

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I-62, received from the Company’s reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

[Letterhead of KPMG]

ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MICROPORT NEUROTECH LIMITED AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of MicroPort NeuroTech Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-62, which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 and 31 August 2021 and the statements of financial position of the Company as at 31 December 2020 and 31 August 2021 and 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 each of the years ended 31 December 2018, 2019 and 2020 and the eight months ended 31 August 2021 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-62 forms an integral part of this report, which has been prepared for inclusion in this document of the Company dated [date] (this “Document”) in connection with the initial [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors’ responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants’ report, a true and fair view of the Group’s financial position as at 31 December 2018, 2019 and 2020 and 31 August 2021, the Company’s financial position as at 31 December 2020 and 31 August 2021, and of the Group’s financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the eight months ended 31 August 2020 and other explanatory information (the “Stub Period Corresponding Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

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Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 28(b) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its incorporation.

Certified Public Accountants

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Central, Hong Kong

[REDACTED]

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HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP Shanghai Branch (畢馬威華振會計師事務所(特殊普通合夥)上海分所) in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “Underlying Financial Statements”).

Consolidated statements of profit or loss

(Expressed in Renminbi)

	Note	Year ended 31 December			Eight months ended 31 August	
		2018 RMB’000	2019 RMB’000	2020 RMB’000	2020 RMB’000	2021 RMB’000
Revenue	4	124,097	183,720	221,923	122,205	237,657
Cost of sales		(18,396)	(37,266)	(57,140)	(34,450)	(52,667)
Gross profit		105,701	146,454	164,783	87,755	184,990
Other net income	5	467	6,452	11,463	4,692	16,010
Research and development costs		(28,276)	(38,166)	(53,037)	(30,239)	(52,940)
Selling and marketing expenses		(34,732)	(45,150)	(48,215)	(23,295)	(40,327)
Administrative expenses		(9,810)	(15,286)	(18,130)	(8,009)	(21,122)
Other operating costs	6(c)	(30)	(200)	(1,000)	–	(982)
Profit from operations		33,320	54,104	55,864	30,904	85,629
Finance costs	6(a)	(522)	(1,693)	(4,467)	(1,951)	(18,373)
Share of losses of an associate		–	–	–	–	(4,155)
Profit before taxation	6	32,798	52,411	51,397	28,953	63,101
Income tax	7(a)	(3,531)	(5,436)	(6,110)	(3,623)	(7,918)
Profit for the year/period and attributable to equity shareholders of the Company		<u>29,267</u>	<u>46,975</u>	<u>45,287</u>	<u>25,330</u>	<u>55,183</u>
Earnings per share (RMB)	10					
Basic and diluted		<u>0.35</u>	<u>0.56</u>	<u>0.50</u>	<u>0.29</u>	<u>0.55</u>

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Consolidated statements of profit or loss and other comprehensive income

(Expressed in Renminbi)

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Profit for the year/period	29,267	46,975	45,287	25,330	55,183
Other comprehensive income for the year/period, net of nil tax					
Item that will not be reclassified to profit or loss:					
Exchange differences on translation of financial statements of the Company	–	–	(89)	–	(852)
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of foreign subsidiaries	–	–	(3,183)	(1,273)	922
Other comprehensive income for the year/period	–	–	(3,272)	(1,273)	70
Total comprehensive income for the year/period and attributable to equity shareholders of the Company	<u>29,267</u>	<u>46,975</u>	<u>42,015</u>	<u>24,057</u>	<u>55,253</u>

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Consolidated statements of financial position

(Expressed in Renminbi)

	Note	31 December 2018	31 December 2019	31 December 2020	31 August 2021
		RMB’000	RMB’000	RMB’000	RMB’000
Non-current assets					
Property, plant and equipment	11	35,575	47,348	59,485	189,595
Investment property	11	14,640	14,297	13,954	13,726
		50,215	61,645	73,439	203,321
Intangible assets	12	72,606	106,756	129,406	129,030
Interest in an associate	14	–	–	–	174,030
Financial assets measured at fair value through profit or loss	15	–	38,369	37,051	–
Deferred tax assets	24(b)	1,807	3,783	4,346	5,710
Other non-current assets	16	881	2,447	1,463	24,742
		125,509	213,000	245,705	536,833
Current assets					
Inventories	17	14,204	37,992	55,006	78,207
Trade and other receivables	18	42,376	61,525	59,406	97,890
Time deposits	19	–	–	–	40,422
Cash and cash equivalents	19	5,695	22,211	425,493	369,730
		62,275	121,728	539,905	586,249
Current liabilities					
Interest-bearing borrowings	20	10,033	40,548	–	–
Convertible bonds	25	–	–	19,202	17,112
Trade and other payables	21	37,838	106,474	62,803	98,131
Contract liabilities	22	84	622	2,541	14,219
Lease liabilities	23	2,636	3,982	5,952	29,366
Income tax payables	24(a)	–	–	4,256	3,088
		50,591	151,626	94,754	161,916
Net current assets/(liabilities)		11,684	(29,898)	445,151	424,333
Total assets less current liabilities		137,193	183,102	690,856	961,166
Non-current liabilities					
Interest-bearing borrowings	20	10,000	–	–	–
Convertible bonds	25	–	–	297,794	428,551
Lease liabilities	23	2,196	5,105	8,200	84,876
Deferred income	26	3,803	8,592	9,554	10,993
Other non-current liabilities		869	1,247	2,426	2,601
		16,868	14,944	317,974	527,021
NET ASSETS		120,325	168,158	372,882	434,145
CAPITAL AND RESERVES					
Share capital	28	53,500	53,500	63,531	65
Reserves		66,825	114,658	309,351	434,080
TOTAL EQUITY		120,325	168,158	372,882	434,145

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Statements of financial position

(Expressed in Renminbi)

	Note	31 December 2020 RMB’000	31 August 2021 RMB’000
Non-current assets			
Interest in subsidiaries	13	326,245	809,222
Current assets			
Cash and cash equivalents	19	–	52
Current liabilities			
Convertible bonds	25	19,202	17,112
Other payables	21	88	183
		19,290	17,295
Net current liabilities		(19,290)	(17,243)
Total assets less current liabilities		306,955	791,979
Non-current liabilities			
Convertible bonds	25	297,794	428,551
NET ASSETS		9,161	363,428
CAPITAL AND RESERVES			
Share capital	28	–	65
Reserves		9,161	363,363
TOTAL EQUITY		9,161	363,428

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Consolidated statements of changes in equity

(Expressed in Renminbi)

	Note	Share	Share	Exchange	Capital	Statutory	Retained	Total
		capital	premium	reserve	reserve	general	earnings	equity
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 1 January 2018		52,765	–	–	35,333	2,145	17,766	108,009
Changes in equity for 2018:								
Profit for the year and total comprehensive income		–	–	–	–	–	29,267	29,267
Contribution from shareholders	28(c)(i)	735	–	–	1,410	–	–	2,145
Appropriation of statutory general reserve		–	–	–	–	3,076	(3,076)	–
Dividend approved in respect of the previous year	28(b)	–	–	–	–	–	(21,000)	(21,000)
Deemed contribution from a related party	28(d)	–	–	–	1,604	–	–	1,604
Equity-settled share-based transactions	27	–	–	–	300	–	–	300
Balance at 31 December 2018 and 1 January 2019		53,500	–	–	38,647	5,221	22,957	120,325
Changes in equity for 2019:								
Profit for the year and total comprehensive income		–	–	–	–	–	46,975	46,975
Appropriation of statutory general reserve		–	–	–	–	4,697	(4,697)	–
Equity-settled share-based transactions	27	–	–	–	858	–	–	858
Balance at 31 December 2019 and 1 January 2020		53,500	–	–	39,505	9,918	65,235	168,158
Changes in equity for 2020								
Profit for the year		–	–	–	–	–	45,287	45,287
Other comprehensive income		–	–	(3,272)	–	–	–	(3,272)
Total comprehensive income		–	–	(3,272)	–	–	45,287	42,015
Contribution from shareholders	28(c)(i)	10,031	–	–	139,969	–	–	150,000
Issuance of convertible bonds	25	–	–	–	11,601	–	–	11,601
Appropriation of statutory general reserve		–	–	–	–	4,648	(4,648)	–
Equity-settled share-based transactions	27	–	–	–	1,108	–	–	1,108
Balance at 31 December 2020		63,531	–	(3,272)	192,183	14,566	105,874	372,882
Balance at 1 January 2021		63,531	–	(3,272)	192,183	14,566	105,874	372,882
Changes in equity for the eight months ended 31 August 2021:								
Profit for the period		–	–	–	–	–	55,183	55,183
Other comprehensive income		–	–	70	–	–	–	70
Total comprehensive income		–	–	70	–	–	55,183	55,253
Issuance of ordinary shares	28(c)(ii)	65	276,963	–	–	–	–	277,028
Issuance of convertible bonds	25	–	–	–	4,478	–	–	4,478
Effects of the Restructuring (as defined in Note 1)	28(c)(ii)	(63,531)	–	–	(212,491)	–	–	(276,022)
Equity-settled share-based transactions	27	–	–	–	526	–	–	526
Balance at 31 August 2021		65	276,963	(3,202)	(15,304)	14,566	161,057	434,145
Balance at 1 January 2020		53,500	–	–	39,505	9,918	65,235	168,158
Changes in equity for the eight months ended 31 August 2020 (Unaudited):								
Profit for the period		–	–	–	–	–	25,330	25,330
Other comprehensive income		–	–	(1,273)	–	–	–	(1,273)
Total comprehensive income		–	–	(1,273)	–	–	25,330	24,057
Contribution from shareholders	28(c)(i)	10,031	–	–	139,969	–	–	150,000
Equity-settled share-based transactions	27	–	–	–	484	–	–	484
Balance at 31 August 2020 (Unaudited)		63,531	–	(1,273)	179,958	9,918	90,565	342,699

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Consolidated statements of cash flows

(Expressed in Renminbi)

	Note	Year ended 31 December			Eight months ended 31 August	
		2018	2019	2020	2020	2021
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
						(Unaudited)
Operating activities						
Profit before taxation		32,798	52,411	51,397	28,953	63,101
Adjustments for:						
Amortisation and depreciation	6(d)	8,080	9,253	12,470	6,590	17,611
Interest expenses	6(a)	474	1,617	4,372	1,889	18,304
Interest income on time deposits		–	–	–	–	(422)
Fair value changes in financial instruments	29(e)	–	–	(1,230)	–	(12,098)
Share of losses of an associate		–	–	–	–	4,155
Loss/(gain) on disposal of property, plant and equipment	5	78	21	68	–	(394)
Equity-settled share-based payments	27	300	858	1,108	484	526
Changes in working capital:						
Increase in inventories		(5,849)	(23,788)	(17,013)	(13,569)	(23,201)
(Increase)/decrease in trade and other receivables		(23,428)	(16,530)	372	9,858	30,354
Increase/(decrease) in trade and other payables		10,671	35,610	(6,745)	(20,617)	20,340
Increase/(decrease) in deferred income		773	4,788	963	(274)	1,438
Decrease/(increase) in other non-current assets		96	(1,186)	628	88	–
Increase in other non-current liabilities		24	378	1,179	850	175
(Decrease)/increase in contract liabilities		(142)	538	1,919	(212)	11,679
Cash generated from operations		23,875	63,970	49,488	14,040	131,568
Income tax refund	24(a)	1,396	1,222	2,881	2,881	562
The People’s Republic of China (“PRC”) income tax paid	24(a)	(4,197)	(8,542)	(5,135)	(2,971)	(11,012)
Net cash generated from operating activities		21,074	56,650	47,234	13,950	121,118
Investing activities						
Payments for the purchase of property, plant and equipment		(3,779)	(12,881)	(11,479)	(6,790)	(14,153)
Payments for intangible assets, including expenditures on capitalised development costs		(28,280)	(37,190)	(22,665)	(14,875)	(7,412)
Payments for the investments in an associate and other investments		–	–	(38,895)	(38,895)	(129,706)
Proceeds from disposal of property, plant and equipment		367	272	2	–	70
Proceeds from disposal of a subsidiary, net of cash disposed of		2,569	–	–	–	–
Placement of time deposits		–	–	–	–	(40,000)
Net cash used in investing activities		(29,123)	(49,799)	(73,037)	(60,560)	(191,201)
Financing activities						
Capital element of lease rentals paid	19(b)	(2,306)	(3,158)	(4,626)	(3,425)	(7,141)
Interest element of lease rentals paid	19(b)	(234)	(270)	(735)	(518)	(972)
Lease deposits (paid)/refund		(96)	(1,064)	123	123	(26,892)
Loans from related parties	19(b)	10,000	30,000	38,000	38,000	–
Repayments of loans from related parties	19(b)	(5,000)	(35,000)	(38,000)	(38,000)	–
Dividends paid to equity shareholder of the Company	28(b)	(21,000)	–	–	–	–
Proceeds from issuance of convertible bonds	25	–	–	329,045	–	129,208
Interest paid for convertible bonds	25	–	–	–	–	(10,839)
Proceeds from other interest-bearing borrowings	19(b)	20,000	42,500	40,000	40,000	–
Repayments of interest-bearing borrowings	19(b)	–	(22,000)	(80,500)	(80,500)	–
Interest paid for loans from related party	19(b)	–	(102)	(397)	(397)	–
Interest paid for interest-bearing borrowings	19(b)	(196)	(1,241)	(1,026)	(1,026)	–
Capital contribution from shareholders	28(c)	2,145	–	150,000	150,000	277,028
Net payments in connection with the Restructuring	28(c)	–	–	–	–	(344,002)
Net cash generated from financing activities		3,313	9,665	431,884	104,257	16,390
Net (decrease)/increase in cash and cash equivalents		(4,736)	16,516	406,081	57,647	(53,693)
Cash and cash equivalents at the beginning of the year/period		10,431	5,695	22,211	22,211	425,493
Effect of foreign exchange rate changes		–	–	(2,799)	–	(2,070)
Cash and cash equivalents at the end of the year/period		5,695	22,211	425,493	79,858	369,730

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

MicroPort NeuroTech Limited (the “Company”) was incorporated in the Cayman Islands on 30 September 2020 as an exempted company with limited liability under the Companies Act (As Revised) of the Cayman Islands.

The Company has not carried out any business since the date of its incorporation save for the Group reorganisation below. The Company and its subsidiaries (together, “the Group”) are principally engaged in the research and development, manufacturing and sale of neuro-interventional medical devices.

During the Relevant Periods, the Group’s business was primarily conducted through MicroPort NeuroTech (Shanghai) Co., Ltd.* (“MP NeuroTech Shanghai”) (微創神通醫療科技(上海)有限公司). As part of the Group restructuring (the “Restructuring”), as detailed in the section headed “History, Reorganisation and Corporate Structure” of this Document, the Group obtained control of MP NeuroTech Shanghai in 2021.

Upon the completion of the Restructuring in August 2021, the Company became the holding company of the Group. The Restructuring principally involved inserting certain investment holding companies with no substantive operations as the new holding companies of MP NeuroTech Shanghai. There were no changes in the economic substance of the ownership and the business of the Group before and after the Restructuring. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the financial information of the business with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Restructuring. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and unchanged throughout the Relevant Periods (or where the companies were incorporated/established at a date later than 1 January 2018, for the period from the date of incorporation/establishment to 31 August 2021). The consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020 and 31 August 2021 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation/establishment, where applicable.

As at the date of this report, no audited financial statements have been prepared for the Company and MicroPort NeuroTech Medical LTD, MicroPort NeuroTech International Limited, Sevenoaks Global Limited, Shanghai Shenjing Vortex Medical Technology Co., Ltd.* (“Shanghai Shenjing”) (上海神晶漩渦醫療科技有限公司), Beijing Shenrui Enterprise Management Consulting Co., Ltd.* (北京神睿企業管理諮詢有限公司) and Shenhong Medical Technology (Shanghai) Co., Ltd.* (神泓醫療科技(上海)有限公司), as they either was newly set up in 2021, or have not carried out any business since the date of incorporation or are investment holding companies. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to the entities in the countries in which they were incorporated and/or established.

As at the date of this report, the Company has indirect interests in the following principal subsidiary, which is a private company:

<u>Name of company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Particulars of registered and paid-up capital</u>	<u>Proportion of ownership interest</u>		<u>Principal activities</u>
			<u>Held by the Company</u>	<u>Held by the subsidiary</u>	
MP NeuroTech Shanghai (Note)	the PRC 16 May 2012	RMB163,531,250	–	100%	Research and development, and the manufacturing and sale of neuro-interventional medical devices

Note: The statutory financial statements of the entity for the years ended 31 December 2018, 2019 and 2020 prepared in accordance with the Accounting Standards for Business Enterprises applicable to the enterprises in the PRC were audited by Shanghai Huidecheng Certified Public Accountants (General Partnership) * (上海匯德成會計師事務所 (普通合夥)).

* The official names of these companies are in Chinese. The English name is for identification purpose only

All companies comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, including HKFRS 16, *Leases* consistently throughout the Relevant Periods. The Group has not applied any new standard or interpretation that is not yet effective during the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in Note 33.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

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 the Company’s principal subsidiary, the 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 investments in equity securities are stated at their fair value as explained in the accounting policies set out in Note 2(e).

(b) Use of estimates and judgements

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

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

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

(c) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits

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arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

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

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

In the Company’s statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).

(d) 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 2(j)(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 2(j)(i)).

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

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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 2(e)).

(e) 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 29(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(u)(iv)).
- 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 2(u)(iii).

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)). Depreciation is calculated to write off the cost of investment property less its estimated residual value using the straight-line method over its estimated useful life. Rental income from investment properties is accounted for as described in Note 2(u)(ii).

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(g) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases over leasehold properties and of underlying plant and equipment (see Note 2(i)) are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(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 2(w)).

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 10 years from the date of completion;
- Equipment and machinery 10 years
- Office equipment, furniture and fixtures 5 years
- Motor vehicles 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.

(h) 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 2(w)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(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.

(i) 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.

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(i) As a lessee

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

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

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

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

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

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

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

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.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(u)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 2(i)(i), then the Group classifies the sub-lease as an operating lease.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, time deposits and trade and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest;
- contract assets as defined in HKFRS 15 (see Note 2(l)); and
- lease receivables.

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

Measurement of ECLs

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

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

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate; and
- lease receivables: discount rate used in the measurement of the lease receivable.

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

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

ECLs are measured on either of the following bases:

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

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

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

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Significant increases in credit risk

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, 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 2(u)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

Write-off policy

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

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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:

- investment properties and other property, plant and equipment, including right-of-use assets;
- intangible assets;
- investments in an associate; and
- investments in a subsidiary 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.

- 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. An impairment loss in respect of goodwill is not reversed.

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

(k) 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.

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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.

(l) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(u)) 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 2(j) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(m)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(u)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)). A contract liability also includes variable considerations such as rebates and refunds which are to offset further purchases from the customers.

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

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

(m) Trade and other receivables

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

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

(n) 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 2(j).

(o) 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 cost.

(p) Interest-bearing borrowings

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

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(q) Convertible bonds that contain an equity component

Convertible bonds that can be converted into ordinary shares at the option of the holder, where a fixed number of shares are issued for a fixed amount of cash or other financial assets, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at the fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair 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.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is not remeasured and is recognised in the capital reserve until either the bonds are converted or redeemed.

If the bonds are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the capital reserve is released directly to retained profits.

(r) Employee benefits

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

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

(ii) Share-based payments

The fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using 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.

(s) 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.

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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.

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.

(t) 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.

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

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

(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.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group’s assets under leases in the ordinary course of the Group’s business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less. 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 fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

The amount of the revenue recognised is adjusted for the expected returns, which are estimated based on the historical return rate. Accordingly, a refund liability and a right to recover returned good asset are recognised, where applicable.

The right to recover returned goods asset is recognised only when the returned goods are available to resell. The refund liability is included in other payables and the right to recover returned goods, if any, is included in the inventories. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the assets and liabilities accordingly.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

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(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder’s right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) 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.

(v) 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.

(v) 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.

(w) 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.

(x) 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.

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

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

(y) 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group’s accounting policies

In the process of applying the Group’s accounting policies, management has made the following accounting judgement:

Research and development expenses

Development expenses incurred on the Group’s pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the pipeline so that it will be available for use or sale, the Group’s intention to complete and the Group’s ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Development expenses which do not meet these criteria are recognised as an expense in profit or loss when incurred. Management will assess the progress of each of the development projects and determine the criteria met for capitalisation.

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(b) Sources of estimation uncertainty

Notes 27 and 29(e) contain information about the assumptions and their risk factors relating to fair value of equity-settled share-based payment transactions and financial instruments. Other significant sources of estimation uncertainty are as follows:

(i) Impairment of capitalised development costs

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

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible assets can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management’s expectations of (i) timing of commercialisation, productivity and market size; (ii) revenue compound growth rate; (iii) costs and operating expenses; and (iv) the selection of discount rates to reflect the risks involved.

(ii) Sale returns

The Group only permits the distributors to return or exchange the near-expiry products under the situations specified in the distribution agreements. The Group assesses that such return/exchange would not result in any significant outflow of the Group’s embodying economic benefits. The Group has recorded refund liabilities under trade and other payables based on the expected return/exchange rate.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group sells medical devices through appointed distributors.

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

(i) Disaggregation of revenue

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Revenue from contracts with customers within the scope of HKFRS 15					
Sales of medical devices – point in time	123,235	182,742	220,468	121,428	237,298
Revenue from other sources					
Gross rentals	862	978	1,455	777	359
	<u>124,097</u>	<u>183,720</u>	<u>221,923</u>	<u>122,205</u>	<u>237,657</u>

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Customer A	79,264	122,388	129,864	73,054	80,440
Customer B	18,076	N/A*	N/A*	N/A*	N/A*
Customer C	N/A*	N/A*	57,950	33,816	67,773
Customer D	N/A*	N/A*	N/A*	N/A*	49,187
Customer E	N/A*	N/A*	N/A*	N/A*	25,209

* Less than 10% of the Group’s revenue in the respective years/periods.

- (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 of medical devices such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under the contracts for sales of medical devices that had an original expected duration of one year or less.

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group’s revenue from customers and (ii) the Group’s property, plant and equipment, investment property, intangible assets, interest in an associate and other non-current financial assets (“specified non-current assets”). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment and investment property, the location of the operation to which they are located, in the case of intangible assets, and the location of operations, in the case of interest in an associate and other non-current financial assets.

Revenue from customers

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
PRC (place of domicile)	124,097	183,720	221,923	122,205	237,256
Other countries	–	–	–	–	401
	<u>124,097</u>	<u>183,720</u>	<u>221,923</u>	<u>122,205</u>	<u>237,657</u>

Specified non-current assets

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
PRC (place of domicile)	122,821	168,401	202,845	332,351
Israel	–	38,369	37,051	174,030
	<u>122,821</u>	<u>206,770</u>	<u>239,896</u>	<u>506,381</u>

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5 OTHER NET INCOME

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Fair value changes in financial instruments (Note 29(e))	–	–	1,230	–	12,098
Government grants (i)	635	6,551	9,580	4,579	815
Interest income on financial assets carried at amortised cost	23	50	137	36	1,845
Net foreign exchange (loss)/gain	(75)	(138)	377	41	(813)
Net (loss)/gain on disposal of property, plant and equipment	(78)	(21)	(68)	–	394
Others	(38)	10	207	36	1,671
	<u>467</u>	<u>6,452</u>	<u>11,463</u>	<u>4,692</u>	<u>16,010</u>

Note:

- (i) Majority of the government grants are subsidies received from government for encouragement of research and development projects.

6 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Interest on interest-bearing borrowings	229	1,256	978	978	–
Interest on convertible bonds (Note 25)	–	–	2,262	–	17,332
Interest on loans from related parties (Note 31(c)(i))	11	91	397	397	–
Interest on lease liabilities	234	270	735	514	972
Total interest expenses on financial liabilities not at fair value through profit or loss	474	1,617	4,372	1,889	18,304
Others	48	76	95	62	69
	<u>522</u>	<u>1,693</u>	<u>4,467</u>	<u>1,951</u>	<u>18,373</u>

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(b) Staff costs#

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Contributions to defined contribution retirement plans (Note)	4,570	6,167	1,560	1,424	5,532
Equity-settled share-based payment expenses (Note 27)	3,158	4,053	4,339	3,973	5,676
Salaries, wages and other benefits	39,723	60,489	69,434	38,562	61,825
	<u>47,451</u>	<u>70,709</u>	<u>75,333</u>	<u>43,959</u>	<u>73,033</u>

Note: As stipulated by the labour regulations of the PRC, the Group also participates in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at a specified percentage of the eligible employees’ salaries during the Relevant Periods.

(c) Other operating costs

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Restructuring related expenses	–	–	–	–	982
Donations	30	200	1,000	–	–
	<u>30</u>	<u>200</u>	<u>1,000</u>	<u>–</u>	<u>982</u>

(d) Other items

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Amortisation of intangible assets# (Note 12)	3,093	3,580	4,883	2,376	7,411
Depreciation charge# (Note 11)					
– owned property, plant and equipment and investment property	3,776	4,033	5,369	3,337	4,208
– right-of-use assets	2,385	3,295	4,976	3,318	6,265
	<u>9,254</u>	<u>10,908</u>	<u>15,228</u>	<u>9,031</u>	<u>17,884</u>
Less: Capitalised into intangible assets	(1,174)	(1,655)	(2,758)	(2,441)	(273)
	<u>8,080</u>	<u>9,253</u>	<u>12,470</u>	<u>6,590</u>	<u>17,611</u>
Research and development expenditure	56,861	75,956	80,511	47,654	59,975
Less: Development costs capitalised into intangible assets (Note 12)	(28,585)	(37,790)	(27,474)	(17,415)	(7,035)
	<u>28,276</u>	<u>38,166</u>	<u>53,037</u>	<u>30,239</u>	<u>52,940</u>
Cost of inventories# (Note 17(b))	24,797	48,982	77,259	47,075	71,589
Auditors’ remuneration	30	30	50	–	54

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Cost of inventories includes RMB6,576,000, RMB10,699,000, RMB13,156,000, RMB7,056,000 and RMB17,573,000, respectively, relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses for the year ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 (unaudited) and 2021.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Current tax – PRC Corporate Income Tax (“CIT”)					
Provision for the year/period	3,369	7,412	6,673	3,077	9,282
Deferred tax					
Origination and reversal of temporary differences	162	(1,976)	(563)	546	(1,364)
	<u>3,531</u>	<u>5,436</u>	<u>6,110</u>	<u>3,623</u>	<u>7,918</u>

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong Profits Tax

The Company’s subsidiary incorporated in Hong Kong is subject to Hong Kong Profits Tax at 16.5% of the estimated assessable profits. No provision for Hong Kong Profits Tax has been made for the Relevant Periods as there are no assessable profits during the Relevant Periods.

(iii) PRC CIT

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

According to a new tax incentives policy promulgated by the State Tax Bureau of the PRC from 2018 to 2020, an additional 75% of qualified research and development expenses incurred is allowed to be deducted from the taxable income and an additional 100% of such qualified expenses incurred from 1 January 2021 onwards is allowed to be deducted.

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

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Profit before taxation	32,798	52,411	51,397	28,953	63,101
Notional tax on profit before taxation, calculated at the rates applicable to profit in the countries concerned	8,582	13,103	13,140	7,235	18,548
Effect of the preferential income tax rate (Note 7(a)(iii))	(2,346)	(3,624)	(4,074)	(2,416)	(5,279)
Effect of other non-deductible expenses	784	838	2,621	1,946	1,459
Effect of additional deduction on research and development expenses (Note 7(a)(iii))	(3,490)	(4,883)	(5,585)	(3,143)	(7,145)
Effect of tax losses not recognised	1	2	8	1	335
Actual tax expenses	3,531	5,436	6,110	3,623	7,918

8 DIRECTORS’ EMOLUMENTS

Details of directors’ emoluments during the Relevant Periods are as follows:

	Year ended 31 December 2018					
	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors						
Bo Peng (a)	–	–	–	–	–	–
Zhiyong Xie (b)	–	895	–	–	1,138	2,033
Yiqun Bruce Wang (b)	–	960	–	–	898	1,858
Lihong Zhang (d)	–	–	–	–	–	–
Guowang Zhang (d)	–	–	–	–	–	–
Supervisors						
Yong Li (e)	–	–	–	–	–	–
He Li (e)	–	–	–	–	–	–
Ling Lin (f)	–	–	–	–	–	–
Yuhong Chen (f)	–	–	–	–	–	–
	–	1,855	–	–	2,036	3,891

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Year ended 31 December 2019						
	Salaries, allowances and benefits		Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
Directors’ fees	in kind					
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors						
Bo Peng (a)	–	–	–	–	–	–
Zhiyong Xie (b)	–	764	–	–	1,504	2,268
Yiqun Bruce Wang (b)	–	960	–	–	1,113	2,073
Lihong Zhang (d)	–	–	–	–	–	–
Guowang Zhang (d)	–	–	–	–	–	–
Supervisors						
Yong Li (e)	–	–	–	–	–	–
He Li (e)	–	–	–	–	–	–
	–	1,724	–	–	2,617	4,341

Year ended 31 December 2020						
	Salaries, allowances and benefits		Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
Directors’ fees	in kind					
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors						
Bo Peng (a)	–	–	–	–	–	–
Zhiyong Xie (b)	–	877	–	–	1,586	2,463
Yiqun Bruce Wang (b)	–	960	–	–	1,161	2,121
Chuan Luo (c)	–	–	–	–	–	–
Lihong Zhang (d)	–	–	–	–	–	–
Guowang Zhang (d)	–	–	–	–	–	–
Supervisors						
Yong Li (e)	–	–	–	–	–	–
He Li (e)	–	–	–	–	–	–
	–	1,837	–	–	2,747	4,584

Eight months ended 31 August 2021						
	Salaries, allowances and benefits		Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
Directors’ fees	in kind					
RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Directors						
Bo Peng (a)	–	–	–	–	–	–
Zhiyong Xie (b)	–	665	–	–	1,130	1,795
Yiqun Bruce Wang (b)	–	640	–	–	932	1,572
Chuan Luo (c)	–	–	–	–	–	–
	–	1,305	–	–	2,062	3,367

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Eight-months ended 31 August 2020 (Unaudited)

	Salaries, allowances and benefits in kind		Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
	Directors’ fees					
	RMB’000	RMB’000				
Directors						
Bo Peng (a)	–	–	–	–	–	–
Zhiyong Xie (b)	–	579	–	–	1,449	2,028
Yiqun Bruce Wang (b)	–	640	–	–	1,161	1,801
Lihong Zhang (d)	–	–	–	–	–	–
Guowang Zhang (d)	–	–	–	–	–	–
Supervisors						
Yong Li (e)	–	–	–	–	–	–
He Li (e)	–	–	–	–	–	–
	–	1,219	–	–	2,610	3,829

Notes:

- (a) Bo Peng was appointed as the director of the Company on 30 September 2020. He was also the non-executive director and chairman of MP NeuroTech Shanghai during the Relevant Periods.
- (b) Zhiyong Xie and Yiqun Bruce Wang were appointed as the directors of the Company on 2 November 2020. They were the directors of MP NeuroTech Shanghai during the Relevant Periods. They were also the key management personnel of the Group during the Relevant Periods and their remuneration disclosed above include those for services rendered by them as key management personnel.
- (c) Chuan Luo was appointed as the director of the Company on 20 November 2020 and resigned on 23 September 2021.
- (d) Lihong Zhang and Guowang Zhang were appointed as the directors of MP NeuroTech Shanghai during the Relevant Periods.
- (e) Yong Li and He Li were appointed as the supervisors of MP NeuroTech Shanghai since October 2018.
- (f) Ling Lin and Yuhong Chen were appointed as the supervisors of MP NeuroTech Shanghai and resigned in October 2018.
- (g) Subsequently, Yi Xu, Haixiao Zhang and Chi Hung Siu were appointed as the independent non-executive directors of the Company on [●].

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments of the Group for the years ended 31 December 2018, 2019 and 2020 and eight months ended 31 August 2020 and 2021 include two, two, two, two and two directors whose emoluments are disclosed in Note 8, respectively and the aggregate of the emoluments in respect of the other three, three, three, three and three individuals during the Relevant Periods are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Salaries and other benefits	2,245	1,562	1,638	1,161	1,403
Discretionary bonuses	544	1,330	713	–	–
Equity-settled share-based payments	941	889	996	1,085	1,903
	3,730	3,781	3,347	2,246	3,306

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The emoluments of the individuals who are not director and with the highest emoluments are within the following bands:

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	Number of Individuals	Number of individuals	Number of individuals	Number of individuals (Unaudited)	Number of individuals
HK\$Nil to HK\$1,000,000	1	–	1	2	–
HK\$1,000,001 to HK\$1,500,000	1	2	1	–	2
HK\$1,500,001 to HK\$2,000,000	–	–	1	1	1
HK\$2,000,001 to HK\$2,500,000	1	1	–	–	–

10 EARNINGS PER SHARE

The calculation of the basic earnings per share during the Relevant Periods is based on the earnings for the year/period attributable to equity shareholders of the Company divided by the weighted average number of shares in issue and on the assumption that the Restructuring had been in effective on 1 January 2018, calculated as follows:

- (i) Earnings of the year/period attributable to equity shareholders of the Company

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000 (Unaudited)	RMB’000
Earnings of the year/period attributable to equity shareholders of the Company	29,267	46,975	45,287	25,330	55,183

- (ii) Weighted average number of shares

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	’000	’000	’000	’000 (Unaudited)	’000
Issued shares at 1 January	83,053	84,211	84,211	84,211	100,000
Effect of capital contributions by shareholders (Note 28(c)(i))	1,040	–	6,903	2,459	–
Weighted average number of shares at 31 December	84,093	84,211	91,114	86,670	100,000

There were no potential ordinary shares during the years ended 31 December 2018 and 2019 and for the eight months ended 31 August 2020 (unaudited), therefore, diluted earnings per share are the same as the basic earnings per share.

The calculation of diluted earnings per share amounts for the year ended 31 December 2020 and the eight months ended 31 August 2021 had not included the convertible bonds issued by the Company (see Note 25), as they had an anti-dilutive effect on the basic earnings per share amounts.

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11 INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Right-of-use assets	Construction in progress	Sub-total	Investment property	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:										
At 1 January 2018	14,973	13,920	10,476	1,475	1,059	2,133	71	44,107	15,527	59,634
Transfer	–	772	1,315	402	798	–	(3,287)	–	–	–
Additions	–	14	50	163	–	6,595	3,535	10,357	–	10,357
Disposals	–	(154)	(625)	(192)	–	(2,133)	–	(3,104)	–	(3,104)
At 31 December 2018 and 1 January 2019	14,973	14,552	11,216	1,848	1,857	6,595	319	51,360	15,527	66,887
Transfer	–	3,261	5,031	1,706	–	–	(9,998)	–	–	–
Additions	–	–	–	40	–	7,413	11,723	19,176	–	19,176
Disposals	–	(87)	(162)	(235)	–	(3,163)	–	(3,647)	–	(3,647)
At 31 December 2019 and 1 January 2020	14,973	17,726	16,085	3,359	1,857	10,845	2,044	66,889	15,527	82,416
Transfer	–	3,703	7,943	533	–	–	(12,179)	–	–	–
Transfer to intangible assets	–	–	–	–	–	–	(59)	(59)	–	(59)
Additions	–	29	630	–	–	9,691	11,918	22,268	–	22,268
Disposals	–	–	(191)	(73)	–	–	–	(264)	–	(264)
At 31 December 2020 and 1 January 2021	14,973	21,458	24,467	3,819	1,857	20,536	1,724	88,834	15,527	104,361
Transfer	–	70	4,708	196	–	–	(4,974)	–	–	–
Additions	–	–	–	6	–	112,509	28,543	141,058	–	141,058
Disposals	–	–	–	–	(381)	(821)	–	(1,202)	–	(1,202)
At 31 August 2021	14,973	21,528	29,175	4,021	1,476	132,224	25,293	228,690	15,527	244,217
Accumulated depreciation and amortisation:										
At 1 January 2018	1,618	5,804	1,813	756	775	–	–	10,766	544	11,310
Charge for the year	313	1,433	1,209	210	268	2,385	–	5,818	343	6,161
Written back on disposals	–	–	(148)	(78)	–	(573)	–	(799)	–	(799)
At 31 December 2018 and 1 January 2019	1,931	7,237	2,874	888	1,043	1,812	–	15,785	887	16,672
Charge for the year	313	1,513	1,311	345	208	3,295	–	6,985	343	7,328
Written back on disposals	–	(3)	(7)	(56)	–	(3,163)	–	(3,229)	–	(3,229)
At 31 December 2019 and 1 January 2020	2,244	8,747	4,178	1,177	1,251	1,944	–	19,541	1,230	20,771
Charge for the year	313	2,127	1,867	558	161	4,976	–	10,002	343	10,345
Written back on disposals	–	–	(131)	(63)	–	–	–	(194)	–	(194)
At 31 December 2020 and 1 January 2021	2,557	10,874	5,914	1,672	1,412	6,920	–	29,349	1,573	30,922
Charge for the period	209	1,622	1,638	410	101	6,265	–	10,245	228	10,473
Written back on disposals	–	–	–	–	(362)	(137)	–	(499)	–	(499)
At 31 August 2021	2,766	12,496	7,552	2,082	1,151	13,048	–	39,095	1,801	40,896

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	Buildings held for own use	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Motor vehicles	Right-of-use assets	Construction in progress	Sub-total	Investment property	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Net book value:										
At 31 December 2018	13,042	7,315	8,342	960	814	4,783	319	35,575	14,640	50,215
At 31 December 2019	12,729	8,979	11,907	2,182	606	8,901	2,044	47,348	14,297	61,645
At 31 December 2020	12,416	10,584	18,553	2,147	445	13,616	1,724	59,485	13,954	73,439
At 31 August 2021	12,207	9,032	21,623	1,939	325	119,176	25,293	189,595	13,726	203,321

(b) Investment Property

As at 31 August 2021, the investment property located in Shanghai in the PRC was rented out under terms of operating leases. The fair value of investment property during the Relevant Periods is approximately RMB17 million, which is determined by management with reference to the market price of comparable properties.

(c) Right-of-use assets

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

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Properties leased for own use, carried at depreciated cost	4,783	8,901	13,616	119,176

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Depreciation charge of right-of-use assets by class of underlying asset:					
Properties leased for own use	2,385	3,295	4,976	3,318	6,265
Interest on lease liabilities (Note 6(a))	234	270	735	514	972
Expense relating to short-term leases	46	307	12	8	23

During the Relevant Periods, the amount of additions to the right-of-use assets included the capitalised lease payment under the new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities and future cashflow for leases are set out in Notes 19(c), 23 and 29(b), 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.

(d) Leases as lessor

The Group leases out its investment property under operating leases. The lease typical run for an initial period of 5 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes variable lease payments.

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Undiscounted lease payments under non-cancellable operating leases in place from the investment property at each reporting date during the Relevant Period will be receivable by the Group in future periods as follow:

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Within 1 year	309	340	426	513	383
After 1 year but within 2 years	340	87	–	85	–
After 2 year but within 3 years	87	–	–	–	–
	<u>736</u>	<u>427</u>	<u>426</u>	<u>598</u>	<u>383</u>

In addition, in January 2020, MP NeuroTech Shanghai entered into a 6-year lease of property with a third party. In January 2021, MP NeuroTech Shanghai sub-leased this property for the remaining five year of that lease to Shanghai Shenyi, with the annual rental fee of RMB229,000.

12 INTANGIBLE ASSETS

	Capitalised development costs		
	RMB’000	Software RMB’000	Total RMB’000
Cost			
At 1 January 2018	47,176	466	47,642
Additions	28,585	170	28,755
At 31 December 2018 and 1 January 2019	75,761	636	76,397
Additions	37,790	–	37,790
Disposals	–	(103)	(103)
At 31 December 2019 and 1 January 2020	113,551	533	114,084
Additions	27,474	59	27,533
At 31 December 2020 and 1 January 2021	141,025	592	141,617
Additions	7,035	–	7,035
At 31 August 2021	148,060	592	148,652
Accumulated amortisation:			
At 1 January 2018	658	40	698
Amortisation charge for the year	2,923	170	3,093
At 31 December 2018 and 1 January 2019	3,581	210	3,791
Amortisation charge for the year	3,376	204	3,580
Written back on disposals	–	(43)	(43)
At 31 December 2019 and 1 January 2020	6,957	371	7,328
Amortisation charge for the year	4,726	157	4,883
At 31 December 2020 and 1 January 2021	11,683	528	12,211
Amortisation charge for the period	7,383	28	7,411
At 31 August 2021	19,066	556	19,622
Net book value:			
At 31 December 2018	<u>72,180</u>	<u>426</u>	<u>72,606</u>
At 31 December 2019	<u>106,594</u>	<u>162</u>	<u>106,756</u>
At 31 December 2020	<u>129,342</u>	<u>64</u>	<u>129,406</u>
At 31 August 2021	<u>128,994</u>	<u>36</u>	<u>129,030</u>

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Included in intangible assets were an amount of RMB41,998,000, RMB79,787,000, RMB53,251,000 and RMB35,853,000 that are not yet available for use as of 31 December 2018, 2019 and 2020 and 31 August 2021, respectively. These intangible assets were solely related to capitalised development costs.

Majority of amortisation of intangible assets is recognised in “cost of sales” in the consolidated statement of profit or loss.

13 INTEREST IN SUBSIDIARIES

The Company

	<u>31 December</u> <u>2020</u>	<u>31 August</u> <u>2021</u>
	<u>RMB’000</u>	<u>RMB’000</u>
Investment in a subsidiary	–	367,241
Amounts due from a subsidiary	326,245	441,981
	<u>326,245</u>	<u>809,222</u>

The particulars of the subsidiaries which principally affected the results, assets and liabilities of the Group are set out in Note 1.

14 INTEREST IN AN ASSOCIATE

The following list contains the particulars of an associate as at 31 August 2021, which is an unlisted corporate entity whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal Activity
				Group’s effective interest	Held by the Company	Held by a subsidiary	
Rapid Medical Ltd. (“Rapid Medical”)	Incorporated	Israel	22.1 million shares	22.3%	–	22.3%	Development, manufacturing and sales of innovative devices for neuro-interventional procedures

On 15 April 2019, MicroPort Scientific Corporation (“MPSC”), the ultimate controlling party of the Group, entered into a series C preferred share purchase agreement with Rapid Medical, on behalf of the Group, pursuant to which, MPSC purchased 1,495,378 series C preferred shares newly issued by Rapid Medical, representing approximately 11.85% interests in Rapid Medical, at a cash consideration of US\$5,500,000. On 16 April 2019, the Group purchased the foresaid preferred shares issued by Rapid Medical directly from MPSC at the same consideration of US\$5,500,000 (equivalent to RMB36,903,000). As at 31 December 2019 and 2020, such investments was classified as financial assets measured at FVPL (Note 15).

On 28 April 2021, the Group entered into a series D preferred share purchase agreement with Rapid Medical, pursuant to which, the Group purchased 2,987,349 series D preferred shares newly issued by Rapid Medical at a cash consideration of US\$20,000,000 (equivalent to RMB129,706,000). Upon the completion of the transaction (the “Closing Date”), the Group held approximately 22.28% interest in Rapid Medical in aggregate and became the largest shareholder of Rapid Medical. In addition, the Group also appointed a director in the board of Rapid Medical. Management believe the Group has significant influence over Rapid Medical since then and Rapid Medical became an associate of the Group and measured under equity method. The fair value of the previous held investments in Rapid Medical at the Closing Date amounting to US\$7,549,000 (equivalent to RMB48,959,000) formed part of initial cost of the investment in an associate.

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Summarised financial information of Rapid Medical, adjusted for any differences in accounting policies are disclosed below:

	Period from the Closing Date to 31 August 2021
	RMB’000
Revenue	27,149
Loss for the period	(18,647)
Other comprehensive income	–
Total comprehensive income	(18,647)

15 FINANCIAL ASSETS MEASURED AT FVPL

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Non-current assets				
– Unlisted equity securities outside Hong Kong – Rapid Medical (Note 14)	–	38,369	37,051	–

16 OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Lease deposits (Note)	112	1,298	670	21,614
Prepayments for property, plant and equipment	769	1,149	793	2,290
Others	–	–	–	838
	<u>881</u>	<u>2,447</u>	<u>1,463</u>	<u>24,742</u>

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 eight months ended 31 August 2021, the Group entered into a 5-year lease agreement (the “Lease Agreement”) with Shanghai Weichuang Investment Management Co., Ltd.* (上海微創投資管理有限公司, “SW Investment”) in respect of certain leasehold properties for use of manufacturing facilities, warehouses and office buildings. As at 31 August 2021, the carrying amount of lease deposits paid to SW Investment is RMB21,614,000.

* The English name is for identification purpose only.

17 INVENTORIES

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

	31 December 2018	31 December, 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Raw materials	6,145	11,690	19,245	28,846
Work in progress	3,245	7,338	8,943	14,250
Finished goods	4,814	18,964	26,818	35,111
	<u>14,204</u>	<u>37,992</u>	<u>55,006</u>	<u>78,207</u>

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Costs of inventories sold	17,244	34,092	53,141	31,756	51,800
Write down of the inventories	820	2,872	3,761	2,533	461
Cost of inventories directly recognised as research and development costs	6,180	10,899	18,908	12,388	18,374
Cost of inventories directly recognised as selling and marketing expenses	553	1,119	1,449	398	954
	<u>24,797</u>	<u>48,982</u>	<u>77,259</u>	<u>47,075</u>	<u>71,589</u>

18 TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Trade receivables	32,460	46,339	42,170	9,709
Other debtors	530	2,946	2,331	2,628
Income tax recoverable (Note 24(a))	255	163	–	–
Deposits and prepayments	9,131	12,077	14,905	18,555
Amounts due from related parties in connection with the Restructuring (Note 28(c)(ii))	–	–	–	66,998
	<u>42,376</u>	<u>61,525</u>	<u>59,406</u>	<u>97,890</u>

As of the end of the reporting period, the ageing analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier) and net of loss allowance, is as follows:

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 month	13,368	16,834	15,723	8,463
1 to 3 months	13,757	28,198	26,447	597
3 to 12 months	5,335	1,110	–	649
Over 12 months	–	197	–	–
	<u>32,460</u>	<u>46,339</u>	<u>42,170</u>	<u>9,709</u>

Trade receivables are generally due within 60 days from the date of billing. Further details on the Group’s credit policy and credit risk arising from receivables are set out in Note 29(a).

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19 TIME DEPOSITS, CASH AND CASH EQUIVALENTS AND OTHER CASHFLOW INFORMATION

(a) Time deposits and cash and cash equivalents

The Group

	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 August 2021</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Time deposits				
Time deposits with original terms over 3 months	<u>–</u>	<u>–</u>	<u>–</u>	<u>40,422</u>
Cash and cash equivalents				
Deposits with banks	<u>5,695</u>	<u>22,211</u>	<u>425,493</u>	<u>369,730</u>

As at 31 December 2018, 2019 and 2020 and 31 August 2021, time deposits and cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB5,695,000, RMB22,211,000, RMB262,518,000 and RMB342,776,000, respectively. The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The Company

As at 31 December 2020 and 31 August 2021, cash and cash equivalents comprise cash at bank amounting to nil and RMB52,000, respectively.

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(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.

	Loans from related parties	Interest-bearing borrowings	Convertible bonds	Lease liabilities	Total
	RMB’000 (Note 31(c))	RMB’000 (Note 20)	RMB’000 (Note 25)	RMB’000 (Note 23)	RMB’000
At 1 January 2018	–	–	–	2,133	2,133
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings	–	20,000	–	–	20,000
Loans from related parties	10,000	–	–	–	10,000
Interest paid for interest-bearing borrowings	–	(196)	–	–	(196)
Repayments of loans from related parties	(5,000)	–	–	–	(5,000)
Capital element of lease payments	–	–	–	(2,306)	(2,306)
Interest element of lease payments	–	–	–	(234)	(234)
Total changes from financing cash flows	5,000	19,804	–	(2,540)	22,264
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	6,595	6,595
Decrease in lease liabilities as a result of early termination of lease contract	–	–	–	(1,044)	(1,044)
Disposal of a subsidiary	–	–	–	(546)	(546)
Interest charge (Note 6(a))	11	229	–	234	474
	11	229	–	5,239	5,479
At 31 December 2018	5,011	20,033	–	4,832	29,876

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	Loans from related parties	Interest-bearing borrowings	Convertible bonds	Lease liabilities	Total
	RMB’000 (Note 31(c))	RMB’000 (Note 20)	RMB’000 (Note 25)	RMB’000 (Note 23)	RMB’000
At 1 January 2019	5,011	20,033	–	4,832	29,876
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings	–	42,500	–	–	42,500
Repayments of interest-bearing borrowings	–	(22,000)	–	–	(22,000)
Interest paid for interest-bearing borrowings	–	(1,241)	–	–	(1,241)
Loans from related parties	30,000	–	–	–	30,000
Repayments of loans from related parties	(35,000)	–	–	–	(35,000)
Interest paid for loans from related party	(102)	–	–	–	(102)
Capital element of lease payments	–	–	–	(3,158)	(3,158)
Interest element of lease payments	–	–	–	(270)	(270)
Total changes from financing cash flows	(5,102)	19,259	–	(3,428)	10,729
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	7,413	7,413
Interest charge (Note 6(a))	91	1,256	–	270	1,617
	91	1,256	–	7,683	9,030
At 31 December 2019	–	40,548	–	9,087	49,635

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	Loans from related parties	Interest-bearing borrowings	Convertible bonds	Lease liabilities	Total
	RMB’000 (Note 31(c))	RMB’000 (Note 20)	RMB’000 (Note 25)	RMB’000 (Note 23)	RMB’000
At 1 January 2020	–	40,548	–	9,087	49,635
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings	–	40,000	–	–	40,000
Repayments of interest-bearing borrowings	–	(80,500)	–	–	(80,500)
Interest paid for interest-bearing borrowings	–	(1,026)	–	–	(1,026)
Loans from related parties	38,000	–	–	–	38,000
Repayments of loans from related parties	(38,000)	–	–	–	(38,000)
Interest paid for loans from related party	(397)	–	–	–	(397)
Proceeds from issuance of convertible bonds	–	–	329,045	–	329,045
Capital element of lease payments	–	–	–	(4,626)	(4,626)
Interest element of lease payments	–	–	–	(735)	(735)
Total changes from financing cash flows	(397)	(41,526)	329,045	(5,361)	281,761
Exchange adjustments	–	–	(2,710)	–	(2,710)
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	9,691	9,691
Equity component of convertible bonds	–	–	(11,601)	–	(11,601)
Interest charge (Note 6(a))	397	978	2,262	735	4,372
	397	978	(9,339)	10,426	2,462
At 31 December 2020	–	–	316,996	14,152	331,148

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	Loans from related parties	Interest-bearing borrowings	Convertible bonds	Lease liabilities	Total
	RMB’000 (Note 31(c))	RMB’000 (Note 20)	RMB’000 (Note 25)	RMB’000 (Note 23)	RMB’000
At 1 January 2021	–	–	316,996	14,152	331,148
Changes from financing cash flows:					
Proceeds from issuance of convertible bonds	–	–	129,208	–	129,208
Interest paid for convertible bonds	–	–	(10,839)	–	(10,839)
Capital element of lease payments	–	–	–	(7,141)	(7,141)
Interest element of lease payments	–	–	–	(972)	(972)
Total changes from financing cash flows	–	–	118,369	(8,113)	110,256
Exchange adjustments	–	–	(2,556)	–	(2,556)
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	107,231	107,231
Equity component of convertible bonds	–	–	(4,478)	–	(4,478)
Interest charge (Note 6(a))	–	–	17,332	972	18,304
	–	–	12,854	108,203	121,057
At 31 August 2021	–	–	445,663	114,242	559,905

(c) Total cash outflow for leases

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Within operating cash flows	46	306	36	7	–
Within financing cash flows	2,540	3,428	5,361	3,943	8,113
	2,586	3,734	5,397	3,950	8,113

All these amounts relate to the lease rentals paid.

20 INTEREST-BEARING BORROWINGS

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Secured bank loans				
– Within 1 year or on demand	10,033	40,548	–	–
– After 1 year but within 2 years	10,000	–	–	–
	20,033	40,548	–	–

As at 31 December 2018, the bank loans of RMB20,033,000, were secured by investment property and buildings held for own use with net book value of RMB14,640,000 and RMB13,042,000, respectively.

As at 31 December 2019, the bank loans of RMB40,548,000, were secured by investment property and buildings held for own use with net book value of RMB14,297,000 and RMB12,729,000, respectively.

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21 TRADE AND OTHER PAYABLES

The Group

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Trade payables due to				
– third party suppliers	4,005	6,246	5,914	29,236
– related parties	4,713	11,621	4,893	8,101
	<u>8,718</u>	<u>17,867</u>	<u>10,807</u>	<u>37,337</u>
Loans and interests due to related parties (Note 31(c))	5,011	–	–	–
Amounts due to a related party in connection with an investment (Note 14)	–	38,369	–	–
Other amounts due to a related party in connection with a recharge arrangement (Note 27(b))	–	–	3,326	–
Sales rebates	1,015	9,729	11,052	19,368
Accrued payroll	10,452	19,249	19,736	19,058
Other payables and accrued charges	12,642	21,260	17,882	22,368
	<u>37,838</u>	<u>106,474</u>	<u>62,803</u>	<u>98,131</u>

All of the above balances are expected to be settled within one year.

As of the end of the reporting period, the ageing analysis of the trade payables based on invoice date is as follows:

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 month	6,354	12,403	8,844	28,639
Over 1 month but within 3 months	1,641	3,687	862	6,529
Over 3 months but within 6 months	648	1,639	1,038	1,238
Over 6 months but within 1 year	–	51	–	867
Over 1 year	75	87	63	64
	<u>8,718</u>	<u>17,867</u>	<u>10,807</u>	<u>37,337</u>

The Company

	31 December 2020	31 August 2021
	RMB’000	RMB’000
Amounts due to a subsidiary	<u>88</u>	<u>183</u>

All of the above balances are expected to be settled within one year.

22 CONTRACT LIABILITIES

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Advanced receipts from customers for sales of medical devices	<u>84</u>	<u>622</u>	<u>2,541</u>	<u>14,219</u>

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Movements in contract liabilities

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January	226	84	622	622	2,541
Decrease in contract liabilities as a result of recognising revenue during the year/ period that was included in the contract liabilities at the beginning of the period	(226)	(84)	(622)	(622)	(2,541)
Increase in contract liabilities as a result of receiving advance payments during the year/period in respect of unfulfilled performance obligation as at the year/ period end	84	622	2,541	410	14,219
At 31 December/31 August	<u>84</u>	<u>622</u>	<u>2,541</u>	<u>410</u>	<u>14,219</u>

All of the contract liabilities are expected to be recognised as income within one year.

23 LEASE LIABILITIES

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

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Within 1 year	2,636	3,982	5,952	29,366
After 1 year but within 2 years	905	3,434	3,476	24,779
After 2 years but within 5 years	1,291	1,671	4,724	60,097
	<u>2,196</u>	<u>5,105</u>	<u>8,200</u>	<u>84,876</u>
	<u>4,832</u>	<u>9,087</u>	<u>14,152</u>	<u>114,242</u>

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
At the beginning of the year/period	(823)	(255)	(163)	4,256
Provision for PRC CIT for the year/ period(Note 7(a))	3,369	7,412	6,673	9,282
Tax paid	(4,197)	(8,542)	(5,135)	(11,012)
Tax refund	1,396	1,222	2,881	562
At the end of the year/period	<u>(255)</u>	<u>(163)</u>	<u>4,256</u>	<u>3,088</u>
Representing:				
Income tax recoverable	(255)	(163)	–	–
Income tax payables	–	–	4,256	3,088
	<u>(255)</u>	<u>(163)</u>	<u>4,256</u>	<u>3,088</u>

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(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Relevant Periods are as follows:

	<u>Deferred income</u>	<u>Accrued expenses and others</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
At 1 January 2018	455	1,514	1,969
Credited/(charged) to profit or loss	116	(278)	(162)
At 31 December 2018 and 1 January 2019	571	1,236	1,807
Credited to profit or loss	718	1,258	1,976
At 31 December 2019 and 1 January 2020	1,289	2,494	3,783
Credited to profit or loss	144	419	563
At 31 December 2020 and 1 January 2021	1,433	2,913	4,346
Credited to profit or loss	216	1,148	1,364
At 31 August 2021	<u>1,649</u>	<u>4,061</u>	<u>5,710</u>

(c) Deferred tax assets not recognised

Tax losses for which no deferred tax asset was recognised expire as follows:

	<u>31 December 2018</u>		<u>31 December 2019</u>		<u>31 December 2020</u>		<u>31 August 2021</u>	
	<u>RMB’000</u>	<u>Expire year</u>	<u>RMB’000</u>	<u>Expire year</u>	<u>RMB’000</u>	<u>Expire year</u>	<u>RMB’000</u>	<u>Expire year</u>
Expire	5	2019-2023	12	2020-2024	7	2021-2025	1,349	2022-2026
Not expire	–	–	–	–	43	–	1,783	–

In accordance with the accounting policy set out in Note 2(s), the Group has not recognised deferred tax assets in respect of cumulative tax losses due to the unpredictability of future taxable profits in the relevant tax jurisdiction and entity.

The tax losses incurred from the Group’s subsidiaries in the PRC will expire in 5 years from the respective year. The tax losses incurred from the Group’s subsidiaries in Hong Kong could be carried forward indefinitely under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2020 and 31 August 2021, temporary differences relating to the undistributed profits of a PRC subsidiary amounted to RMB108,685,000 and RMB177,445,000, respectively. Deferred tax liabilities of RMB10,869,000 and 17,745,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as at 31 December 2020 and 31 August 2021, as the Group controls the dividend policy of this subsidiary and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 CONVERTIBLE BONDS

In October and December 2020, the Company entered into a subscription agreement and its amendment agreement (together as “Subscription Agreement”) with BioLink Limited and BioLink NT (together as “BioLink”) respectively, pursuant to which, the Company agreed to issue and BioLink agreed to subscribe the convertible bonds (the “Convertible Bonds”) and subject to the terms and conditions set out in the Subscription Agreement. The Convertible Bonds bear an interest rate at 4% per annum with a maturity date after two years from the issuance date of the Convertible Bonds. In November 2020 and January 2021, the Company issued the Convertible Bonds in principal amount of US\$50,000,000 and US\$20,000,000 to BioLink, respectively. No conversion of the Convertible Bonds had been occurred up to 31 August 2021.

Prior to the maturity date, BioLink could convert part of or the entire outstanding Convertible Bonds into the fully paid equity securities of the Company at an initial conversion price which is calculated on the basis of the enterprise value of the Group amounting to RMB4 billion with the predetermined exchange rate of RMB against HK\$, subject to the certain adjustments under the Subscription Agreement.

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Based on the terms and conditions specified in the Subscription Agreement, the Convertible Bonds will be settled by exchange of a fixed amount of cash in US\$ with a fixed number of equity instruments issued by the Company. In accordance with the Group’s accounting policy set out in Note 2(q), these Convertible Bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

The movement of the liability component and equity component of the Convertible Bonds is set out as below.

	<u>Liability component</u>	<u>Equity component</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000
As at 1 January 2018, 31 December 2018 and 2019 and 1 January 2020	–	–	–
Issuance of convertible bonds	317,444	11,601	329,045
Interest charged during the year (Note 6(a))	2,262	–	2,262
Exchange adjustments	(2,710)	–	(2,710)
As at 31 December 2020 and 1 January 2021	316,996	11,601	328,597
Issuance of convertible bonds	124,730	4,478	129,208
Interest charged during the period (Note 6(a))	17,332	–	17,332
Interest paid during the period	(10,839)	–	(10,839)
Exchange adjustments	(2,556)	–	(2,556)
As at 31 August 2021	<u>445,663</u>	<u>16,079</u>	<u>461,742</u>

26 DEFERRED INCOME

	<u>Government subsidies for research and development projects</u>
	RMB’000
At 1 January 2018	3,030
Additions	1,220
Government grant recognised as other income	(447)
At 31 December 2018 and 1 January 2019	3,803
Additions	5,693
Government grant recognised as other income	(904)
At 31 December 2019 and 1 January 2020	8,592
Additions	1,660
Government grant recognised as other income	(698)
At 31 December 2020 and 1 January 2021	9,554
Additions	2,240
Government grant recognised as other income	(801)
At 31 August 2021	<u>10,993</u>

27 EQUITY-SETTLED SHARE-BASED TRANSACTION

(a) Share options granted by the ultimate controlling party

MPSC has granted certain share options to the employee of the Group. Each option gives the holder the right to subscribe for one ordinary share of MPSC, while the Group did not have an obligation to settle such transaction.

From the adoption of the above share option scheme to 31 August 2021, MPSC has granted share options to the employees of the Group. These share options are vested in instalments over an explicit vesting period of one to seven years. Each instalment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

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(i) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December						Eight months ended 31 August	
	2018		2019		2020		2021	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	HK\$	'000	HK\$	'000	HK\$	'000	HK\$	'000
Outstanding at the beginning of the year/period	4.21	1,800	5.15	2,169	5.46	2,193	6.10	1,413
Granted during the year/period	7.69	569	7.37	224	–	–	48.15	1,350
Exercised during the year/period	3.78	(200)	4.52	(200)	4.54	(780)	4.36	(419)
Outstanding at the end of the year/period	<u>5.15</u>	<u>2,169</u>	<u>5.46</u>	<u>2,193</u>	<u>6.10</u>	<u>1,413</u>	<u>30.63</u>	<u>2,344</u>
Exercisable at the end of the year/period	<u>3.91</u>	<u>100</u>	<u>4.19</u>	<u>1,400</u>	<u>5.20</u>	<u>1,004</u>	<u>6.52</u>	<u>725</u>

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from September 2021 through August 2031. As at 31 December 2018, 2019 and 2020 and 31 August 2021, the weighted average remaining contractual life for the share options granted was 5.6 years, 5.2 years, 5.3 years and 8.2 years, respectively.

(ii) Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as MPSC. Changes in the subjective input assumptions could materially affect the fair value estimate. Expected dividend yield is based on historical dividends.

In respect of share options granted during the Relevant Periods, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

The fair value of the share options granted was recognised as equity-settled share-based payments expenses over the vesting period with a corresponding increase in capital reserve.

The total expenses recognised in the consolidated statement of profit or loss for the share options granted by ultimate controlling party are RMB247,000, RMB966,000, RMB776,000, RMB517,000 and RMB192,000 for the years ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 (unaudited) and 2021, respectively.

(b) Share awards granted by the ultimate controlling party

MPSC has granted certain number of its own ordinary shares to the employee of the Group under the share award scheme approved by the board of MPSC with no vesting conditions attached at nil consideration. MPSC and the Group also entered into a recharge arrangement approximate to the grant-date fair value of this shared-based payment and the recharge is required to be paid after the shares are awarded. The fair value of services received in return for the shares awarded of RMB2,858,000, RMB2,956,000, RMB3,326,000, RMB3,326,000 and RMB5,294,000 for the years

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ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 (unaudited) and 2021, respectively, which is measured by the grant-date share price of MPSC, was recognised as expenses on the grant date with a corresponding increase in trade and other payables due to MPSC.

(c) **Employee share purchase plan (the “ESPP”)**

Since 2015, the Group adopted several ESPPs, pursuant to which, the partnership firms, whose limited partners consisted of employees of the Group, invested in the Group by way of subscribing newly issued equity interests of MP NeuroTech Shanghai. All participants of the ESPPs have purchased equity interests in respective partnership firms at amounts specified in the respective partnership agreements.

All ESPPs contain a service condition. Employees participating in the plan have to transfer out their equity interests if their employments with the Group were terminated within the vesting period, to a person or a party nominated by the general partners of the partnership firms at a price no higher than the amounts specified in the respective partnership agreements. The fair value of the ESPP at the grant date, being the difference between the considerations and the fair value of the equity interests subscribed shall be spread over the vesting period and recognised as staff costs in the profit or loss.

The fair value of the equity interests subscribed is measured by either (i) the reference to the price of third party investors who also made contributions to the Group or (ii) the valuation reports which were prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”) and Beijing North Asia Asset Assessment Firm, and reviewed and approved by the management.

The total expenses recognised in the consolidated statement of profit or loss for the above ESPP are RMB53,000, RMB131,000, RMB237,000, RMB130,000 and RMB190,000 for the years ended 31 December 2018, 2019 and 2020 and for the eight months ended 31 August 2020 (unaudited) and 2021, respectively.

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

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Cost of sales	3	1	2	9	–
Research and development costs	932	1,389	1,245	1,152	2,610
Selling and marketing expenses	982	812	1,225	1,176	987
Administrative expenses	1,241	1,851	1,867	1,636	2,079
Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss	3,158	4,053	4,339	3,973	5,676
Less: Recharge arrangement in connection with the share awards granted by the ultimate controlling party (Note 27(b))	(2,858)	(2,956)	(3,326)	(3,326)	(5,294)
Equity-settled share-based payment expenses recognised in equity	300	1,097	1,013	647	382

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28 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/period are set out below.

		<u>Share capital</u>	<u>Share premium</u>	<u>Exchange reserve</u>	<u>Capital reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
	Note	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Balance at 30 September 2020, date of the incorporation		–	–	–	–	–	–
Changes in equity for 2020:							
Loss and total comprehensive income		–	–	(89)	–	(2,351)	(2,440)
Issuance of convertible bonds	25	–	–	–	11,601	–	11,601
Balance at 31 December 2020 and 1 January 2021		<u>–</u>	<u>–</u>	<u>(89)</u>	<u>11,601</u>	<u>(2,351)</u>	<u>9,161</u>
Changes in equity for eight months ended 31 August 2021:							
Loss and total comprehensive income		–	–	(852)	–	(17,433)	(18,285)
Issuance of ordinary share	28(c)(ii)	65	276,963	–	–	–	277,028
Effects of the Restructuring		–	–	–	91,046	–	91,046
Issuance of convertible bonds	25	–	–	–	4,478	–	4,478
Balance at 31 August 2021		<u>65</u>	<u>276,963</u>	<u>(941)</u>	<u>107,125</u>	<u>(19,784)</u>	<u>363,428</u>

(b) Dividends

The directors of the Company did not propose the payment of any dividend during the Relevant Periods.

During the year ended 31 December 2018, profit distributions of RMB21,000,000 were declared by MP NeuroTech Shanghai to its then shareholders.

(c) Share capital

Authorised

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 September 2020 with authorised share capital of US\$50,000 divided into 500,000,000 ordinary shares with par value of US\$0.0001 each.

Issued and fully paid

		<u>Ordinary share</u>	
		<u>No. of share</u>	
	Note	’000	RMB’000
Balance at 30 September 2020, date of the incorporation		–	–
Issuance of ordinary shares	28(c)(ii)	–*	–*
Balance at 31 December 2020 and 1 January 2021		–*	–*
Issuance of ordinary shares	28(c)(ii)	100,000	65
Balance at 31 August 2021		<u>100,000</u>	<u>65</u>

* The amount is less than 1,000.

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The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 September 2020.

For the purpose of this History Financial Information, the share capital in the consolidated statements of financial position as at 1 January 2018, 31 December 2018 and 31 December 2019 represented the issued share capital of MP NeuroTech Shanghai and as at 31 December 2020 represented the aggregated amount of issued share capital of MP NeuroTech Shanghai and the Company. Upon the completion of the Restructuring, the Company became the holding company of the Group. Share capital as at 31 August 2021 represented the issued share capital of the Company.

- (i) In February 2018, MP NeuroTech Shanghai received a capital contribution from an investor at a cash consideration of RMB2,145,000.

In July 2020, MP NeuroTech Shanghai entered into a capital subscription agreement with several investors, among which, Shanghai Wangdaotong Biotechnology Co., Ltd. (wholly-owned by Dr. Chang Zhaohua, the chairman and director of MPSC) contributed RMB115,000,000. Pursuant to the capital subscription agreement, these investors subscribed for newly issued paid-in capital of MP NeuroTech Shanghai at a total consideration of RMB150,000,000.

- (ii) At the date of the incorporation and 31 December 2020, the Company issued 1 ordinary share at a consideration of US\$1.

In 2021, the Company issued 99,999,999 ordinary shares at a cash consideration of RMB277,028,000 to the existing shareholders of MP NeuroTech Shanghai (“Existing Shareholders”).

In March 2021 and August 2021, Shanghai Shenjing, a wholly-owned subsidiary of the Group, entered into the equity purchase agreements with Existing Shareholders to acquire the 100% of the equity interests in MP NeuroTech Shanghai with an aggregated consideration of RMB344,002,000. The difference between (i) the consideration paid by Shanghai Shenjing of RMB344,002,000; and (ii) the deemed capital contribution from related parties in connection with the Restructuring of RMB66,998,000 (Note 18) and related tax impact, was debited to capital reserve of the Group.

(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 2(v).

- (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 equity-settled share-based payments in Note 2(s)(ii);
- the historical book value of the paid-in capital and capital reserve of MP NeuroTech Shanghai when 100% equity interests of MP NeuroTech Shanghai were transferred to the Group under the Restructuring, less consideration the Group has paid to acquire the 100% equity interests of MP NeuroTech Shanghai under the Restructuring; and
- the amount allocated to the unexercised equity component of convertible bonds (Note 2(q)).

- (iv) Statutory general reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained profits to statutory general reserve at the rate of 10% of its net profit each

year, until the reserve balance reaches 50% of its paid-in capital. The transfer of this reserve must be made before distribution of dividend to equity owners. The statutory general reserve can be utilised to offset prior year’s losses or converted into paid-in capital only.

(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 convertible bonds as at the end of each of the reporting period and “debt” as including interest-bearing borrowings, loans from related parties and lease liabilities. On this basis, the amount of capital employed at 31 December 2018, 2019 and 2020 and 31 August 2021 was RMB120,325,000, RMB168,158,000, RMB689,878,000 and RMB879,808,000, respectively and the debt-to-capital ratio is 24.8%, 29.5%, 2.1% and 13.0%, respectively.

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.

29 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 practises used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group’s credit risk is primarily attributable to trade and other receivables. The Group’s exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are state-owned banks or reputable commercial banks for which the Group considers to have low credit risk. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The management assessed loss allowance provision for trade receivables at an amount equal to lifetime ECLs, which is based on recent historical settlement records and adjusts for forward looking information. Management has assessed that during the Relevant Periods, the default risk of trade receivables is insignificant and no loss allowance provision for trade receivables was recognised.

The management has assessed that during the Relevant Periods, 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 do not expect any losses from non-performance by the counterparties of other receivables and no loss allowance provision for other receivables was recognised.

(b) Liquidity risk

The Group’s policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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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 2018

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Interest-bearing borrowings	10,771	10,218	—	—	20,989	20,033
Trade and other payables	37,940	—	—	—	37,940	37,838
Lease liabilities	2,770	1,059	1,516	—	5,345	4,832
	<u>51,481</u>	<u>11,277</u>	<u>1,516</u>	<u>—</u>	<u>64,274</u>	<u>62,703</u>

As at 31 December 2019

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Interest-bearing borrowings	41,195	—	—	—	41,195	40,548
Trade and other payables	106,474	—	—	—	106,474	106,474
Lease liabilities	3,851	3,863	1,883	—	9,597	9,087
	<u>151,520</u>	<u>3,863</u>	<u>1,883</u>	<u>—</u>	<u>157,266</u>	<u>156,109</u>

As at 31 December 2020

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	62,803	—	—	—	62,803	62,803
Lease liabilities	6,040	3,990	5,856	—	15,886	14,152
Convertible bonds	14,754	337,990	—	—	352,744	316,996
	<u>83,597</u>	<u>341,980</u>	<u>5,856</u>	<u>—</u>	<u>431,433</u>	<u>393,951</u>

As at 31 August 2021

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Trade and other payables	98,131	—	—	—	98,131	98,131
Lease liabilities	34,827	30,058	73,921	—	138,806	114,242
Convertible bonds	18,362	460,392	—	—	478,754	445,663
	<u>151,320</u>	<u>490,450</u>	<u>73,921</u>	<u>—</u>	<u>715,691</u>	<u>658,036</u>

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(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group’s interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings, loans from/to related parties and convertible bonds. The Group’s interest-bearing financial instruments at variable rates as at 31 December 2018, 2019 and 2020 and 31 August 2021 are the cash at bank except for fixed deposits, and the cash flow interest risk arising from the change of market interest rate on these balances is not considered significant. The Group’s exposure to interest rate risk is not significant.

The Group’s interest rate profile as monitored by management is set out below.

	31 December 2018		31 December 2019		31 December 2020		31 August 2021	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	RMB’000		RMB’000		RMB’000		RMB’000	
Net fixed rate instruments:								
Time deposits	N/A	–	N/A	–	N/A	–	4.00%	40,422
Deposit with banks	N/A	–	N/A	–	N/A	–	3.00%	50,000
Convertible bonds	N/A	–	N/A	–	6.08%	(316,996)	6.08%	(445,663)
Lease liabilities	4.75%	(4,832)	4.75%	(9,087)	4.75%	(14,152)	4.75%	(114,242)
Interest-bearing borrowings	N/A	–	3.92%	(40,548)	N/A	–	N/A	–
		<u>(4,832)</u>		<u>(49,635)</u>		<u>(331,148)</u>		<u>(469,483)</u>
Net variable rate instruments:								
Interest-bearing borrowings	4.79%~5.23%	(20,033)	N/A	–	N/A	–	N/A	–
Deposits with banks	0.01%-0.35%	5,695	0.01%-0.35%	22,211	0.01%-0.35%	425,493	0.01%~2.03%	319,730
		<u>(14,338)</u>		<u>22,211</u>		<u>425,493</u>		<u>319,730</u>
		<u>(19,170)</u>		<u>(27,424)</u>		<u>94,345</u>		<u>(149,753)</u>

(d) Currency risk

The Group is exposed to currency risk primarily from (i) purchases which give rise to payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily US\$ and (ii) Loans that are denominated in US\$ between the PRC subsidiaries, whose functional currency is RMB, and a related party.

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(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)			
	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	US\$	US\$	US\$	US\$
	RMB’000	RMB’000	RMB’000	RMB’000
Cash and cash equivalents	–	54	–	–
Amounts due to group companies	–	–	(3,326)	(11,222)
Trade and other payables	(2,699)	(3,218)	(1,518)	(7,920)
Net exposure arising from recognised assets and liabilities	(2,699)	(3,164)	(4,844)	(19,142)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group’s profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each of the reporting period had changed at that date, assuming all other risk variables remained constant.

	31 December 2018		31 December 2019		31 December 2020		31 August 2021	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profit	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profit	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profit	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profit
		RMB\$’000		RMB\$’000		RMB\$’000		RMB\$’000
		US\$ (against RMB)		3%		67		3%
	-3%	(71)	-3%	(83)	-3%	(127)	-3%	(503)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities’ profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of 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 Relevant Periods.

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(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 JLL to perform valuations for the financial instruments. 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.

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	Level 2	Level 3
		RMB’000	RMB’000	RMB’000
Recurring fair value measurement				
Financial assets:				
- Unlisted equity securities (Note 15)	38,369	–	38,369	–

	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
Recurring fair value measurement				
Financial assets:				
- Unlisted equity securities (Note 15)	37,051	–	–	37,051

As at 31 December 2018 and 31 August 2021, there were no financial instruments measured at fair value.

Transfer into Level 3

The Group held the investment in unlisted equity securities during the Relevant Periods. The fair value of this investment was categorised as Level 2 as at 31 December 2019 as it is determined by the pricing of the recent transactions of these unlisted equity securities with no significant unobservable inputs used.

During the year ended 31 December 2020, there were no recent observable arm’s length transactions in relation to these unlisted equity securities, therefore valuation techniques with significant unobservable inputs were applied to determine the fair value of this investment. The fair value measurement was transferred from Level 2 to Level 3 of the fair value hierarchy at 31 December 2020.

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Information about Level 3 fair value measurements

	<u>Valuation techniques</u>	<u>Significant unobservable inputs</u>
Unlisted equity securities	Market comparable companies and equity allocation model	Discount for lack of marketability of 32.90%, expected probability of [REDACTED] event of 50% and expected volatility of 38.91%, taking into account the historical volatility of the comparable companies (Note)

Note: As at 31 December 2020, it is estimated that with all other variables held constant, an increase/decrease in the discount for lack of marketability by 5% would have decrease/increase the Group’s profit by RMB1,923,000/RMB1,974,000, an increase/decrease in the expected probability of event by 5% would have decrease/increase the Group’s profit by RMB367,000/RMB367,000 and an increase/decrease in the expected volatility by 5% would have increase/decrease the Group’s profit by RMB282,000/RMB340,000.

The movement during the Relevant Period in the balance of this Level 3 fair value measurement are as follows:

	<u>Unlisted equity securities</u>
	<u>RMB’000</u>
At 1 January 2018, 31 December 2018 and 2019	–
Exchange adjustments	(2,548)
Transfer from Level 2 into Level 3	38,369
Changes in fair value recognised in profit or loss	1,230
At 31 December 2020	37,051
Exchange adjustments	(190)
Changes in fair value recognised in profit or loss	12,098
Transfer to interest in an associate (Note 14)	(48,959)
At 31 August 2021	–

(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 2018, 2019 and 2020 and 31 August 2021.

30 COMMITMENTS

Capital commitments in respect of property, plant and equipment and intangible assets outstanding at 31 December 2018, 2019 and 2020 and 31 August 2021 not provided for in the financial statements were as follows:

	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2020</u>	<u>31 August 2021</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Contracted for	159	823	1,567	32,511
Approved but not contracted for	7,875	398	12,756	35,493
	<u>8,034</u>	<u>1,221</u>	<u>14,323</u>	<u>68,004</u>

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31 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 8 and certain of the highest paid individuals as disclosed in Note 9, is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Salaries and other benefits	4,149	3,608	3,773	2,439	3,460
Discretionary bonuses	164	965	–	–	–
Equity-settled share-based payment expenses	2,992	3,559	3,906	3,713	4,317
	<u>7,305</u>	<u>8,132</u>	<u>7,679</u>	<u>6,152</u>	<u>7,777</u>

(b) Related parties

Particulars of the Group’s other transactions with related parties other than key management personal remuneration during the Relevant Periods are as follows:

<i>Name of party</i>	<i>Relationship</i>
MPSC	Ultimate controlling party of the Group
MicroPort Product Innovation Inc	Subsidiary of MPSC
MicroPort CRM Japan Co., Ltd.	Subsidiary of MPSC
MicroPort Scientific Vascular Brasil Ltda.	Subsidiary of MPSC
MicroPort Group Co., Ltd.* (上海微創投資控股有限公司) (formerly known as MicroPort (Shanghai) Scientific Investment Co., Ltd. (微創(上海)醫療科學投資有限公司))	Subsidiary of MPSC
Shanghai MicroPort Medical (Group) Co., Ltd.* (上海微創醫療器械(集團)有限公司)	Subsidiary of MPSC
Shanghai MicroPort Orthopedics Co., Ltd.* (上海微創骨科醫療科技有限公司)	Subsidiary of MPSC
Suzhou MicroPort Orthopedics Scientific (Group) Co., Ltd.* (蘇州微創骨科科學(集團)有限公司)	Subsidiary of MPSC
Shanghai MicroPort EP MedTech Co., Ltd.* (上海微創電生理醫療科技股份有限公司, “MP EP”)	Equity-accounted investee of MPSC (Note)
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, “MicroPort Endovascular”)	Subsidiary of MPSC
Shanghai Shenyi Medical Technology Co., Ltd.* (上海神奕醫療科技有限公司, “Shanghai Shenyi”)	Subsidiary of MPSC
Shanghai ShenTai Medtech Co., Ltd.* (上海神泰醫療科技有限公司)	Subsidiary of MPSC
Suzhou ProSteri Medical Technology Co., Ltd.* (蘇州諾潔醫療技術有限公司)	Equity-accounted investee of MPSC
Shanghai SafeWay Medtech Co., Ltd.* (上海安助醫療科技有限公司)	Subsidiary of MPSC
MicroPort Medical (Jiaxing) Co., Ltd.* (嘉興微創醫療科技有限公司)	Subsidiary of MPSC
D-pulse Medical (Beijing) Co., Ltd.* (龍脈醫療器械(北京)有限公司)	Subsidiary of MPSC
AccuPath Medtech (Jiaxing) Co., Ltd.* (脈通醫療科技(嘉興)有限公司, “AccuPath”)	Equity-accounted investee of MPSC (Note)
MPO Japan K.K.	Subsidiary of MPSC
Shanghai Henian Investment Management Centre (Limited Partnership)* (上海鶴年投資管理中心(有限合夥))	Entity controlled by key management personnel of the Group
Shanghai Lianghong Investment Management Centre (Limited Partnership)* (上海良弘投資管理中心(有限合夥))	Entity controlled by key management personnel of the Group
Shanghai Liangkai Enterprise Management Consulting Centre (Limited Partnership)* (上海良凱企業管理諮詢中心(有限合夥))	Entity controlled by key management personnel of the Group
Shanghai Lianggu Enterprise Management Consulting Centre (Limited Partnership)* (上海良崗企業管理諮詢中心(有限合夥))	Entity controlled by key management personnel of the Group

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<i>Name of party</i>	<i>Relationship</i>
AccuTarget MediPharma (Shanghai) Co., Ltd.* (上海導向醫療系統有限公司, “AccuTarget”)	Equity-accounted investee of MPSC (Note)
Shanghai HuaRui Bank Co., Ltd.* (上海華瑞銀行股份有限公司, “SHRB”)	Equity-accounted investee of MPSC

Note: MP EP and AccuPath were previously the fellow subsidiaries of the Group and became the equity-accounted investee of MPSC since April 2019 and January 2021, respectively.

A subsidiary of MPSC acquired certain equity interests in AccuTarget and AccuTarget became an equity-accounted investee of MPSC since June 2021.

* English translation is for identification purpose only.

(c) Financing and leasing arrangement with related parties

	<u>Amounts due (to)/from related parties</u>				<u>Related interest (expense)/income</u>			
	<u>31</u>	<u>31</u>	<u>31</u>	<u>31</u>	<u>Year ended 31 December</u>			<u>Eight months ended</u>
	<u>December</u>	<u>December</u>	<u>December</u>	<u>August</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>31 August</u>
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Loans from subsidiaries of MPSC (i)	(5,011)	–	–	–	(11)	(91)	(397)	–
Lease liabilities due to related parties	–	–	–	(429)	(45)	–	–	(17)
Lease receivables due from a related party	–	–	–	942	–	–	–	29

(i) In March 2018, the Group borrowed an interest-free short-term loan of RMB5,000,000 from Shanghai MicroPort Medical, which has been repaid in August 2018.

In December 2018, the Group borrowed a short-term loan of RMB5,000,000 from Shanghai Shenyi with an interest rate at 4.35% per annum. The Group has repaid the loan in May 2019 to Shanghai Shenyi.

In April 2019 and May 2019, the Group borrowed interest-free short-term loans of RMB20,000,000 and RMB10,000,000 from Shanghai MicroPort Medical and Shanghai Shenyi, respectively, both of which has been repaid in May 2019.

In April 2020, the Group borrowed a short-term loan of RMB38,000,000 from Shanghai MicroPort Medical with an interest rate at 3.6% per annum. The Group has repaid the loan in July 2020 to Shanghai MicroPort Medical.

(d) Cash deposits placed in a related party

As at 31 August 2021, the Group has placed cash deposits amounted to RMB131,020,000 in SHRB with interest rate ranged from 0.35% to 4% per annum during the eight months ended 31 August 2021.

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(e) Other transactions with related parties

	Year ended 31 December			Eight months ended 31 August	
	2018	2019	2020	2020	2021
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Service fee charged by subsidiaries of MPSC	3,294	4,678	4,133	3,395	4,257
Service fee charged by an equity-accounted investee of MPSC	-	27	-	-	-
Purchase of goods from subsidiaries of MPSC	5,253	11,271	7,184	5,203	5,846
Purchase of goods from an equity-accounted investee of MPSC	225	289	1,428	236	1,028
Purchase of equipment from subsidiaries of MPSC	13	631	907	-	798
Short-term lease contracts entered into subsidiaries of MPSC	14	-	-	-	-
Transfer of an intangible asset and equipment to subsidiaries of MPSC	282	501	-	-	-
Payment on behalf of the Group by MPSC	-	-	6	-	-
Payments on behalf of related parties by the Group	45	2,392	763	566	318

(f) Related party balances

	31 December 2018	31 December 2019	31 December 2020	31 August 2021
	RMB’000	RMB’000	RMB’000	RMB’000
Amounts due from related parties	269	2,848	2,408	70,578
Amounts due to related parties	9,724	49,990	8,219	8,530

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 August 2021, the directors consider the immediate parent to be MicroPort Scientific Investment LTD (“MP Scientific”), which is incorporated in British Virgin Islands and does not produce financial statements available for public use.

As at 31 August 2021, the directors consider the ultimate controlling party is MicroPort, which is incorporated in Cayman Islands. MicroPort is listed on the Main Board of The Stock Exchange of Hong Kong Limited and produces financial statements available for public use.

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33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2022 and which have not been adopted in the Historical Financial Information. These include the following:

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2018-2020	1 January 2022
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
HKFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to HKAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to HKAS 12, <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group’s consolidated financial statements.

34 SUBSEQUENT EVENTS

In November 2021, the Company completed a series A financing, pursuant to which, (i) the Company allotted 2,032,495 series A-2 preferred shares to several investors at a cash consideration of US\$31,260,000; and (ii) MP Scientific, the controlling shareholder, sold 7,720,432 ordinary shares of the Company to the investors at a cash consideration of US\$118,740,000, which were then reclassified and redesignated as the series A-2 preferred shares of the Company.

In addition, pursuant to the Subscription Agreement (see Note 25), the outstanding Convertible Bonds were automatically converted into 11,759,125 series A-1 preferred shares in November 2021.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 August 2021.