, covering office environment sanitation, employee activities, office equipment maintenance, daily work of administrative personnel, and administrative work assessment. We adjust and improve the relevant work in a timely manner in terms of the feedback of employees.

Suggestion Box
CardioFlow has set up a suggestion box, hoping to receive opinions and suggestions from employees on the Company through the suggestion box. We will continue to improve, strive to solve problems for employees, and create a good working atmosphere.

Meeting With Senior Management
Meeting With Senior Management has provided a platform for employees to communicate with the management. The activity made full use of lunch time on a working day, senior management are invited to communicate and discuss with employees on the Company's hot topics and key points, aiming to smooth communication at all levels of the Company and effectively convey the voices of junior staff.

Meeting With Staff
Meeting With Staff serves as a platform for the Company's President and the Company's managers/directors to "voice" about business pain points and "talk" about career planning. Through registration, the President communicates and discusses with two managers/directors every week with an aim to understand the current development of each department, formulate future plan and devise blueprint for departmental and personal development.

4. CRAFTSMANSHIP AND VALUE SHARING

4.1 Product Quality Assurance

Product quality is critical to an enterprise. CardioFlow is committed to high quality, we strictly comply with the laws, regulations and standards related to medical devices, constantly improving the quality management system of the Company. The Company keeps on working on its quality assurance system, carrying out a number of product quality management related projects, as well as daily maintenance and continuous optimization of the quality management system. During the Reporting Period, our products was awarded the "First Prize of Shanghai Key Product Quality Research Achievement Award". We have been accredited with ISO 13485, covering the design, manufacture and sale of transcatheter aortic valve, delivery system, loading tool, catheter sheath suite, guidewire, balloon catheter.

Product Quality Award

In June 2021, the project of "Research on the Quality Improvement of Loading and Detachability in Transcatheter Aortic Valve System in Surgery" declared by CardioFlow was awarded the "First Prize of Shanghai Key Product Quality Research Achievement Award".

Management of Adverse Events and Product Recalls

We are responsible for quality assurance, quality evaluation, quality control and quality improvement related work in the product life cycle. We are committed to improving the Company's product risk management and control capabilities. For products with abnormal quality, we conduct timely management and investigation to find out the root causes and solve them. The Company has established a reporting system for adverse events that meets the requirements of the relevant laws and regulations of China, the European Union and other countries and regions, carried out special self-inspection on adverse events, and established a key product monitoring plan. We actively collect adverse events, report them in strict accordance with the principle of "suspicious reporting". In addition, we conduct investigation, analysis and correction of adverse events from the aspects of feedback collection return of physical objects, product internal traceability, risk information, quality system, etc.; The Company is responsible for the post-marketing supervision of products. We have formulated *Feedback Control Procedures*, *Customer Complaint Management Regulations*, *Domestic Adverse Event Monitoring, Re-evaluation and Product Recall System* to control the collection of customer feedback and product recall, and protect the legitimate interests of customers from damage. As at the end of the Reporting Period, there were no recalls for safety and health reasons.

Quality Culture Building

Building a quality culture and conducting in-depth quality education are important ways to improve quality management effectiveness. The Company carries out quality culture training and instillation every year to popularize quality-related knowledge, guide all employees to correct quality values, and accelerate the construction of quality culture. During the Reporting Period, CardioFlow organized 15 internal trainings on medical device supervision and management regulations, sharing of overseas market regulations, non-conforming product control, and relevant procedures for corrective and preventive measures, with a total of 725 participants, which implemented the Company's daily regulations and system requirements.

The first "Quality Month" activity of the Company

During the Reporting Period, CardioFlow carried out the first "Quality Month" activity of the Company with the theme of "Strive together for high quality structural heart diseases products". During the Quality Month, the Company held a variety of activities including senior management lectures, knowledge contests, 6S improvement activities evaluation and quality seminars. The event covered all departments of the Company, with a total of more than 300 participants, accounting for approximately 60% of the total number of employees of the Company. Through publicity and participation in the Quality Month activities, the quality awareness of all employees of the Company has been significantly improved, and the collective cohesion has been significantly improved.

Product quality management training project

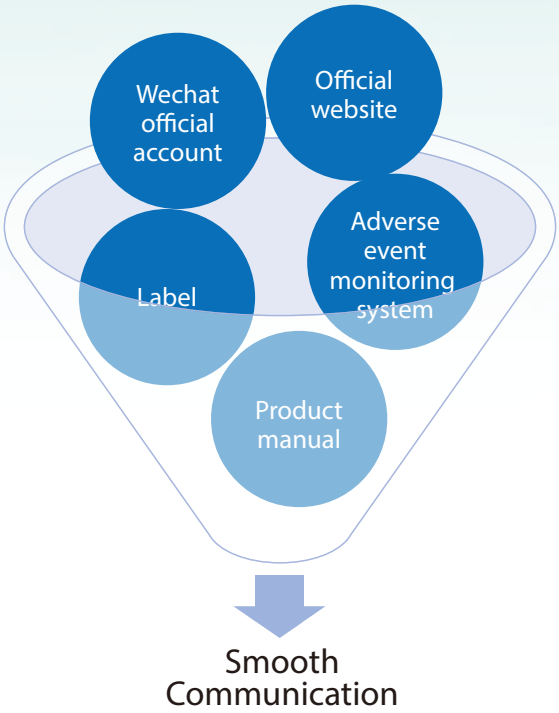
In June 2021, CardioFlow Medical invited the BSI Management Institute of BSI Group Learning Beijing Limited to conduct a 4-day on-site training on EU Medical Device Regulation (EU) 2017/745 (MDR). A total of 43 people participated in the training. All employees received training certificates after the assessment, and the pass rate was 100%.

While improving the quality of our own products, CardioFlow is also continuously promoting the development of the industry. We are deeply involved in the formulation of relevant industry standards. During the Reporting Period, the Company participated in the discussion and verification of two group standards, namely the *Test Method for External Persistency of Transcatheter Implantable Artificial Heart Valve and the Test Method for In Vitro Fluid Power of Transcatheter Implantation Artificial Heart Valve*, and completed the project approval review of the *Test Standard for insoluble Particles of Valve Delivery System Products* to promote the common progress of the industry.

4.2 Adhering to Responsible Services

Improving customer satisfaction is an important basis for enterprises to obtain competitive advantages. Enterprises should analyze customer needs from the perspective of customers and try their best to respect and protect the interests of customers. CardioFlow has established Control Procedures Related to Customers to receive and handle customer complaints as required, analyze and evaluate adverse events, and take corresponding measures to control and reduce the potential use risk of products.

During the Reporting Period, CardioFlow continuously optimized the process of handling customer complaints, simplified the process and improved the processing efficiency. We promise to respond to customer complaints within 24 hours, timely analyze and improve the problems raised by customers, and conduct investigation and feedback. At the same time, CardioFlow established multi-channel communication methods, and provided customers with communication and complaint channels in the product instruction manual, official website, label, and adverse event monitoring system. The contact number and mailbox of Liang Zhi Care Center for Patient were published on the product instruction manual and label. The official website of CardioFlow and its Wechat official account "Shanghai MicroPort CardioFlow" also published relevant information to ensure that the problems are properly resolved. As of the end of the Reporting Period, we have received a total of 8 complaints about our products and services, all of which have been properly resolved.



CardioFlow is committed to providing professional services for every patient, so that patients can feel love and care. We focus on the whole process of patients' medical treatment, actively listen to the feedback of all parties on the use of products and implement targeted improvement measures.

4.3 Innovative R&D management

We implement the innovative concept in all departments and business lines to promote the high-quality development of the Company. Through the integration of scientific and technological innovation and commercialization, we comply with the relevant policies and administrative measures of the countries and regions where the Company is located,. Adhereing to the five principles of "multiple, fast, good, provincial and quasi", we continue to optimize the R&D and innovation management system of CardioFlow, so as to benefit more patients.

We attach great importance to product R&D. The Company has a core R&D team consisting of experts in the fields of biomaterials, structural design and processing technology, which constantly pay attention to new technologies and new materials that may be applied to our products. During the Reporting Period, the team comprised of over 80 members. For research and development of new products, in order to create synergy among various functional departments, we have set up several cross-function project teams which perform multi-function including project management, research and development, processing, procurement, quality, registration, clinical and other functions. We also set up an international scientific advisory committee composed of the world's top scientists and physicians in the cardiovascular field, working together to escort the research and development of new products.

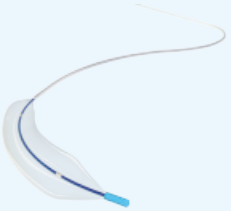
	Awarding Organization	Award Name
Innovation Awards	Ministry of Industry and Information Technology	"Little Giant" enterprises with the feature of specialisation, refinement, uniqueness and innovation

VitaFlow Liberty™

In August 2021, VitaFlow Liberty™ Transcatheter Aortic Valve Valve and Retrievable Delivery System, the second generation of aortic valve replacement product independently developed by CardioFlow Medtech, was approved by the NMPA. It is currently the only delivery system in the PRC market that can achieve 360 degrees bending function of the valve segment. The excellent flexibility can reduce the risk of vascular damage and complications.

Alwide Plus

In August 2021, Alwide Plus, a new generation of heart valve balloon dilatation catheter product independently developed by CardioFlow Medtech, was approved by the NMPA. The Alwide Plus product contains a balloon dilatation size that can achieve more accurate performance, high blasting pressure is suitable for severe calcification lesions, and fast charging/retrieving can minimize the Pacing time. It cooperates with TAVI surgery to reduce the challenge of valve angioplasty in surgery.

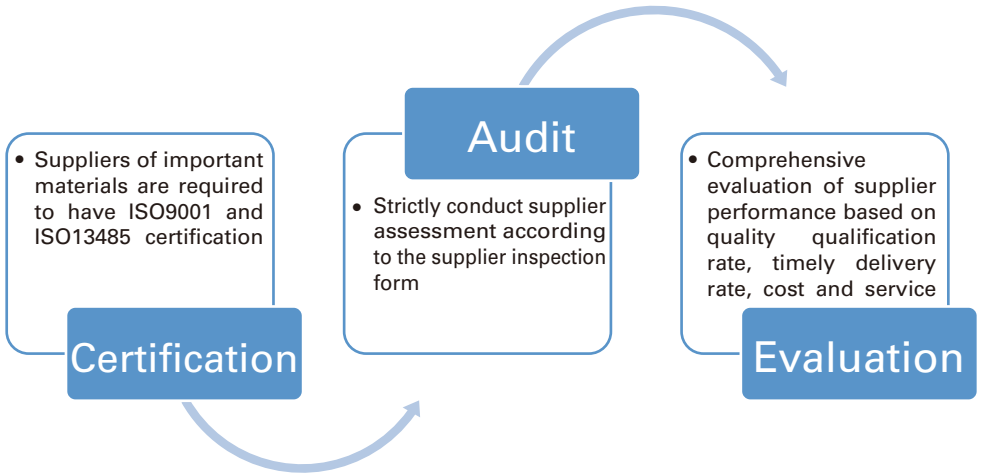


4.4 Responsible Supply Chain

CardioFlow believes that a sound supplier management system will help the sustainable development of both the enterprises and suppliers, and achieve a "win-win" situation between enterprises and suppliers. During the Reporting Period, we established policies related to the Company's procurement and supplier management in compliance with laws and regulations, formulated various procurement plans and strategies, and strictly implemented supplier access audit to ensure the quality of suppliers' products.

CardioFlow has formulated the *Supplier Management Regulations* and corresponding processes and regulations at different stages such as the introduction, evaluation and exit of suppliers. Through regulating the selection, evaluation and re-evaluation of suppliers and the management of qualified suppliers, a safe, stable and effective process has been established to ensure that the purchased products meet the procurement requirements.

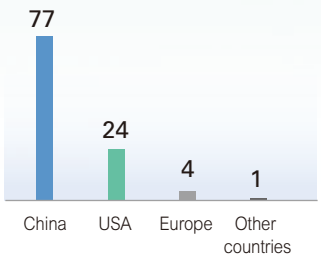
A sound supplier management system plays a positive role in ensuring procurement quality and reducing procurement costs. In order to ensure the quality of our suppliers' products, we require suppliers who provide important materials to be certified with ISO 9001 and ISO 13485 standards, and strictly conduct supplier assessment according to the supplier inspection form. We comprehensively evaluate the performance of suppliers based on quality qualification rate, timely delivery rate, cost and service, to ensure that the products of suppliers meet our quality standards. For suppliers with problems in the assessment, we will request and assist them to make improvements. In addition, the Company is committed to building an integrity supply chain system. We update the procurement agreement in accordance with the integrity documents issued by the Company's legal department and require all suppliers to sign the agreement to ensure that suppliers maintain a honest and self-disciplined working style in cooperation and prevent all kinds of misconduct.



Supplier management system

As at the end of the Reporting Period, CardioFlow has 106 suppliers around the world, a breakdown of our suppliers by geographic region is as follow:

Number of suppliers by geographic region



4.5 Power to Promote Kindness

CardioFlow has always been adhering to the values of saving the lives of patients and improving the quality of life of patients. As a socially responsible enterprise, the Company always gives full attention to its influence, mobilizes resources to give back to the society and send out warmth to more people. CardioFlow, Hubei Charity Federation and ZhongAn Insurance Co., Ltd. have established the "Together as One" Charity Fund, the "Valve" Inclusive Medical Insurance Program, and the Postoperative Pacemaker Insurance Program, etc., to subsidize financially disadvantaged patients to receive the treatment of valve diseases, reduce the burden of treatment costs and allow more patients to return to health.

During the Reporting Period, we carried out a number of public welfare activities, including the volunteer service of Zhangjiang·Dongfang Ai Min Gang, the visit to the elderly living alone on the Double Ninth Festival, and volunteer service to prevent telecom and online fraud on the subway. The employees contributed 235 hours of volunteer service in total.

Zhangjiang·Dongfang Ai Mi Gang Volunteer Service

Zhangjiang·Dong Fang Ai Min Gang is an outdoor worker station operated by Zhangjiang Volunteer Society, which provides convenient services for nearby residents and passers-by, including providing free tea, measuring blood pressure, and answering questions and enquiries. CardioFlow has participated in volunteer services for a long time in Zhangjiang region.

CardioFlow carried out the grass-roots expert education and screening project

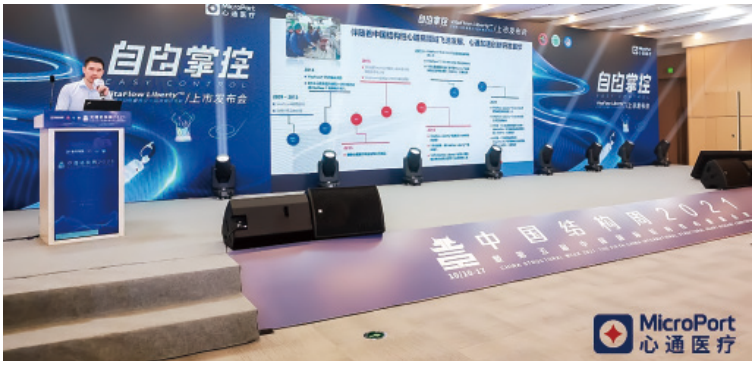
In 2021, the Company carried out primary doctor education on aortic stenosis. We also assist doctors in large-scale patient screening and provide high-quality cutting-edge training for grassroots doctors in second-and third-tier cities, providing primary patients with the opportunity to get the right diagnosis and treatment.

4.6 Promoting Industry Progress

As the world's leading emerging high-tech medical group, we actively share our valuable experience in medical technology with industry partners, and work together with industry partners to promote the development of Chinese medical industry.

CardioFlow made its debut at China Structural Week

The China Structural Reform Week 2021 and the 5th China International Conference on Structural Heart Diseases were held simultaneously across the country. CardioFlow attended the conference with our self-developed second generation TAVI product, VitaFlow Liberty™, and held the launch conference of VitaFlow Liberty™ during the conference, which attracted the attention of many experts in the field of structural heart diseases and triggered the discussion on the development of TAVI surgery by the experts attending the conference.



5. PROTECTING THE EARTH AND LOW-CARBON OPERATION

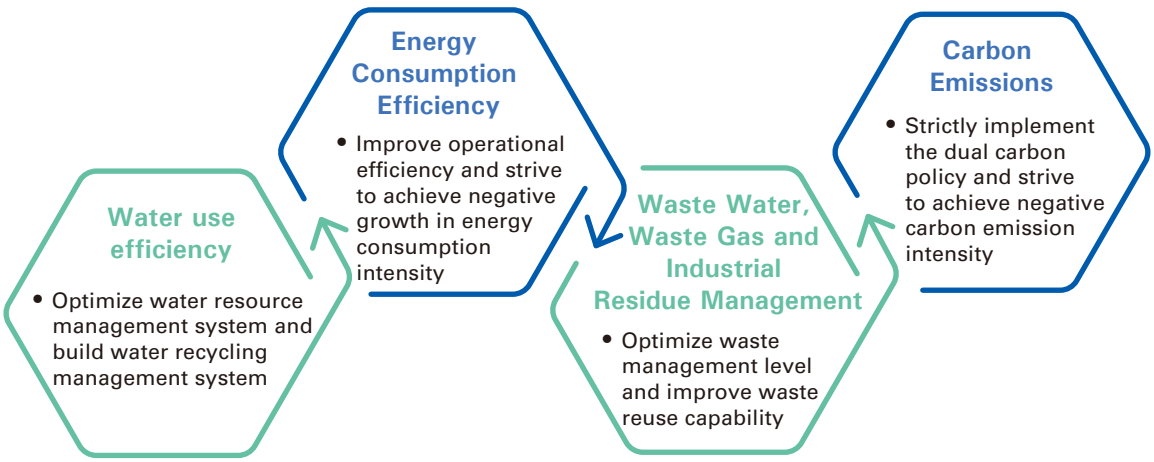
CardioFlow actively responds to the national call for energy conservation and emission reduction, insisting on giving birth to a better environment with green development. We integrate environmental protection and green operation into production and operation, identify and actively respond to climate change risks, comprehensively promote green office, and continuously implemented energy management, water resource management and three waste management to help achieve China's dual carbon goals.[2]

5.1 Response to Climate Change

In strict compliance with the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China and other laws and regulations, as well as the environmental protection regulations of the regions and industries in which we operate. CardioFlow has formulated management procedures such as the Clean Production Management Procedures, the Procedures for Organization of Environment and Related Party Requirements, and the Emergency Plan for Environmental Emergencies. We actively promote the construction of ISO4001 environmental management system and dedicate to the efficient conversion of energy and the efficient use of resources, continuously improve the Company's environmental management level, and effectively implement the concept of green and sustainable development.

In the context of global warming, in order to cope with the risks and impacts caused by extreme weather, we carry out climate change risk identification work in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We incorporate climate change risks into the Internal Audit System to conduct risk assessment on the corresponding climate change risks. At the same time, we invite external consulting agencies to evaluate the Company's environmental emergencies, including environmental identification, potential environmental emergencies and their consequences analysis, existing environmental risk prevention and control and gap analysis of emergency measures, and improvement of the implementation plan of environmental risk prevention and control and emergency measures. Through continuous improvement, the impact of climate change on our business is minimized.

During the Reporting Period, based on the analysis of business development, we formulated the sustainable development goals of CardioFlow for water efficiency, energy consumption efficiency, three wastes management and carbon emissions.



[2] The Dual Carbon Policy refers to the abbreviation of "Carbon Peak" and "Carbon Neutrality". In September 2020, China clearly proposed the targets of "Carbon Peak" for 2030 and "Carbon Neutrality" for 2060.

5.2 Environmental Management

5.2.1 Pollutant Discharge Management

The Company proactively response to the national requirements for waste reduction, continue to strengthen pollutant control, minimize the burden on the environment, earnestly fulfill various environmental compliance obligations, and actively promote the improvement of the ecological environment.

Exhaust Gas

CardioFlow strictly complies with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and has formulated the Air Pollution Prevention and Control Procedures. Our exhaust gas mainly comes from the cleaning, the configuration of immersion solution and the use of experimental reagents in the production process. All exhaust gas is discharged after unified treatment through the activated carbon adsorption device through the pipeline. At the same time, qualified third-party institutions are engaged to carry out exhaust gas testing and issue testing reports every year to ensure compliant emissions.

Exhaust Gas Emissions	Unit	2021	2020
Volatile Organic compounds (VOCs)	Tons	**0.03**	0.03

Wastewater

In terms of wastewater management, we strictly abide by the Law of the People's Republic of China on the Prevention and Control of Water Pollution and formulated the Water Pollution Prevention and Control Procedures. On the basis of ensuring compliant discharge, we improve the management level of wastewater pollutants and reduce the impact of production and operation activities on the environment. The wastewater from our production and operation mainly comes from domestic sewage, pure water cleaning water, injection water cleaning water, sterilization pot drainage and raw brine cleaning wastewater. Third-party hazardous waste disposal companies are engaged to recycle the cleaning wastewater in the production process. The remaining sewage is discharged into the municipal pipe network after passing the test in accordance with the requirements of environmental impact assessment. At the same time, we actively implement rainwater and sewage diversion, and rainwater enters the municipal rainwater pipe network.

Wastewater discharge	Unit	2021	2020
Sewage discharge	Tons	**16,327**	8,328

Waste

As a medical device manufacturing enterprise, we attach great importance to the compliance and reasonable disposal of waste. We strictly abide by the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and other laws and regulations in the places where we operate, and have formulated the Solid Waste Pollution Control Procedures to regulate the disposal methods and processes of waste. The wastes generated in our production and operation process are divided into hazardous wastes (medical wastes and chemical waste liquid) and non-hazardous wastes (general industrial wastes and municipal wastes generated in office operation). For different types of wastes, we have formulated relevant treatment measures according to the recycling requirements to ensure the compliant disposal of various types of wastes while minimizing the generation of wastes.

Hazardous Waste	• Colletcted by department which generated such waste according to category, and transfer toand temporarily stored at the tempory hazardous waste storage as required; • Regularly entrust third-party companies with professional qualifications to carry out harmless treatment.
Non-hazardous Waste	• For general industrial wastes, they are collected and delivered to third parties for recycling every three weeks; • Domestic waste is collected and removed by the sanitation department.

During the Reporting Period, we upgraded the hazardous waste warehouse, replaced the original ground tray with anti-leakage tray, and added a chemical explosion-proof cabinet to improve the safety of hazardous waste temporarily stored before transferring to third-party companies for treatment.

Waste discharge	Unit	2021	2020
Total hazardous waste produced	Tons	**59.39**	28.43
Hazardous waste disposal intensity	Tons/million RMB revenue	**0.30**	0.27
Total non-hazardous waste produced	Tons	**72.80**	19.20
Total non-hazardous waste recycled	Tons	**20.20**	0.10
Non-hazardous waste production intensity	Tons/million RMB revenue	**0.36**	0.18

Noise Management

In terms of noise management, we strictly abide by the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution and have formulated the "Control Procedures for Prevention and Control of Noise Pollution" to continuously monitor the construction or equipment that may cause noise pollution in the plant. When the noise monitoring results show any abnormality, the causes of the abnormality are identified and rectified in a timely manner, so as to reduce the emission of noise while meeting the standards of noise discharge.

5.2.2 Energy Management

CardioFlow pays close attention to the use efficiency of energy. We strictly abide by the Energy Conservation Law of the People's Republic of China and other relevant laws and regulations in the places where we operate, continuing to optimize energy management methods, and strive to reduce energy consumption in all aspects of operations through energy structure optimization and equipment upgrading.

We actively promote the sustainable development concept of employees, enhance their awareness of resource conservation, advocate the concept of green office and green travel, and strive to create a green and healthy office environment by reducing the approval process, using online office supplies and registering import and export personnel to help save energy and reduce emissions.

Energy Performance			
Category	**Unit**	**2021**	**2020**
Indirect energy consumption			
Purchased electricity	kWh	**4,138,579**	3,533,412
Direct energy consumption			
Petrol	kWh	**28,155**	19,140
Comprehensive energy consumption[3]	kWh	**4,166,734**	3,552,552
Comprehensive energy consumption intensity	kWh/million RMB revenue	**20,749**	34,181
Greenhouse Gas Emissions[4]			
Scope 1 greenhouse gas emissions	Tons	**7.16**	4.61
Scope 2 greenhouse gas emissions	Tons	**2,912**	2,486
Total greenhouse gas emissions	Tons	**2,919.16**	2,490.61
GHG emission intensity	Tons/million RMB revenue	**14.53**	23.96

[3] The calculation of comprehensive energy consumption refers to the standard "GB/T 2589-2020 General Rules for Calculation of the Comprehensive Energy Consumption" promulgated by the State Administration for Market Regulation and the Standardisation Administration of China.

[4] The emission factors of greenhouse gases refer to the "Guidelines for Accounting and Reporting of Greenhouse Gas Emissions from Non-Industrial Enterprises (Trial)" published by the National Development and Reform Commission in 2015, and the emission factors of electricity consumption refer to the emission factors of various regions.

5.2.3 Water Management

CardioFlow strictly abides by the Water Law of the People's Republic of China and other water-related laws and regulations in the places where we operate. We have established a water-saving supervision mechanism to continuously monitor the use of water resources in production and operation. When abnormal water consumption is found, we will immediately find out the cause of the abnormal water consumption and carry out rectification measures to continuously strengthen water resource management.

Water resources performance	Unit	2021	2020
Total water consumption	Tons	**23,326**	18,947
Total water consumption intensity	Tons/million RMB revenue	**116.16**	182.30

5.2.4 Packaging Material Management

The packaging materials used in our production process mainly include plastic films, plastic bags, cartons, cardboard boxes, trays and covers, etc. We continuously look for solutions to reduce packaging through technological innovation and recycling of packaging materials.

Packaging material performance	Unit	2021	2020
Total packaging material used for finished products	Tons	**57.40**	52.39
Intensity of packaging materials used in finished products	Tons/million RMB revenue	**0.29**	0.50

APPENDIX I: HKEX ESG GUIDE INDEX

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
A. ENVIRONMENTAL		
Aspect A1	**EMISSION**	
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.	Pollutant Discharge Management Energy Management
KPI A1.1	The types of emissions and respective emissions data.	Pollutant Discharge Management Energy Management
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Energy Management
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Pollutant Discharge Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Pollutant Discharge Management
KPI A1.5	Description of emission target (s) set and steps taken to achieve them.	Response to Climate Change
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and description of reduction target (s) set and steps taken to achieve them.	Response to Climate Change
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 Management Water Management Packaging Material Management
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 Management
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water Management
KPI A2.3	Description of energy use efficiency target (s) set and steps taken to achieve them.	Response to Climate Change

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 target (s) set and steps taken to achieve them.	Response to Climate Change
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Material Management
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Protecting the Earth and Low-carbon Operation
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Protecting the Earth and Low-carbon Operation
Aspect A4	**Climate Change**	
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Response to Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Response to Climate Change
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.	Protection of Employees' Rights
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Protection of Employees' Rights
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Protection of Employees' Rights
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.	Care for Employees
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years, including the reporting year.	Care for Employees

Subject Areas, Aspects, General Disclosures and KPIs		Disclosure Paragraph
KPI B2.2	Lost days due to work injury.	Care for Employees
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Care for Employees
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.	Promoting Talent Development
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Promoting Talent Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	Promoting 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.	Protection of Employees' Rights
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Protection of Employees' Rights
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Protection of Employees' Rights
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Responsible Supply Chain
KPI B5.1	Number of suppliers by geographical region.	Responsible Supply Chain
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.	Responsible Supply Chain
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Responsible Supply Chain
KPI B5.4	Description of practices to promote the use of environmentally friendly products and services when selecting suppliers, and how they are implemented and monitored.	Responsible Supply Chain

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 Assurance Adhering to Responsible Services Intellectual Property Protection Adhering to Marketing Compliance Maintaining Information Security
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Quality Assurance
KPI B6.2	Number of products and services related complaints received and how they are dealt with.	Adhering to Responsible Services
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Protection
KPI B6.4	Description of quality assurance process and recall procedures.	Product Quality Assurance
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Maintaining 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.	Practice of Business Ethics
KPI B7.1	Number of concluded legal proceeding related to corruption brought against the issuer or its employees during the reporting period and the outcomes of the proceedings.	Practice of Business Ethics
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Practice of Business Ethics
KPI B7.3	Description of anti-corruption training provided to directors and employees.	Practice of Business Ethics
Aspect B8	**COMMUNITY INVESTMENT**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Power to Promote Kindness
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Power to Promote Kindness
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Power to Promote Kindness

Independent auditor's report to the shareholders of MicroPort CardioFlow Medtech Corporation
(Incorporated in 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 110 to 188, which comprise the consolidated statements of financial position as at 31 December 2021, 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 2021 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 matters

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

Key audit matters (continued)

Recognition and Measurements of Research and Development Costs

Refer to note 5(d) to the consolidated financial statements and the accounting policies on pages 122 to 123

The Key Audit Matter	How the matter was addressed in our audit
The Group is principally engaged in the research and development ("R&D") of medical devices. The Group incurred R&D costs of RMB151.1 million for the year ended 31 December 2021, mainly consisting of staff costs, third-party contracting costs and cost of materials and consumables. We identified the recognition and measurement of R&D costs as a key audit matter due to its significant amount and risk of R&D-related staff costs, third-party contracting costs and cost of materials and consumables not accurately recognised.	Our procedures to assess the recognition and measurement of R&D costs included the following: • obtaining an understanding of and testing the design and implementation and the operating effectiveness of the key internal controls related to the Group's R&D recognition and measurement process; • inquiring management and R&D project managers about the progress of the R&D projects; • evaluating the accrual and allocation of R&D-related staff costs by checking to the working time records maintained by the R&D project management department; • evaluating the R&D-related costs of materials and consumables by inspecting, on a sample basis, materials and consumables purchase orders, payment slips and other supporting documents; • evaluating the R&D-related third-party contracting costs by inspecting, on a sample basis, the key terms set out in the relevant contracts and evaluating the completion status with reference to the progress reports obtained from each third-party contractor, to assess whether these costs were recorded based on the respective contract terms or completion status; and • evaluating whether the R&D costs were included in the appropriate period by comparing R&D costs paid before and after the balance sheet date, on a sample basis, to relevant underlying documents such as working time records of staff costs, purchase orders and payment slips and invoices and completion status reports from the third-party contractors.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

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

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

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

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

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

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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

29 March 2022

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Revenue	3	**200,813**	103,934
Cost of sales		**(82,112)**	(58,554)
Gross profit		**118,701**	45,380
Other net income	4	**23,857**	14,310
Research and development costs		**(151,132)**	(96,840)
Distribution costs		**(116,415)**	(51,357)
Administrative expenses		**(35,354)**	(45,220)
Fair value changes in financial instruments	28(e)	**23,419**	(64,743)
Other operating costs	5(c)	**(22,314)**	(54,026)
Loss from operations		**(159,238)**	(252,496)
Finance costs	5(a)	**(19,901)**	(146,307)
Share of losses of associates		**(3,502)**	—
Share of (losses)/profits of a joint venture		**(10)**	716
Loss before taxation	5	**(182,651)**	(398,087)
Income tax	6(a)	**(613)**	—
Loss for the year and attributable to equity shareholders of the Company		**(183,264)**	(398,087)
Loss per share	9		
Basic and diluted (RMB)		**(0.08)**	(0.23)

The notes on pages 117 to 188 form part of these financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

	2021 RMB'000	2020 RMB'000
Loss for the year	**(183,264)**	(398,087)
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	**(42,055)**	12,340
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign subsidiaries	**21,976**	76,590
Other comprehensive income for the year	**(20,079)**	88,930
Total comprehensive income for the year and attributable to equity shareholders of the Company	**(203,343)**	(309,157)

The notes on pages 117 to 188 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	10	**267,166**	68,122
Intangible assets	11	**238,752**	234,168
Interest in a joint venture	13	**33,219**	34,007
Interests in associates	14	**176,738**	—
Financial assets measured at fair value through profit or loss	15	**21,052**	49,508
Other non-current assets	16	**25,266**	6,408
		762,193	392,213
Current assets			
Inventories	17	**82,732**	67,769
Trade and other receivables	18	**113,480**	39,400
Pledged and time deposits	19	**192,027**	325
Cash and cash equivalents	19	**2,211,560**	612,474
		2,599,799	719,968
Current liabilities			
Trade and other payables	20	**126,778**	86,059
Contract liabilities		**2,957**	—
Lease liabilities	21	**34,699**	7,202
Derivative financial instruments	24	—	60,371
Other financial liabilities	25	—	1,278,062
		164,434	1,431,694
Net current assets/(liabilities)		**2,435,365**	(711,726)
Total assets less current liabilities		**3,197,558**	(319,513)
Non-current liabilities			
Lease liabilities	21	**90,936**	8,625
Deferred income	23	**2,250**	3,390
Derivative financial instruments	24	**7,898**	13,656
		101,084	25,671
NET ASSETS/(LIABILITIES)		**3,096,474**	(345,184)

	Note	2021 RMB'000	2020 RMB'000
CAPITAL AND RESERVES			
Share capital	27	**83**	60
Reserves		**3,096,391**	(345,244)
TOTAL EQUITY/(DEFICIT)		**3,096,474**	(345,184)

Approved and authorised for issue by the board of directors on 29 March 2022.

Luo Qiyi
Chairman

Chen Guoming
Director

The notes on pages 117 to 188 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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 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		(2)	—	(211,707)	—	—	—	(211,709)
Equity-settled share-based transactions	5(b)	—	—	—	—	43,838	—	43,838
Balance at 31 December 2020 and 1 January 2021		**43**	**17**	**481,837**	**82,703**	**(267,980)**	**(641,804)**	**(345,184)**
Changes in equity for 2021:								
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(183,264)**	**(183,264)**
Other comprehensive income		**–**	**–**	**–**	**(20,079)**	**–**	**–**	**(20,079)**
Total comprehensive income		**–**	**–**	**–**	**(20,079)**	**–**	**(183,264)**	**(203,343)**
Share issued upon the completion of initial public offerings, net of transaction costs	27(c)(i)	**7**	**–**	**2,008,573**	**–**	**–**	**–**	**2,008,580**
Share issued upon exercise of the over allotment option, net of transaction costs	27(c)(ii)	**1**	**–**	**303,155**	**–**	**–**	**–**	**303,156**
Conversion of preferred shares into ordinary shares	27(c)(iii)	**32**	**(17)**	**1,343,046**	**–**	**–**	**–**	**1,343,061**
Share issued under the share option scheme	27(c)(v)	**–**	**–**	**14,330**	**–**	**(7,756)**	**–**	**6,574**
Share repurchased under the share award scheme	27(c)(iv)	**–**	**–**	**–**	**–**	**(41,561)**	**–**	**(41,561)**
Equity-settled share-based transactions	5(b)	**–**	**–**	**–**	**–**	**24,801**	**390**	**25,191**
Balance at 31 December 2021		**83**	**–**	**4,150,941**	**62,624**	**(292,496)**	**(824,678)**	**3,096,474**

The notes on pages 117 to 188 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Renminbi)

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Loss before taxation		**(182,651)**	(398,087)
Adjustments for:			
Amortisation and depreciation	5(d)	**44,423**	24,503
Interest expenses	5(a)	**19,639**	146,150
Interest income on time deposits		**(926)**	(5,224)
Net loss on disposal of property, plant and equipment		**569**	—
Share of losses/(profits) of a joint venture		**10**	(716)
Share of losses of associates		**3,502**	—
Fair value changes in financial instruments		**(23,419)**	64,743
Equity-settled share-based payment	5(b)	**25,048**	43,560
Changes in working capital:			
Increase in inventories		**(14,820)**	(18,267)
Increase in trade and other receivables		**(66,526)**	(10,188)
Increase in trade and other payables		**27,009**	44,178
Decrease in deferred income		**(1,140)**	(90)
Decrease in other non-current assets		**5,555**	3,254
Increase/(decrease) in contract liabilities		**2,839**	(3,567)
Cash used in operations		**(160,888)**	(109,751)
Tax paid		**(613)**	—
Net cash used in operating activities		**(161,501)**	(109,751)
Investing activities			
Payments for the purchase of property, plant and equipment		**(83,422)**	(31,612)
Placement of time deposits		**(194,037)**	—
Payments for intangible assets		**(25,022)**	(26,607)
Interest received		**—**	1,797
Payments for acquisitions of associates and other financial assets		**(134,994)**	—
Net cash used in investing activities		**(437,475)**	(56,422)

	Note	2021 RMB'000	2020 RMB'000
Financing activities			
Capital element of lease rentals paid		**(16,171)**	(6,567)
Interest element of lease rentals paid	19(b)	**(3,030)**	(812)
Lease deposits paid		**(31,123)**	—
Net proceeds from initial public offering	27(c)	**2,008,580**	—
Net proceeds from exercise of the over-allotment options	27(c)	**303,156**	—
Proceeds from shares issued under share option scheme		**6,574**	—
Payment for repurchase of shares		**(41,561)**	—
Repayments of interest-bearing borrowings	19(b)	**—**	(20,000)
Interest paid for interest-bearing borrowings	19(b)	**—**	(1,913)
Proceeds from issuance of series D preferred shares	25	**—**	705,713
Net cash generated from financing activities		**2,226,425**	676,421
Net increase in cash and cash equivalents		**1,627,449**	510,248
Cash and cash equivalents at the beginning of the year		**612,474**	109,263
Effect of foreign exchange rate changes		**(28,363)**	(7,037)
Cash and cash equivalents at the end of the year		**2,211,560**	612,474

The notes on pages 117 to 188 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 disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 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 and associates.

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.

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(f)); and

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

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.

1 Significant accounting policies (continued)

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

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) 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 16, *COVID-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform — phase 2*

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.

(d) 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.

1 Significant accounting policies (continued)

(d) Subsidiaries (continued)

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(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

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

(e) 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.

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 note 1(k)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate 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(k)(i)).

1 Significant accounting policies (continued)

(e) Associates and joint ventures (continued)

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(f)).

(f) 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(v)(iii)).

1 Significant accounting policies (continued)

(f) Other investments in debt and equity securities (continued)

(i) Investments other than equity investments (continued)

— 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 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(v)(ii).

(g) 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.

1 Significant accounting policies (continued)

(h) Property, plant and equipment

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

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

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.

(i) 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 labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(x)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(k)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

1 Significant accounting policies (continued)

(i) Intangible assets (continued)

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(k)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The 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.

(j) 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.

1 Significant accounting policies (continued)

(j) Leased assets (continued)

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

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

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see note 1(f)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions which that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16, *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

1 Significant accounting policies (continued)

(j) Leased assets (continued)

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.

(k) 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, time deposits and trade and other receivables).

Other financial assets measured at fair value, including equity and debt 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

1 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

— 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.

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 increases in credit risk

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

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

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

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

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

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

1 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

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).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(v)(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.

1 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

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.

(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 associates; 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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

1 Significant accounting policies (continued)

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

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

— *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).

— *Reversals of impairment losses*

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

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.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 1(k)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

1 Significant accounting policies (continued)

(l) 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.

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(v)) 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(m) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(n)).

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

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.

1 Significant accounting policies (continued)

(n) 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(m)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs.

All receivables are subsequently stated at amortised cost, using the effective interest method and including allowance for credit losses (see note 1(k)).

Insurance reimbursement is recognized and measured in accordance with the note 1(u)(i).

(o) 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(k).

(p) Trade and other payables

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

(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.

1 Significant accounting policies (continued)

(q) Preferred shares (continued)

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(x)).

(s) 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.

1 Significant accounting policies (continued)

(s) Employee benefits (continued)

(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 certain valuation techniques, 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.

(t) 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.

1 Significant accounting policies (continued)

(t) Income tax (continued)

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

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

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

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

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

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

1 Significant accounting policies (continued)

(t) Income tax (continued)

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.

(u) 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)

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

(i) Provisions and contingent liabilities (continued)

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

(ii) Onerous contracts

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

(v) 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.

1 Significant accounting policies (continued)

(v) Revenue and other income (continued)

(iii) Interest income

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

(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.

(w) Translation of foreign currencies

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

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

1 Significant accounting policies (continued)

(x) 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.

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

1 Significant accounting policies (continued)

(z) 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.

(aa) Repurchase and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is deducted from equity attributable to the Company's equity holders, except for shares repurchased that are qualified as plan assets, which should be measured at fair value and not presented as a deduction from equity. Repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve. When treasury shares are sold or reissued subsequently, the consideration received, net of any directly attributable transaction costs, is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in capital reserve.

2 Accounting judgement and estimates

(a) Critical accounting judgement in applying the Group's accounting policies

Determining the lease term

As explained in policy note 1(j), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

2 Accounting judgement and estimates (continued)

(b) Sources of estimation uncertainty

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:

Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences and cumulative tax losses.

As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 Revenue and segment reporting

(a) Revenue

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

(i) Disaggregation of revenue

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

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of medical devices — point in time	**200,813**	103,934

3 Revenue and segment reporting (continued)

(a) Revenue (continued)

(i) Disaggregation of revenue (continued)

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

	2021 RMB'000	2020 RMB'000
Customer A	**55,463**	N/A*
Customer B	**48,666**	N/A*
Customer C	**N/A***	17,977
Customer D	**N/A***	12,158

* 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

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.

(b) Segment reporting

(i) Segment information

For the purpose of resource allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

(ii) 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 and interest in a joint venture and associates ("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 associates.

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(ii) Geographical information (continued)

Revenue from external customers

	2021 RMB'000	2020 RMB'000
The PRC (place of domicile)	**199,831**	103,934
Other countries	**982**	—
	200,813	103,934

Specified non-current assets

	2021 RMB'000	2020 RMB'000
The PRC (place of domicile)	**523,066**	302,290
North America	**159,590**	49,508
Asia (excluding the PRC)	**33,219**	34,007
	715,875	385,805

4 Other net income

	2021 RMB'000	2020 RMB'000
Government grants (Note)	**3,311**	16,690
Interest income on bank deposits	**24,219**	5,224
Interest income on other financial assets carried at amortised cost	**492**	—
Net loss on disposal of property, plant and equipment	**(569)**	—
Net foreign exchange loss	**(3,565)**	(7,604)
Others	**(31)**	—
	23,857	14,310

Note: Majority of the government grants are subsidies from government for encouragement of research and development projects.

5 Loss before taxation

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

(a) Finance costs

	2021 RMB'000	2020 RMB'000
Interest on other financial liabilities (notes 19(b) & 25)	**16,609**	145,299
Interest on interest-bearing borrowings	**—**	39
Interest on lease liabilities (note 19(b))	**3,030**	812
Total interest expense on financial liabilities not at fair value through profit or loss	**19,639**	146,150
Others	**262**	157
	19,901	146,307

(b) Staff costs#

	2021 RMB'000	2020 RMB'000
Total equity-settled share-based payment cost	**25,191**	43,838
Less: capitalised into cost of inventories	**(143)**	(278)
Equity-settled share-based payment expenses recognised in consolidated statement of profit or loss (note 26)	**25,048**	43,560
Defined contribution retirement plans (Note)	**7,101**	497
Salaries, wages and other benefits	**80,461**	53,038
	112,610	97,095

Note: As stipulated by the labour regulations of the PRC, the Group also participates in various defined contribution retirement plans organised by local governments for its employees. The Group is required to make contributions to the retirement plans at the specified proportion of the eligible employees' salaries. The Group's contributions made to the plans are non-refundable and cannot be used to reduce the future or existing level of contribution of the Group should any forfeiture be resulted from the plans.

5 Loss before taxation (continued)

(c) Other operating costs

	2021 RMB'000	2020 RMB'000
Listing expenses	**5,887**	46,504
Donation (Note)	**15,008**	—
Other legal and professional fee	**—**	7,221
Others	**1,419**	301
	22,314	54,026

Note: During the year ended 31 December 2021, the Group made charitable and other donations to the third-party charitable organisation amounted to RMB15,008,000 (2020: nil).

(d) Other items

	2021 RMB'000	2020 RMB'000
Amortisation of intangible assets (note 11)	**20,880**	15,486
Depreciation charge# (note 10)		
— owned property, plant and equipment	**6,475**	4,061
— right-of-use assets	**17,718**	5,866
Less: Capitalised into development costs	**(650)**	(910)
	23,543	9,017
	44,423	24,503
Research and development expenditure	**176,317**	123,825
Less: Amortisation of capitalised development costs	**(20,631)**	(15,418)
Costs capitalised into development costs	**(25,185)**	(26,935)
	130,501	81,472
Cost of inventories# (note 17(b))	**149,416**	94,186
Auditors' remuneration		
— audit services	**1,535**	3,781
— non-audit services	**7**	955

Cost of inventories includes RMB18,659,000 (2020: 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 2021.

6 Income tax in the consolidated statements of profit or loss

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

	2021 RMB'000	2020 RMB'000
Current tax — PRC Corporate Income Tax ("CIT")		
Provision for the year	**613**	—

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.

The current tax expenses during the year ended 31 December 2021 arose from the interest income on cash deposits in non-resident accounts of the subsidiaries of the Group that were domiciled outside the PRC, which is subject to a PRC withholding tax at a rate of 10%.

Taxation for other entities of the Group is charged at their respective applicable income tax rates ruling in the relevant jurisdictions.

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

	2021 RMB'000	2020 RMB'000
Loss before taxation	**(182,651)**	(398,087)
Notional tax on loss before taxation, calculated at the rates applicable to profit in the countries and districts concerned	**(44,271)**	(24,488)
Effect of other non-deductible expenses	**6,893**	3,666
Effect of additional deduction on research and development expenses	**(16,806)**	(14,825)
Effect of deduction on share-based payment transactions upon the exercise	**(16,962)**	—
Effect of tax losses not recognised	**73,274**	35,647
Effect of non-taxable revenue	**(2,128)**	—
PRC withholding tax paid	**613**	—
Actual tax expenses	**613**	—

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:

	2021					
	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	–	–	–	–	–	–
Executive directors						
Guoming Chen	–	1,222	700	–	1,870	3,792
Luying Yan	–	884	620	–	1,496	3,000
Guojia Wu	–	927	650	–	1,580	3,157
Non-executive directors						
Junjie Zhang	–	–	–	–	–	–
Xia Wu	–	–	–	–	–	–
Independent non-executive directors						
Jonathan H. Chou	192	–	–	–	–	192
Zhixiang Sun	192	–	–	–	–	192
Jiandong Ding (appointed on 27 August 2021)	69	–	–	–	–	69
Hualiang Jiang (resigned on 27 August 2021)	125	–	–	–	–	125
	578	3,033	1,970	–	4,946	10,527

7 Directors' emoluments (continued)

	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	—	—	—	—	7,302	7,302
Executive directors						
Shouyan Lee	—	1,063	—	—	—	1,063
Guoming Chen	—	578	494	—	2,132	3,204
Luying Yan	—	622	330	—	1,665	2,617
Guojia Wu	—	792	396	—	1,919	3,107
Non-executive directors						
Yong Li	—	—	—	—	487	487
Lei Jiang	—	—	—	—	487	487
Zheng Wang	—	—	—	—	—	—
Junjie Zhang	—	—	—	—	—	—
Xia Wu	—	—	—	—	—	—
	—	3,055	1,220	—	13,992	18,267

Notes: 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(s)(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, three (2020: five) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2020: nil) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	**1,142**	—
Discretionary bonuses	**309**	—
Equity-settled share-based payment	**1,421**	—
	2,872	—

The emoluments of the two (2020: nil) individuals with the highest emoluments are within the following bands:

	2021 Number of Individuals	2020 Number of Individuals
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$2,000,000	**2**	—

9 Loss per share

The calculation of the basic loss per share during the year ended 31 December 2021 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 share subdivision as disclosed in note 27(c) had been in effective on 1 January 2020.

The basic loss per share is calculated as follows:

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

	2021 RMB'000	2020 RMB'000
Loss for the year attributable to equity shareholders of the Company	**(183,264)**	(398,087)

9 Loss per share (continued)

(ii) Weighted average number of shares

	2021 '000	2020 '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	**1,211,889**	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
	1,696,137	1,750,000
Effect of reclassification and re-designation to series D preferred shares	**—**	(36,351)
Effect of shares issued upon the completion of initial public offering	**185,903**	—
Effect of shares issued upon exercise of the over-allotment options	**27,378**	—
Effect of conversion of preferred shares into ordinary shares	**419,878**	—
Effect of share options exercised	**3,907**	—
Effect of treasury shares held	**(1,902)**	—
Weighted average number of shares at the end of the year for the purposes of basic loss per share	**2,331,301**	1,713,649

The calculation of diluted loss per share amount for the year ended 31 December 2021 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 (see 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 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 and 1 January 2021	**10,118**	**24,025**	**2,857**	**30,025**	**25,629**	**92,654**
Transfer from construction in progress	**13,792**	**28,276**	**1,137**	**–**	**(43,205)**	**–**
Additions	**–**	**–**	**20**	**132,938**	**91,116**	**224,074**
Disposals	**–**	**(1,186)**	**(6)**	**–**	**–**	**(1,192)**
Modification of lease terms	**–**	**–**	**–**	**(268)**	**–**	**(268)**
At 31 December 2021	**23,910**	**51,115**	**4,008**	**162,695**	**73,540**	**315,268**
Accumulated depreciation and amortisation:						
At 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 and 1 January 2021	**1,702**	**6,590**	**1,032**	**15,208**	**–**	**24,532**
Charge for the year	**2,593**	**3,306**	**576**	**17,718**	**–**	**24,193**
Written back on disposals	**–**	**(618)**	**(5)**	**–**	**–**	**(623)**
At 31 December 2021	**4,295**	**9,278**	**1,603**	**32,926**	**–**	**48,102**
Net book value:						
At 31 December 2021	**19,615**	**41,837**	**2,405**	**129,769**	**73,540**	**267,166**
At 31 December 2020	8,416	17,435	1,825	14,817	25,629	68,122

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:

	2021 RMB'000	2020 RMB'000
Properties leased for own use, carried at depreciated cost	**129,769**	14,817

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

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use	**17,718**	5,866
Interest on lease liabilities (note 5(a))	**3,030**	812
Expense relating to short-term leases (note 30(e))	**129**	124

During the year ended 31 December 2021, additions to the right-of-use assets were RMB132,938,000 (2020: RMB4,279,000). 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 19(c) and 21, respectively.

The Group leases manufacturing plants, warehouses and office buildings under leases expiring in no more than five 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 2020	230,135	197	230,332
Additions	26,679	484	27,163
At 31 December 2020 and 1 January 2021	**256,814**	**681**	**257,495**
Additions	**25,185**	**279**	**25,464**
At 31 December 2021	**281,999**	**960**	**282,959**
Accumulated amortisation:			
At 1 January 2020	7,709	132	7,841
Amortisation charge for the year	15,418	68	15,486
At 31 December 2020 and 1 January 2021	**23,127**	**200**	**23,327**
Amortisation charge for the year	**20,631**	**249**	**20,880**
At 31 December 2021	**43,758**	**449**	**44,207**
Net book value:			
At 31 December 2021	**238,241**	**511**	**238,752**
At 31 December 2020	233,687	481	234,168

Capitalised development costs as of 31 December 2021 were all related to the products that have obtained the registration certificate by the National Medical Products Administration (2020: RMB131,049,000). Majority of amortisation of intangible assets is recognised in research and development costs.

(Expressed in Renminbi unless otherwise indicated)

12 Investments in subsidiaries

The following list contains only the particulars of a subsidiary 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 2021**	As at 31 December 2020	**Principal activities**
MP CardioFlow (上海微創心通醫療科技有限公司) (Note)	The PRC	RMB970 million	**100%**	100%	Research and development manufacture and sale of medical devices treating valvular heart diseases

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

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 activities**
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.

13 Interest in a joint venture (continued)

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).

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

	2021 RMB'000	2020 RMB'000
Gross amounts of Rose Emblem		
Non-current assets	**65,179**	66,705
Current liabilities	**(44)**	(25)
Equity	**65,135**	66,680
(Loss)/profit for the year	**(20)**	1,404
Other comprehensive income	**(2,594)**	(4,486)
Total comprehensive income	**(2,614)**	(3,082)
Reconciled to the Group's interests in Rose Emblem		
Gross amounts of Rose Emblem's net assets	**65,135**	66,680
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	**33,219**	34,007

(Expressed in Renminbi unless otherwise indicated)

14 Interests in associates

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

				Proportion of ownership interest			
Name of associate	**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**
4C Medical	Incorporated	United States	4,693,539 ordinary shares and 32,944,797 preferred shares	19%	11%	8%	Research and development of medical devices treating mitral valve diseases

4C Medical

In September 2018, the Group entered into a subscription and shareholders agreement with 4C Medical, pursuant to which, the Group purchased series A preferred shares of 4C Medical at the consideration of US$6,000,000. Further in April 2019, the Group purchased series B preferred shares of 4C Medical at the consideration of US$1,000,000. As at 31 December 2020, these investments in 4C Medical were classified as financial assets measured at FVPL.

In June 2021, the Group entered into a note purchase agreement with 4C Medical, pursuant to which, the Group purchased the unsecured convertible promissory notes issued by 4C Medical (the "Notes") at the consideration of US$5,000,000 (equivalent to RMB31,897,000). The Notes bore the interest at a rate of 6% per annum and the principal and accrued interest was due and payable in March 2022 (the "Maturity Date"). The Notes shall be automatically converted into the shares of the identical series of preferred shares issued by 4C Medical in the next qualified equity financing before the Maturity Date. Such investment was classified as financial assets measured at FVPL initially.

In November 2021, the Group entered into a series C preferred shares purchase agreement with 4C Medical, pursuant to which, (i) the Group purchased series C preferred shares newly issued by 4C Medical at a cash consideration of US$10,000,000 (equivalent to RMB63,794,000); and (ii) the Notes were converted into series C preferred shares (the "4C Transaction"). Upon the completion of the 4C Transaction in November 2021 the Group held approximately 19% interest in 4C Medical in aggregate on an as-converted basis and the management determined that the Group has significant influence thereon through the board representation. Accordingly, 4C Medical became an associate of the Group. The fair value of the previously held investments in 4C Medical, including series A preferred shares, series B preferred shares and the Notes, at the Closing Date amounting to US$15,520,000 (equivalent to RMB99,009,000) formed part of initial cost of the investment in an associate.

14 Interests in associates (continued)

Shanghai MicroPort Shield Medtech Co., Ltd. ("MP Shield")

On 24 May 2021, the Group entered into the joint venture agreement with Milford Haven Global Limited ("Milford Haven"), a fellow subsidiary of the Group, and a third party, pursuant to which, the Group, Milford Haven and the third party contributed RMB17,500,000, RMB25,000,000, and RMB7,500,000 respectively, in cash to MP Shield. The Group held 35% equity interests in MP Shield. The directors of the Company considered MP Shield is an associate of the Group upon the completion of the transaction.

The associates of the Group are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of the material associate, adjusted by any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2021 RMB'000
Gross amounts of 4C Medical	
Non-current assets	**14,132**
Current assets	**152,376**
Current liabilities	**(19,559)**
Equity	**146,949**
Loss for the period from the Closing Date to 31 December 2021 and total comprehensive income	**(14,426)**
Reconciled to the Group's interests in 4C Medical	
Gross amounts of 4C Medical's net assets	**146,949**
Group's effective interest	**19%**
Group's share of 4C Medical's net assets	**28,048**
Goodwill	**131,908**
Carrying amount of the Group's interest in 4C Medical	**159,956**

Information of an associate that is not individually material:

	2021 RMB'000
Carrying amount of an immaterial associate in the consolidated financial statements	**16,782**
Amounts of the Group's share of the immaterial associate	
Loss for the year and total comprehensive income	**718**

15 Equity and debt investments

	2021 RMB'000	2020 RMB'000
Financial assets measured at FVPL		
— Unlisted debt securities outside Hong Kong	**21,052**	—
— Unlisted equity securities outside Hong Kong	**—**	49,508
	21,052	49,508

As at 31 December 2021, the Group held convertible instruments (the "Convertible Instruments") issued by Valcare with carrying amount of US$3,302,000 (equivalent to RMB21,052,000). The Convertible Instruments is unsecured and interest-free. The Convertible Instruments shall be repayable on demand upon the certain liquidation events and will be automatically converted into the most senior preferred shares of Valcare upon the occurrence of the next equity financing of Valcare at a discounted price.

As at 31 December 2020, the balance of financial assets measured at FVPL represents Group's investments in 4C Medical, which were transferred to "interest in associates" account in 2021 (see note 14).

16 Other non-current assets

	2021 RMB'000	2020 RMB'000
Lease deposits (Note)	**25,266**	853
Value-added tax recoverable	**—**	5,555
	25,266	6,408

Note: Lease deposits are typically paid for leased properties, which are refundable after the expiry of the leases and carried at amortised cost. During the year ended 31 December 2021, the Group entered into a 5-year lease agreement (the "Lease Agreement") with Shanghai Weichuang Investment Management Co., Ltd. ("SW Investment") in respect of certain leasehold properties for use of manufacturing facilities, warehouses and office buildings. As at 31 December 2021, the carrying amount of lease deposits paid to SW Investment is RMB24,943,000.

17 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2021 RMB'000	2020 RMB'000
Raw materials	**49,864**	29,083
Work in progress	**24,283**	27,738
Finished goods	**8,585**	10,948
	82,732	67,769

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	**82,112**	58,554
Write-down of the inventories	**67**	3,880
Cost of inventories directly recognised as research and development costs and other expenses	**67,237**	31,752
	149,416	94,186

18 Trade and other receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	**74,707**	4,664
Value-added tax recoverable	**23,932**	21,807
Other debtors	**137**	3,684
Deposits and prepayments	**14,704**	9,245
	113,480	39,400

All of the current trade and other receivables are expected to be recovered or recognised as expense within one year.

18 Trade and other receivables (continued)

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 loss allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 month	**74,165**	4,664
1 to 3 months	**542**	—
	74,707	4,664

19 Pledged and time deposits, cash and cash equivalents and other cash flow information

(a) Pledged and time deposits and cash and cash equivalents

	2021 RMB'000	2020 RMB'000
Pledged and time deposits		
Time deposits with original terms over 3 months	**191,702**	—
Pledged deposits	**325**	325
	192,027	325
Cash and cash equivalents		
Deposits with banks	**2,211,560**	612,474

19 Pledged and time deposits, cash and cash equivalents and other cash flow information (continued)

(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.

	Other financial liabilities RMB'000 (note 25)	Lease liabilities RMB'000 (note 21)	Total RMB'000
At 1 January 2021	**1,278,062**	**15,827**	**1,293,889**
Changes from financing cash flows:			
Capital element of lease payments	**—**	**(14,014)**	**(14,014)**
Interest element of lease payments	**—**	**(3,030)**	**(3,030)**
Total changes from financing cash flows	**—**	**(17,044)**	**(17,044)**
Exchange adjustments	**(12,633)**	**—**	**(12,633)**
Other changes:			
Increase in lease liabilities from entering into new leases during the year	**—**	**124,090**	**124,090**
Modification of lease terms	**—**	**(268)**	**(268)**
Issuance of series D preferred shares upon the exercise of Series D Adjustment (note 25)	**61,023**	**—**	**61,023**
Conversion of preferred shares into ordinary shares (note 27)	**(1,343,061)**	**—**	**(1,343,061)**
Interest charge (note 5(a))	**16,609**	**3,030**	**19,639**
	(1,265,429)	**126,852**	**(1,138,577)**
At 31 December 2021	**—**	**125,635**	**125,635**

19 Pledged and time deposits, 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 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

19 Pledged and time deposits, 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

(c) Total cash outflow for leases

	2021 RMB'000	2020 RMB'000
Within investing cash flows	**—**	350
Within financing cash flows	**19,201**	7,379
	19,201	7,729

All these amounts relate to the lease rentals paid.

20 Trade and other payables

	2021 RMB'000	2020 RMB'000
Trade payables due to		
— third party suppliers	**51,895**	14,645
— related parties	**3,027**	898
	54,922	15,543
Accrued payroll	**20,118**	15,074
Other payables and accrued charges	**51,738**	55,442
	126,778	86,059

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 the invoice date is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 month	**51,964**	15,231
Over 1 month but within 3 months	**1,403**	224
Over 3 months but within 6 months	**715**	—
Over 6 months but within 1 year	**446**	15
Over 1 year	**394**	73
	54,922	15,543

21 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period.

	2021 RMB'000	2020 RMB'000
Within 1 year	**34,699**	**7,202**
After 1 year but within 2 years	**27,325**	**6,972**
After 2 years but within 5 years	**63,611**	**1,653**
	90,936	**8,625**
	125,635	**15,827**

22 Income tax in the consolidated statements of financial position

In accordance with the accounting policy set out in note 1(t), the Group has not recognised deferred tax assets in respect of cumulative tax losses attributable to certain subsidiary of RMB665,738,000 at 31 December 2021 (2020: RMB405,708,000) due to the unpredictability of future taxable profits in the relevant tax jurisdiction and entity.

As at 31 December 2021, the tax losses incurred by PRC subsidiaries of RMB665,738,000 will expire in the period from 2026 to 2031.

23 Deferred income

	Government subsidies for research and development projects RMB'000
At 1 January 2020	3,480
Additions	760
Transfers to other payables	(790)
Government grant recognised as other income	(60)
At 31 December 2020 and 1 January 2021	**3,390**
Government grant recognised as other income	**(1,140)**
At 31 December 2021	**2,250**

24 Derivative financial instruments

	2021 US$'000	2020 US$'000
Derivative financial liabilities		
Non-Current		
Put option written to Witney Global Limited ("Witney Put Option")	**7,898**	13,656
Current		
Series D Adjustment (as defined in note 25)	**—**	60,371

In January 2019, the Group granted a put option to Witney Global Limited ("Witney") 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 Witney's investments in 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 2.77% per annum by cash.

Witney Put Option is recognised as a derivative financial liability. As at 31 December 2021, the fair value of the Witney Put Option was RMB7,898,000 (2020: RMB13,656,000). 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

The Company issued series C preferred shares and series D preferred shares to several investors in 2019 and 2020, respectively.

The redemption obligation feature attached in the series C preferred shares and series D preferred shares 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 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%.

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 investors (the "Series D Adjustment"). This is a separate component from the conversion feature and is recognised as derivative financial liabilities, which is measured at fair value through profit or loss.

In January 2021, the Company issued additional series D preferred shares upon the exercise of the Series D Adjustment. The carrying amount of the derivative financial liabilities of US$9,446,000 (equivalent to RMB61,023,000), being the fair value of the Series D Adjustment at the issuance date, were transferred to other financial liabilities.

Upon the completion of the initial public offering of the Company in February 2021, all the preferred shares issued by the Company were automatically converted into ordinary shares of the Company.

The movements of other financial liabilities during the year ended 31 December 2021 are set out in note 19(b).

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 HK$
Options granted to executives and employees of the Group				
31 March 2020	66,575,000	81,138	1.22	1.13
31 March 2021	8,000,000	29,463	3.68	13.72
4 October 2021	3,100,000	6,084	1.96	6.41
	77,675,000			
Options granted to directors and employees of MPSC and its subsidiaries				
31 March 2020	16,140,000	19,519	1.22	1.13
	93,815,000			

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.

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:

	2021		2020	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.13**	**71,909**	—	—
Granted during the year	**11.68**	**11,100**	1.13	82,715
Exercised during the year	**1.13**	**(6,554)**	—	—
Cancelled during the year	**1.13**	**(320)**	—	—
Forfeited during the year	**2.39**	**(8,273)**	1.13	(10,806)
Outstanding at the end of the year	**2.70**	**67,862**	1.13	71,909
Exercisable at the end of the year	**1.13**	**7,777**	—	—

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from March 2030 through October 2031. As at 31 December 2021, the weighted average remaining contractual life for the share options granted under Share Option Scheme was 8.43 years (2020: 9.25 years).

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The share price was determined by the closing price of the shares at the grant date for the year ended 31 December 2021, while back-solve method was used to determine the equity fair value of the ordinary shares of the Company during the year ended 31 December 2020. 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.

(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)

Fair value of share options and assumptions

	2021	2020
Fair value at measurement dates	**RMB1.66–RMB4.56**	RMB1.18–RMB1.26
Share price	**HK$6.41–HK$13.72**	HK$1.13
Exercise price	**HK$6.41–HK$13.72**	HK$1.13
Expected volatility	**42.21%–42.99%**	36.27%
Option life	**10 years**	10 years
Expected dividend yield	**0.00%**	0.00%
Risk-free interest rate	**1.40%–1.56%**	0.68%

(b) Share award scheme (equity-settled)

Pursuant to a share award scheme approved by the board of directors of the Company in March 2021, the Company may purchase its own shares and grant such shares to certain directors, employees, consultants and advisors of the Group.

For the year ended 31 December 2021, the Company purchased 6,342,000 shares (2020: nil) at a cash consideration of RMB41,561,000 (2020: nil). No shares were granted up to 31 December 2021.

The consideration paid for the purchase of the Company's shares is reflected as a decrease in a capital reserve of the Company.

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 RMB398,000 for the year ended 31 December 2021 (2020: RMB957,000).

(d) Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss:

	2021 RMB'000	2020 RMB'000
Cost of sales	**2,514**	1,734
Research and development costs	**11,633**	12,042
Distribution costs	**7,033**	4,815
Administrative expenses	**3,868**	24,969
	25,048	43,560

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 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		(2)	—	(211,707)	—	—	—	(211,709)
Equity-settled share-based transactions		—	—	—	42,881	—	—	42,881
Balance at 31 December 2020 and 1 January 2021		**43**	**17**	**481,837**	**(412,992)**	**(239)**	**(266,020)**	**(197,354)**
Changes in equity for 2021								
Loss and total comprehensive income		**–**	**–**	**–**	**–**	**(42,055)**	**(26,153)**	**(68,208)**
Share issued upon the completion of initial public offering, net of transaction costs	27(c)(i)	**7**	**–**	**2,008,573**	**–**	**–**	**–**	**2,008,580**
Share issued upon exercise of the over-allotment option, net of transaction costs	27(c)(ii)	**1**	**–**	**303,155**	**–**	**–**	**–**	**303,156**
Conversion of preferred shares into ordinary shares	27(c)(iii)	**32**	**(17)**	**1,343,046**	**–**	**–**	**–**	**1,343,061**
Share repurchased under the share award scheme	27(c)(iv)	**–**	**–**	**–**	**(41,561)**	**–**	**–**	**(41,561)**
Share issued under the share option scheme	27(c)(v)	**–**	**–**	**14,330**	**(7,756)**	**–**	**–**	**6,574**
Equity-settled share-based transactions		**–**	**–**	**–**	**24,403**	**–**	**390**	**24,793**
Balance at 31 December 2021		**83**	**–**	**4,150,941**	**(437,906)**	**(42,294)**	**(291,783)**	**3,379,041**

27 Capital and reserves (continued)

(b) Dividends

The directors of the Company did not propose the payment of any dividend during the year ended 31 December 2021 (2020: nil).

(c) Share capital

Authorised

As of 1 January 2021, 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.

On 15 January 2021, 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 of US$0.000005 each.

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 1 January 2020		63,288	45	24,212	17
Reclassification and re-designation to series D preferred shares		(2,693)	(2)	—	—
Balance at 31 December 2020 and 1 January 2021		**60,595**	**43**	**24,212**	**17**
Effect of the share subdivision	27(c)	**1,151,293**	**—**	**460,036**	**—**
Share issued upon the completion of initial public offering, net of transaction costs	27(c)(i)	**205,620**	**7**	**—**	**—**
Share issued upon exercise of the over-allotment option, net of transaction costs	27(c)(ii)	**30,843**	**1**	**—**	**—**
Conversion of preferred shares into ordinary shares	27(c)(iii)	**948,659**	**32**	**(484,248)**	**(17)**
Share issued under the share option scheme	27(c)(v)	**6,554**	**—**	**—**	**—**
Balance at 31 December 2021		**2,403,564**	**83**	**—**	**—**

27 Capital and reserves (continued)

(c) Share capital (continued)

Issued and fully paid (continued)

(i) On 4 February 2021, the Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"). The Company issued 205,620,000 ordinary shares at the price of HK$12.2 per share and received the net proceeds of HK$2,420 million (equivalent to RMB2,008,580,000), after deducting all capitalised listing expenses. Out of the net proceeds from the listing, RMB7,000 and RMB2,008,573,000 were credited to the Company's share capital and share premium account, respectively.

(ii) 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 and the Company received the net proceeds of HK$365 million (equivalent to RMB303,156,000), after deducting all capitalized listing expenses. Out of the net proceeds from the exercise of the over-allotment options, RMB1,000 and RMB303,155,000 were credited to the Company's share capital and share premium account, respectively.

(iii) Upon the completion of the Listing, 484,248,000 series B preferred shares were converted into 484,248,000 ordinary shares of the Company. Accordingly, the carrying amount of preferred share capital were all transferred into ordinary share capital.

Meanwhile, 225,000,000 series C preferred shares and 239,411,000 series D preferred shares were converted into 464,411,000 ordinary shares of the Company in aggregate, resulting in an transfer of the carrying amount of other financial liabilities of RMB1,343,061,000 to ordinary share capital of RMB15,000 and share premium of RMB1,343,046,000, respectively.

(iv) Purchase of own shares

During the year ended 31 December 2021, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregated price paid RMB'000
September 2021	**6,342,000**	**8.22**	**7.53**	**41,561**

The repurchased shares held at the end of reporting period are classified as treasury shares and are presented as a decrease in the capital reserve.

27 Capital and reserves (continued)

(c) Share capital (continued)

Issued and fully paid (continued)

(v) Shares issued under share option scheme

During the year ended 31 December 2021, options were exercised to subscribed for 6,554,000 ordinary shares in the Company at a total consideration of RMB6,574,000, of which nil and RMB6,574,000 was credited to share capital and share premium, respectively. RMB7,756,000 was transferred from the capital reserve to the share premium account in accordance with policies set out in note 1(s)(ii).

(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(w).

(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(s)(ii);

— the consideration paid for the purchase of the Company's shares under the share award scheme;

— 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 2021 was RMB3,096,474,000 (2020: RMB932,878,000) and the debt-to-capital ratio is 4.1%, (2020: 1.7%).

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 represent low credit risk. The Group's exposure to credit risk arising from refundable rental deposits is considered to be low taking into account the remaining lease term and the period to be covered by the rental deposits.

Management has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit period. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 120 days from the date of billing. Debtors with balances that are overdue are requested to settle all outstanding balances before any further credit is granted. The Group does not obtain collateral from customers.

28 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

The Group has significant concentrations of credit risk primarily arise from the significant exposure to individual customers. At the end of the reporting period, 54% (2020: 100%) and 99% (2020: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs. The management has assessed as at 31 December 2021, the default risk of trade receivable is insignificant and no loss allowance provision for trade receivables was recognised.

The management has assessed that during the year ended 31 December 2021, 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 other receivables was remote and loss allowance provision for other receivables was immaterial.

(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.

28 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

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 2021 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	**129,606**	**—**	**—**	**—**	**129,606**	**126,778**
Lease liabilities	**35,486**	**29,301**	**71,871**	**—**	**136,658**	**125,635**
	165,092	**29,301**	**71,871**	**—**	**266,264**	**252,413**

	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

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 and lease liabilities. The Group's interest-bearing financial instruments at variable rates as at 31 December 2021 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 risk profile as monitored by management is set out below.

	2021		2020	
	Effective interest rate	**Amount RMB'000**	Effective interest rate	Amount RMB'000
Net fixed rate instruments:				
Deposits with banks	**0.60%–1.75%**	**192,027**	1.75%	325
Cash at banks	**2.03%**	**60,000**	2.03%	406,000
Lease liabilities	**4.90%–5.37%**	**(125,635)**	5.23%–5.37%	(15,827)
Other financial liabilities	**N/A**	**—**	15.00%	(1,278,062)
		126,392		(887,564)
Net variable rate instruments:				
Cash at banks	**0.1%–0.35%**	**2,151,560**	0.1%–0.35%	206,474
		2,277,952		(681,090)

28 Financial risk management and fair values of financial instruments (continued)

(d) Currency risk

The Group is exposed to currency risk primarily through purchases which give rise to receivables and payables, deposits with bank and derivative financial instruments 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 Hong Kong dollars ("HK$"), Euros and US$.

(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)					
	2021			2020		
	HK$	**Euros**	**US$**	HK$	Euros	US$
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	**23,643**	**—**	**217**	—	—	8,901
Trade and other payables	**—**	**(3,835)**	**(2,118)**	—	(2,859)	(1,291)
Trade receivables	**—**	**—**	**542**	—	—	—
Derivative financial instruments	**—**	**—**	**(7,898)**	—	—	(13,656)
Net exposure arising from recognised assets and liabilities	**23,643**	**(3,835)**	**(9,257)**	—	(2,859)	(6,046)

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.

	2021		2020	
	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
HK$ (against RMB)	**3%**	**709**	3%	—
	(3)%	**(709)**	(3)%	—
Euros (against RMB)	**3%**	**(115)**	3%	(86)
	(3)%	**115**	(3)%	86
US$ (against RMB)	**3%**	**(278)**	3%	(181)
	(3)%	**278**	(3)%	181

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 2021 and 2020.

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 2021	Fair value measurements as at 31 December 2021 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Convertible instruments issued by Valcare (note 15)	**21,052**	**—**	**21,052**	**—**
Financial liabilities:				
Derivative financial instruments				
— Witney Put Option (note 24)	**(7,898)**	**—**	**—**	**(7,898)**

	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 15)	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)

(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 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of each of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the unlisted debt securities in Level 2 is determined by the recent transaction price.

Information about Level 3 fair value measurement

	Valuation techniques	Significant unobservable inputs
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)

Note As at 31 December 2021, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increased/decreased the Group's loss by RMB1,580,000/RMB1,580,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB1,139,000/RMB1,124,000.

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 2021 in the balance of these Level 3 fair value measurements are as follows:

	Financial assets RMB'000	Financial liabilities RMB'000
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 and at 1 January 2021	**49,508**	**(74,027)**
Exchange adjustments	**(1,296)**	**594**
Exercise of Series D Adjustment (note 25)	**—**	**61,023**
Transferred into interests in associates	**(66,420)**	**—**
Changes in fair value recognised in profit or loss during the year	**18,208**	**4,512**
At 31 December 2021	**—**	**(7,898)**

(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 2021 and 2020.

29 Commitments

Commitments outstanding at 31 December 2021 not provided for in the financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Contracted for	**44,083**	21,324
Authorised but not contracted for	**133,853**	168,228
	177,936	189,552

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:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	**3,231**	3,055
Discretionary bonuses	**1,970**	1,220
Equity-settled share-based payment expenses	**5,336**	5,716
	10,537	9,991

(b) List of related parties

Particulars of the Group's related parties which the Group had transactions with during the year ended 31 December 2021 and 2020 are as follows:

Name of party	**Relationship**
MPSC	Ultimate controlling party of the Group
AccuPath Medtech (Jiaxing) Co., Ltd. ("AccuPath")	Equity-accounted investee of MPSC (Note)
Innovational Holding LLC ("MPI")	Subsidiary of MPSC
MicroPort Sorin CRM (Shanghai) Co., Ltd.	Subsidiary of MPSC
Shanghai Safeway Medtech Co., Ltd. ("Safeway")	Subsidiary of MPSC
MicroPort Medical B.V. ("MPMBV")	Subsidiary of MPSC
Shanghai MicroPort Meidcal (Group) Co., Ltd. ("Shanghai MicroPort Medical")	Subsidiary of MPSC
Jiaxing MicroPort Medtech Co., Ltd.	Subsidiary of MPSC
Shanghai MicroPort Cova-cloud Medtech Co., Ltd.	Subsidiary of MPSC
MicroPort Brasil Produtos Medicos Ltda.	Subsidiary of MPSC
SuZhou ProSteri Medical Technology Co., Ltd.	Equity-accounted investee of MPSC
MicroPort D-pulse Medtech (Jiaxing) Co., Ltd.	Subsidiary of MPSC
Rosefinch Swallow (Shanghai) Medtech Co., Ltd.	Subsidiary of MPSC
Shanghai HuaRui Bank Co., Ltd. ("SHRB")	Equity-accounted investee of MPSC

Note: AccuPath was previously the fellow subsidiaries of the Group and became the equity-accounted investee of MPSC since January 2021.

30 Material related party transactions (continued)

(c) Leasing arrangement with related parties

The Group entered into lease contracts in respect of certain leasehold properties from Shanghai MicroPort Medical for its operation. As at 31 December 2021, the Group recorded lease liabilities of RMB4,445,000 due to Shanghai MicroPort Medical (2020: RMB8,617,000). For the year ended 31 December 2021, the finance cost arising from leasing arrangements charged to the consolidated profit or loss is RMB332,000 (2020: RMB546,000).

(d) Cash deposited in a related party

As at 31 December 2021, the Group has deposited cash amounted to RMB386,000 in SHRB, with interest rate of 0.35% per annum during the year ended 31 December 2021.

(e) Other transactions with related parties

	2021 RMB'000	2020 RMB'000
Purchase of goods from subsidiaries of MPSC	**776**	1,307
Purchase of goods from an equity-accounted investee of MPSC	**485**	—
Service fee charged by subsidiaries of MPSC	**7,172**	4,214
Service fee charged by equity-accounted investees of MPSC	**500**	—
Short-term operating lease charges by a subsidiary of MPSC	**129**	124

As disclosed in note 14, the Group entered into the joint venture agreement with Milford Haven, a wholly-own subsidiary of MPSC, pursuant to which, the Group and Milford Haven contributed RMB17,500,000 and RMB25,000,000, respectively, in cash to MP Shield.

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions with subsidiaries and equity-accounted investees of MPSC constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the paragraph "Connected transactions" in the reports of the directors.

31 Company-level statement of financial position

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Investment in subsidiaries		**3,206,845**	1,162,996
Interests in an associate		**94,998**	—
Financial assets measured at fair value through profit or loss		**21,052**	—
		3,322,895	1,162,996
Current assets			
Other receivables		**265**	3,260
Cash and cash equivalents		**72,955**	19,258
		73,220	22,518
Current liabilities			
Other payables		**17,074**	44,435
Derivative financial liabilities	25	**—**	60,371
Other financial liabilities	25	**—**	1,278,062
		17,074	1,382,868
Net current assets/(liabilities)		**56,146**	(1,360,350)
Total assets less current liabilities		**3,379,041**	(197,354)
NET ASSETS/(LIABILITIES)		**3,379,041**	(197,354)
CAPITAL AND RESERVES	27		
Share capital		**83**	60
Reserves		**3,378,958**	(197,414)
TOTAL EQUITY/(DEFICIT)		**3,379,041**	(197,354)

(Expressed in Renminbi unless otherwise indicated)

32 Immediate and ultimate controlling parties

As at 31 December 2021, 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 2021, 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 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
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 2023
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to HKAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale of 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 developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.


MicroPort
心通医疗