*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 2019, 2020 and 2021 and the statements of financial position of the Company as at 31 December 2020 and 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 2019, 2020 and 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 the document of the Company dated [*date*] (the "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 2019, 2020 and 2021, the Company's financial position as at 31 December 2020 and 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.

**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 29(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*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
**[REDACTED]**

## 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 | | |
|---|---|---|---|---|
| | | **2019** | **2020** | **2021** |
| | | **RMB'000** | **RMB'000** | **RMB'000** |
| **Revenue** | 4 | 183,720 | 221,923 | 382,799 |
| Cost of sales | | (37,266) | (57,140) | (84,445) |
| **Gross profit** | | 146,454 | 164,783 | 298,354 |
| Other net income | 5 | 6,452 | 11,463 | 25,299 |
| Research and development costs | | (38,166) | (53,037) | (94,133) |
| Selling and marketing expenses | | (45,150) | (48,215) | (69,228) |
| Administrative expenses | | (15,286) | (18,130) | (47,243) |
| Other operating costs | 6(c) | (200) | (1,000) | (28,320) |
| **Profit from operations** | | 54,104 | 55,864 | 84,729 |
| Finance costs | 6(a) | (1,693) | (4,467) | (45,309) |
| Share of losses of an associate | | – | – | (7,517) |
| **Profit before taxation** | 6 | 52,411 | 51,397 | 31,903 |
| Income tax | 7(a) | (5,436) | (6,110) | (7,733) |
| **Profit for the year and attributable to equity shareholders of the Company** | | 46,975 | 45,287 | 24,170 |
| **Earnings per share (RMB)** | 10 | | | |
| Basic and diluted | | [0.11] | [0.10] | [0.05] |

## Consolidated statements of profit or loss and other comprehensive income

*(Expressed in Renminbi)*

| | Year ended 31 December | | |
|---|---|---|---|
| | **2019** | **2020** | **2021** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **Profit for the year** | 46,975 | 45,287 | 24,170 |
| **Other comprehensive income for the year, net of nil tax** | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Exchange differences on translation of financial statements of the Company | – | (89) | (3,182) |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of financial statements of foreign subsidiaries | – | (3,183) | 7,438 |
| **Other comprehensive income for the year** | – | (3,272) | 4,256 |
| **Total comprehensive income for the year and attributable to equity shareholders of the Company** | 46,975 | 42,015 | 28,426 |

## Consolidated statements of financial position

*(Expressed in Renminbi)*

| | Note | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 |
| **Non-current assets** | | | | |
| Property, plant and equipment | 11 | 47,348 | 59,485 | 212,238 |
| Investment property | 11 | 14,297 | 13,954 | 13,611 |
| | | 61,645 | 73,439 | 225,849 |
| Intangible assets | 12 | 106,756 | 129,406 | 127,385 |
| Interest in an associate | 14 | – | – | 168,211 |
| Financial assets measured at fair value through profit or loss | 15 | 38,369 | 37,051 | – |
| Deferred tax assets | 24(b) | 3,783 | 4,346 | 7,398 |
| Other non-current assets | 16 | 2,447 | 1,463 | 27,345 |
| | | 213,000 | 245,705 | 556,188 |
| **Current assets** | | | | |
| Inventories | 17 | 37,992 | 55,006 | 87,959 |
| Trade and other receivables | 18 | 61,525 | 59,406 | 102,908 |
| Cash and cash equivalents | 19 | 22,211 | 425,493 | 593,287 |
| | | 121,728 | 539,905 | 784,154 |
| **Current liabilities** | | | | |
| Interest-bearing borrowings | 20 | 40,548 | – | – |
| Convertible bonds | 25 | – | 19,202 | – |
| Trade and other payables | 21 | 106,474 | 62,803 | 129,666 |
| Contract liabilities | 22 | 622 | 2,541 | 12,403 |
| Lease liabilities | 23 | 3,982 | 5,952 | 27,993 |
| Income tax payables | 24(a) | – | 4,256 | 4,148 |
| | | 151,626 | 94,754 | 174,210 |
| **Net current (liabilities)/assets** | | (29,898) | 445,151 | 609,944 |
| **Total assets less current liabilities** | | 183,102 | 690,856 | 1,166,132 |
| **Non-current liabilities** | | | | |
| Convertible bonds | 25 | – | 297,794 | – |
| Lease liabilities | 23 | 5,105 | 8,200 | 81,705 |
| Deferred income | 26 | 8,592 | 9,554 | 18,124 |
| Other financial liabilities | 27 | – | – | 1,237,990 |
| Other non-current liabilities | | 1,247 | 2,426 | 3,253 |
| | | 14,944 | 317,974 | 1,341,072 |
| **NET ASSETS/(LIABILITIES)** | | 168,158 | 372,882 | (174,940) |
| **CAPITAL AND RESERVES** | 29 | | | |
| Share capital | | 53,500 | 63,531 | 60 |
| Reserves | | 114,658 | 309,351 | (175,000) |
| **TOTAL EQUITY/(DEFICIT)** | | 168,158 | 372,882 | (174,940) |

## Statements of financial position

*(Expressed in Renminbi)*

| | Note | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| **Non-current assets** | | | |
| Interest in subsidiaries | 13 | 326,245 | 791,943 |
| **Current assets** | | | |
| Cash and cash equivalents | 19 | – | 195,088 |
| Other receivables | | | 2,926 |
| | | – | 198,014 |
| **Current liabilities** | | | |
| Convertible bonds | 25 | 19,202 | – |
| Other payables | 21 | 88 | 27,968 |
| | | 19,290 | 27,968 |
| **Net current (liabilities)/assets** | | (19,290) | 170,046 |
| **Total assets less current liabilities** | | 306,955 | 961,989 |
| **Non-current liabilities** | | | |
| Convertible bonds | 25 | 297,794 | – |
| Other financial liabilities | 27 | – | 1,237,990 |
| | | 297,794 | 1,237,990 |
| **NET ASSETS/(LIABILITIES)** | | 9,161 | (276,001) |
| **CAPITAL AND RESERVES** | 29 | | |
| Share capital | | – | 60 |
| Reserves | | 9,161 | (276,061) |
| **TOTAL EQUITY/(DEFICIT)** | | 9,161 | (276,001) |

## Consolidated statements of changes in equity

*(Expressed in Renminbi)*

| | Note | Share capital | Share premium | Exchange reserve | Capital reserve | Statutory general reserve | Retained earnings | Total equity/ (deficit) |
|---|---|---|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Balance at 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 | 28 | – | – | – | 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 | 29(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 | 28 | – | – | – | 1,108 | – | – | 1,108 |
| **Balance at 31 December 2020 and 1 January 2021** | | 63,531 | – | (3,272) | 192,183 | 14,566 | 105,874 | 372,882 |
| **Changes in equity for 2021:** | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 24,170 | 24,170 |
| Other comprehensive income | | – | – | 4,256 | – | – | – | 4,256 |
| Total comprehensive income | | – | – | 4,256 | – | – | 24,170 | 28,426 |
| Issuance of ordinary shares | 29(c)(ii) | 65 | 276,963 | – | – | – | – | 277,028 |
| Issuance of convertible bonds | 25 | – | – | – | 4,478 | – | – | 4,478 |
| Deemed distributions to the shareholder upon the Restructuring (as defined in Note 1) | 29(c)(ii) | (63,531) | – | – | (212,491) | – | – | (276,022) |
| Issuance of the Series A-2 Preferred Shares | 27 | – | – | – | 26,178 | – | – | 26,178 |
| Re-classification and re-designation from ordinary shares to the Series A-2 Preferred Shares | 27 | (5) | (276,963) | – | (381,448) | – | – | (658,416) |
| Exchange of the convertible bonds and the issuance of the Series A-1 Preferred Shares | 27 | – | – | – | 48,904 | – | – | 48,904 |
| Appropriation of statutory general reserve | | – | – | – | – | 10,015 | (10,015) | – |
| Equity-settled share-based transactions | 28 | – | – | – | 1,602 | – | – | 1,602 |
| **Balance at 31 December 2021** | | 60 | – | 984 | (320,594) | 24,581 | 120,029 | (174,940) |

## Consolidated statements of cash flows

*(Expressed in Renminbi)*

| | Note | Year ended 31 December 2019 RMB'000 | 2020 RMB'000 | 2021 RMB'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit before taxation | | 52,411 | 51,397 | 31,903 |
| Adjustments for: | | | | |
| Amortisation and depreciation | 6(d) | 9,253 | 12,470 | 31,723 |
| Interest expenses | 6(a) | 1,617 | 4,372 | 45,200 |
| Interest income on time deposits | | – | – | (822) |
| Fair value changes in financial instruments | 30(e) | – | (1,230) | (12,098) |
| Share of losses of an associate | | – | – | 7,517 |
| Loss/(gain) on disposal of property, plant and equipment | 5 | 21 | 68 | (394) |
| Equity-settled share-based payments | 28 | 1,097 | 1,013 | 1,459 |
| Others | | – | – | (866) |
| Changes in working capital: | | | | |
| Increase in inventories | | (23,788) | (17,013) | (32,953) |
| (Increase)/decrease in trade and other receivables | | (16,530) | 372 | 25,796 |
| Increase/(decrease) in trade and other payables | | 35,371 | (6,650) | 52,575 |
| Increase in deferred income | | 4,788 | 963 | 8,570 |
| Decrease/(increase) in other non-current assets | | (1,186) | 628 | – |
| Increase in other non-current liabilities | | 378 | 1,179 | 827 |
| Increase in contract liabilities | | 538 | 1,919 | 9,862 |
| Cash generated from operations | | 63,970 | 49,488 | 168,299 |
| Income tax refund | 24(a) | 1,222 | 2,881 | 562 |
| The People's Republic of China ("PRC") income tax paid | 24(a) | (8,542) | (5,135) | (11,455) |
| **Net cash generated from operating activities** | | 56,650 | 47,234 | 157,406 |
| **Investing activities** | | | | |
| Payments for the purchase of property, plant and equipment | | (12,881) | (11,479) | (49,436) |
| Payments for intangible assets, including expenditures on capitalised development costs | | (37,190) | (22,665) | (8,544) |
| Payments for the investments in an associate and other investments | | – | (38,895) | (129,706) |
| Proceeds from disposal of property, plant and equipment | | 272 | 2 | 74 |
| Placement of time deposits | | – | – | (40,000) |
| Uplift of time deposits | | – | – | 40,822 |
| **Net cash used in investing activities** | | (49,799) | (73,037) | (186,790) |

## Consolidated statements of cash flows (continued)

*(Expressed in Renminbi)*

| | Note | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2019 | 2020 | 2021 |
| | | RMB'000 | RMB'000 | RMB'000 |
| **Financing activities** | | | | |
| Capital element of lease rentals paid | 19(b) | (3,158) | (4,626) | (13,282) |
| Interest element of lease rentals paid | 19(b) | (270) | (735) | (2,665) |
| Lease deposits (paid)/refund | | (1,064) | 123 | (27,067) |
| Loans from related parties | 19(b) | 30,000 | 38,000 | – |
| Repayments of loans from related parties | 19(b) | (35,000) | (38,000) | – |
| Proceeds from issuance of convertible bonds | 25 | – | 329,045 | 129,208 |
| Interest paid for convertible bonds | 25 | – | – | (17,921) |
| Proceeds from other interest-bearing borrowings | 19(b) | 42,500 | 40,000 | – |
| Repayments of interest-bearing borrowings | 19(b) | (22,000) | (80,500) | – |
| Interest paid for loans from related party | 19(b) | (102) | (397) | – |
| Interest paid for interest-bearing borrowings | 19(b) | (1,241) | (1,026) | – |
| Capital contribution from shareholders | 29(c) | – | 150,000 | 277,028 |
| Deemed distributions to the shareholder upon the Restructuring | 29(c) | – | – | (344,002) |
| Proceeds from issuance of the Series A-2 Preferred Shares | 27 | – | – | 199,447 |
| **Net cash generated from financing activities** | | 9,665 | 431,884 | 200,746 |
| **Net increase in cash and cash equivalents** | | 16,516 | 406,081 | 171,362 |
| **Cash and cash equivalents at the beginning of the year** | | 5,695 | 22,211 | 425,493 |
| **Effect of foreign exchange rate changes** | | – | (2,799) | (3,568) |
| **Cash and cash equivalents at the end of the year** | | 22,211 | 425,493 | 593,287 |

## 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 the 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 2019, for the period from the date of incorporation/establishment to 31 December 2021). The consolidated statements of financial position of the Group as at 31 December 2019, 2020 and 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:

| Name of company | Place and date of incorporation/ establishment | Particulars of registered and paid-up capital | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by the subsidiary | Principal activities |
|---|---|---|---|---|---|
| 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 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 statutory financial statements of the entity for the year ended 31 December 2021 have not yet been issued as of the date of this report.

* 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 34.

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.

As at 31 December 2021, the Group was in net liabilities position of RMB174,940,000 in which the balances consist of other financial liabilities of RMB1,237,990,000 (see Note 27) that the earliest redemption dates of the other financial liabilities will be on or after 18 November 2024. After taking into account the Group's cash flow projection and the expected working capital requirements, the directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due for a period of twelve months from 31 December 2021 and it is appropriate to prepare the Historical Financial Information on a going concern basis.

## 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 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(p), (q) and (r) 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.

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 30(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(v)(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(v)(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(v)(ii).

**(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(x)).

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

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

- Buildings 43 - 45 years
- 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(x)). 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.

(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(v)(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(v)(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.

*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(v)(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.

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.

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(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 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(v)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

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(v)).

**(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) Preferred shares**

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

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

Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred), or if dividend payments are not discretionary. The liability is recognised and measured in accordance with the Group's policy for interest-bearing borrowings set out in Note 2(q) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

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

**(p) Trade and other payables**

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

**(q) 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(x)).

**(r) 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.

When the Group extinguishes the bonds before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Group allocates consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the bonds at the date of such transaction. The method used in allocating is consistent with that used in the original allocation when the bonds were issued. Once the allocation is made, any resulting gain or loss relating to the liability and equity components is recognised in profit or loss and in equity, respectively.

**(s) Employee benefits**

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

**(t) Income tax**

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

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.

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

(i) Provisions and contingent liabilities

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

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

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

(ii) Onerous contracts

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

**(v) Revenue and other income**

Income is classified by the Group as revenue when it arises from the sale of goods, 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.

(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.

**(w) Translation of foreign currencies**

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

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

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

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

**(x) Borrowing costs**

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

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

**(y) Related parties**

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

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

(ii) has significant influence over the Group; or

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

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

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

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

**(z) Segment reporting**

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

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

## 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.

### (b) Sources of estimation uncertainty

Notes 28 and 30(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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | | |
| Sales of medical devices – point in time | 182,742 | 220,468 | 381,425 |
| **Revenue from other sources** | | | |
| Gross rentals | 978 | 1,455 | 1,374 |
| | 183,720 | 221,923 | 382,799 |

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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Customer A | N/A* | 57,950 | 110,542 |
| Customer B | 122,388 | 129,864 | 101,120 |
| Customer C | N/A* | N/A* | 86,769 |
| Customer D | N/A* | N/A* | 41,049 |

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

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

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts 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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| PRC (place of domicile) | 183,720 | 221,923 | 382,189 |
| Other countries | – | – | 610 |
| | 183,720 | 221,923 | 382,799 |

*Specified non-current assets*

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| PRC (place of domicile) | 168,401 | 202,845 | 353,234 |
| Israel | 38,369 | 37,051 | 168,211 |
| | 206,770 | 239,896 | 521,445 |

## 5 OTHER NET INCOME

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Fair value changes in financial instruments (Note 30(e)) | – | 1,230 | 12,098 |
| Government grants (i) | 6,551 | 9,580 | 6,106 |
| Interest income on financial assets carried at amortised cost | 50 | 137 | 3,957 |
| Net foreign exchange (loss)/gain | (138) | 377 | (160) |
| Net (loss)/gain on disposal of property, plant and equipment | (21) | (68) | 394 |
| Others | 10 | 207 | 2,904 |
| | 6,452 | 11,463 | 25,299 |

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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest on interest-bearing borrowings | 1,256 | 978 | – |
| Interest on convertible bonds (Note 25) | – | 2,262 | 22,875 |
| Interest on other financial liabilities (Note 27) | – | – | 19,660 |
| Interest on loans from related parties (Note 32(c)(i)) | 91 | 397 | – |
| Interest on lease liabilities | 270 | 735 | 2,665 |
| Total interest expenses on financial liabilities not at fair value through profit or loss | 1,617 | 4,372 | 45,200 |
| Others | 76 | 95 | 109 |
| | 1,693 | 4,467 | 45,309 |

**(b) Staff costs#**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Contributions to defined contribution retirement plans (Note) | 6,167 | 1,560 | 8,745 |
| Equity-settled share-based payment expenses (Note 28) | 4,053 | 4,339 | 6,753 |
| Salaries, wages and other benefits | 60,489 | 69,434 | 104,029 |
| | 70,709 | 75,333 | 119,527 |

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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Restructuring related expenses | – | – | 982 |
| **[REDACTED]** expenses | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Donations | 200 | 1,000 | 1,000 |
| | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

**(d) Other items**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Amortisation of intangible assets# (Note 12) | 3,580 | 4,883 | 11,114 |
| Depreciation charge# (Note 11) | | | |
| – owned property, plant and equipment and investment property | 4,033 | 5,369 | 6,235 |
| – right-of-use assets | 3,295 | 4,976 | 15,573 |
| | 7,328 | 10,345 | 21,808 |
| Less: Capitalised into intangible assets | (1,655) | (2,758) | (1,199) |
| | 5,673 | 7,587 | 20,609 |
| Research and development expenditure | 75,956 | 80,511 | 102,911 |
| Less: Development costs capitalised into intangible assets (Note 12) | (37,790) | (27,474) | (8,778) |
| | 38,166 | 53,037 | 94,133 |
| Cost of inventories# (Note 17(b)) | 48,982 | 77,259 | 115,969 |
| Auditors' remuneration | 30 | 50 | 4,225 |

# Cost of inventories includes RMB10,699,000, RMB13,156,000 and RMB27,434,000, respectively, relating to staff costs, depreciation and amortisation expenses, which 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 2019, 2020 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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Current tax – PRC Corporate Income Tax ("CIT")** | | | |
| Provision for the year | 7,412 | 6,673 | 10,785 |
| **Deferred tax** | | | |
| Origination and reversal of temporary differences | (1,976) | (563) | (3,052) |
| | 5,436 | 6,110 | 7,733 |

(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%.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before taxation | 52,411 | 51,397 | 31,903 |
| Notional tax on profit before taxation, calculated at the rates applicable to profit in the countries concerned | 13,103 | 13,140 | 23,335 |
| Effect of the preferential income tax rate (Note 7(a)(iii)) | (3,624) | (4,074) | (5,156) |
| Effect of other non-deductible expenses | 838 | 2,621 | 5,346 |
| Effect of additional deduction on research and development expenses (Note 7(a)(iii)) | (4,883) | (5,585) | (16,901) |
| Effect of tax losses not recognised | 2 | 8 | 1,109 |
| Actual tax expenses | 5,436 | 6,110 | 7,733 |

## 8 DIRECTORS' EMOLUMENTS

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

| | Year ended 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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) | – | 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 | | | | | |
|---|---|---|---|---|---|---|
| | 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) | – | 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 |

| | Year ended 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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) | – | 1,099 | 1,315 | – | 1,159 | 3,573 |
| Yiqun Bruce Wang (b) | – | 960 | 1,014 | – | 932 | 2,906 |
| Chuan Luo (c) | – | – | – | – | – | – |
| Lin Wang (f) | – | – | – | – | – | – |
| Xia Wu (f) | – | – | – | – | – | – |
| | – | 2,059 | 2,329 | – | 2,091 | 6,479 |

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 in 2018. As the Restructuring of the Company was completed in 2021, their emoluments for the year ended 31 December 2021 are not presented in the table above.

(e) Yong Li and He Li were appointed as the supervisors of MP NeuroTech Shanghai in 2018. As the Restructuring of the Company was completed in 2021, their emoluments for the year ended 31 December 2021 are not presented in the table above.

(f) Lin Wang and Xia Wu were appointed as non-executive directors of the Company in September and November 2021, respectively.

(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 2019, 2020 and 2021 include 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 and three individuals during the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Salaries and other benefits | 1,562 | 1,638 | 2,270 |
| Discretionary bonuses | 1,330 | 713 | 2,082 |
| Equity-settled share-based payments | 889 | 996 | 1,911 |
| | 3,781 | 3,347 | 6,263 |

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | Number of individuals | Number of individuals | Number of individuals |
| HK$Nil to HK$1,000,000 | – | 1 | – |
| HK$1,000,001 to HK$1,500,000 | 2 | 1 | – |
| HK$1,500,001 to HK$2,000,000 | – | 1 | 1 |
| HK$2,000,001 to HK$2,500,000 | 1 | – | 1 |
| HK$2,500,001 to HK$3,000,000 | – | – | – |
| HK$3,000,001 to HK$3,500,000 | – | – | 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 attributable to ordinary equity shareholders of the Company divided by the weighted average number of ordinary shares in issue and on the assumption that the Restructuring and the share subdivision as disclosed in Note 35 had been in effective on 1 January 2019, calculated as follows:

(i) Earnings of the year attributable to ordinary equity shareholders of the Company

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Earnings of the year attributable to ordinary equity shareholders of the Company | 46,975 | 45,287 | 24,170 |

(ii) Weighted average number of ordinary shares

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | '000 | '000 | '000 |
| Issued ordinary shares at 1 January | [421,053] | [421,053] | [500,000] |
| Effect of capital contributions by shareholders (Note 29(c)(i)) | – | [34,513] | – |
| Effect of re-classification and re-designation to the Series A-2 Preferred Shares | – | – | [(4,548)] |
| Weighted average number of ordinary shares at 31 December | [421,053] | [455,566] | [495,452] |

There were no potential ordinary shares during the year ended 31 December 2019, 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 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.

The calculation of diluted earnings per share amounts for the year ended 31 December 2021 had not included the convertible bonds issued (see Note 25) and the preferred shares issued by the Company (see Note 27), as they had an anti-dilutive effect on the basic earnings per share amounts.

## 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 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) | – | – | – |
| Additions | – | 29 | 630 | – | – | 9,691 | 11,859 | 22,209 | – | 22,209 |
| 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 | – | 6,961 | 7,618 | 842 | – | – | (15,421) | – | – | – |
| Additions | – | – | 1,620 | 6 | – | 114,106 | 59,194 | 174,926 | – | 174,926 |
| Disposals | – | (19) | – | (7) | (381) | (821) | – | (1,228) | – | (1,228) |
| At 31 December 2021 | 14,973 | 28,400 | 33,705 | 4,660 | 1,476 | 133,821 | 45,497 | 262,532 | 15,527 | 278,059 |
| **Accumulated depreciation and amortisation:** | | | | | | | | | | |
| At 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 year | 313 | 2,272 | 2,525 | 630 | 152 | 15,573 | – | 21,465 | 343 | 21,808 |
| Written back on disposals | – | (15) | – | (7) | (362) | (136) | – | (520) | – | (520) |
| At 31 December 2021 | 2,870 | 13,131 | 8,439 | 2,295 | 1,202 | 22,357 | – | 50,294 | 1,916 | 52,210 |
| **Net book value:** | | | | | | | | | | |
| 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 December 2021 | 12,103 | 15,269 | 25,266 | 2,365 | 274 | 111,464 | 45,497 | 212,238 | 13,611 | 225,849 |

### (b) Investment property

As at 31 December 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 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Properties leased for own use, carried at depreciated cost | 8,901 | 13,616 | 111,464 |

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Depreciation charge of right-of-use assets by class of underlying asset: | | | |
| Properties leased for own use | 3,295 | 4,976 | 15,573 |
| Interest on lease liabilities (Note 6(a)) | 270 | 735 | 2,665 |
| Expense relating to short-term leases | 307 | 12 | 24 |

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 30(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.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 340 | 426 | – |
| After 1 year but within 2 years | 87 | – | – |
| After 2 year but within 3 years | – | – | – |
| | 427 | 426 | – |

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 | Software | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Cost:** | | | |
| At 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 | 8,778 | 315 | 9,093 |
| At 31 December 2021 | 149,803 | 907 | 150,710 |
| **Accumulated amortisation:** | | | |
| At 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 year | 11,074 | 40 | 11,114 |
| At 31 December 2021 | 22,757 | 568 | 23,325 |
| **Net book value:** | | | |
| At 31 December 2019 | 106,594 | 162 | 106,756 |
| At 31 December 2020 | 129,342 | 64 | 129,406 |
| At 31 December 2021 | 127,046 | 339 | 127,385 |

Included in intangible assets were an amount of RMB79,787,000, RMB53,251,000 and RMB38,366,000 that are not yet available for use as of 31 December 2019, 2020 and 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.

**(a) Impairment test**

The capitalised development costs not yet available for use are tested annually based on the recoverable amount of each individual asset at the product level.

As of 31 December 2019, the capitalised development costs not yet available for use included NUMEN® coil embolisation system and NUMEN FR® coil detachment system (collectively "NUMEN Products"), Bridge® rapamycin target eluting vertebral artery stent system ("Bridge") and Neurohawk® stent thrombectomy device ("Neurohawk"). In 2020, NUMEN Products and Bridge were approved by the National Medical Products Administration ("NMPA") and commercialised in the PRC. Accordingly, the capitalised development costs not yet available for use as of 31 December 2020 and 2021 only included Neurohawk.

The recoverable amount of each product was determined based upon the value-in-use calculations, which adopted the multi-period excess earnings method.

The cash flow projections are based on the financial budgets approved by the directors of the Company. Revenue forecasts are based on management's expectations of the timing of the commercialisation, productivity and the market size of related products. Management estimates the products will have a 10-year useful life commencing from the approval for commercialisation with higher rates of revenue growth in the earlier years and declining revenue during the remaining years of the estimated useful life. The discount rates used are pre-tax and reflect specific risks relating to the relevant products.

The key assumptions used for recoverable amount calculations of each individual asset are as follows:

| **NUMEN Products** (i) | **As at 31 December 2019** |
|---|---|
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 22% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -35% |
| Pre-tax discount rate | 28.8% |

| **Bridge** (i) | **As at 31 December 2019** |
|---|---|
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 29% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -16% |
| Pre-tax discount rate | 28.6% |

| **Neurohawk** (ii) | **As at 31 December** | | |
|---|---|---|---|
| | **2019** | **2020** | **2021** |
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 27% | 27% | 22% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -23% | -23% | -29% |
| Pre-tax discount rate | 28.5% | 29.1% | 29.8% |

Notes:

i As at 31 December 2020 and 2021, the Group did not identify any impairment indicators for NUMEN Products and Bridge by reviewing the internal and external sources of information in accordance with the Group's accounting policies set out in Note 2(j)(ii). Consequently, no impairment assessment for NUMEN Products and Bridge as of 31 December 2020 and 2021 was performed.

ii Subsequently, the product in relation to Neurohawk was approved by the NMPA in February 2022.

**(b) Impact of possible changes in key assumptions**

The recoverable amount of NUMEN Products is estimated to exceed its carrying amount at 31 December 2019 by approximately RMB73 million.

The recoverable amount of Bridge is estimated to exceed its carrying amount at 31 December 2019 by approximately RMB27 million.

The recoverable amounts of Neurohawk are estimated to exceed its carrying amount at 31 December 2019, 2020 and 2021 by approximately RMB19 million, RMB19 million and RMB7 million, respectively.

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

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

| NUMEN Products | As at 31 December 2019 |
|---|---|
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 10% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -44% |
| Pre-tax discount rate | 61.6% |

| Bridge | As at 31 December 2019 |
|---|---|
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 2% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -44% |
| Pre-tax discount rate | 56.4% |

| Neurohawk | As at 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| Revenue from the commercialisation to the peak sales (% annualised compound growth rate) | 19% | 21% | 21% |
| Revenue for the remaining useful life (% annualised compound growth rate) | -31% | -29% | -31% |
| Pre-tax discount rate | 43.0% | 42.0% | 35.4% |

## 13 INTEREST IN SUBSIDIARIES

**The Company**

| | 31 December 2020 | 31 December 2021 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Investment in a subsidiary | – | 363,304 |
| Amounts due from a subsidiary | 326,245 | 428,639 |
| | 326,245 | 791,943 |

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 December 2021, which is an unlisted corporate entity whose quoted market price is not available:

| | | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|---|
| Name of associate | Form of business structure | Place of incorporation | Particulars of issued and paid-up capital | Group's effective interest | Held by the Company | Held by a subsidiary | Principal Activity |
| 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.

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

| | Period from the Closing Date to 31 December 2021 |
|---|---|
| | RMB'000 |
| Revenue | 67,989 |
| Loss for the period | (33,740) |
| Other comprehensive income | – |
| Total comprehensive income | (33,740) |

## 15 FINANCIAL ASSETS MEASURED AT FVPL

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | 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 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Lease deposits (Note) | 1,298 | 670 | 21,699 |
| Prepayments for property, plant and equipment | 1,149 | 793 | 5,031 |
| Others | – | – | 615 |
| | 2,447 | 1,463 | 27,345 |

Note:

Lease deposits are typically paid for leased properties, which are refundable after the expiry of the leases and carried at amortised cost. During the year ended 31 December 2021, the Group entered into a 5-year lease agreement (the "Lease Agreement") with Shanghai Weichuang Investment Management Co., Ltd.* (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 December 2021, the carrying amount of lease deposits paid to SW Investment is RMB21,604,000.

* The English name is for identification purpose only.

## 17 INVENTORIES

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

| | 31 December, 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 11,690 | 19,245 | 35,639 |
| Work in progress | 7,338 | 8,943 | 15,675 |
| Finished goods | 18,964 | 26,818 | 36,645 |
| | 37,992 | 55,006 | 87,959 |

**(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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Costs of inventories sold | 34,092 | 53,141 | 82,021 |
| Write down of the inventories | 2,872 | 3,761 | 1,590 |
| Cost of inventories directly recognised as research and development costs | 10,899 | 18,908 | 30,189 |
| Cost of inventories directly recognised as selling and marketing expenses | 1,119 | 1,449 | 2,169 |
| | 48,982 | 77,259 | 115,969 |

## 18 TRADE AND OTHER RECEIVABLES

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | 46,339 | 42,170 | 1,066 |
| Other debtors | 2,946 | 2,331 | 3,925 |
| Income tax recoverable (Note 24(a)) | 163 | – | – |
| Deposits and prepayments | 12,077 | 14,905 | 31,248 |
| Amounts due from related parties in connection with the Restructuring (Note 29(c)(ii)) | – | – | 66,669 |
| | 61,525 | 59,406 | 102,908 |

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 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 month | 16,834 | 15,723 | 971 |
| 1 to 3 months | 28,198 | 26,447 | – |
| 3 to 12 months | 1,110 | – | 95 |
| Over 12 months | 197 | – | – |
| | 46,339 | 42,170 | 1,066 |

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 30(a).

## 19 CASH AND CASH EQUIVALENTS AND OTHER CASHFLOW INFORMATION

### (a) Cash and cash equivalents

**The Group**

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Cash and cash equivalents** | | | |
| Deposits with banks | 22,211 | 425,493 | 593,287 |

As at 31 December 2019, 2020 and 2021, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB22,211,000, RMB262,518,000 and RMB381,437,000, 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 2021, cash and cash equivalents comprise cash at bank amounting to nil and RMB195,088,000, respectively.

### (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 | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| | RMB'000 (Note 32(c)) | RMB'000 (Note 20) | RMB'000 (Note 25) | RMB'000 (Note 23) | RMB'000 (Note 27) | 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 |

| | Loans from related parties | Interest-bearing borrowings | Convertible bonds | Lease liabilities | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| | RMB'000 (Note 32(c)) | RMB'000 (Note 20) | RMB'000 (Note 25) | RMB'000 (Note 23) | RMB'000 (Note 27) | RMB'000 |
| **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 |

| | Loans from related parties | Interest-bearing borrowings | Convertible bonds | Lease liabilities | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| | RMB'000 (Note 32(c)) | RMB'000 (Note 20) | RMB'000 (Note 25) | RMB'000 (Note 23) | RMB'000 (Note 27) | 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 year | – | – | – | 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 |

| | Loans from related parties | Interest-bearing borrowings | Convertible bonds | Lease liabilities | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| | RMB'000 (Note 32(c)) | RMB'000 (Note 20) | RMB'000 (Note 25) | RMB'000 (Note 23) | RMB'000 (Note 27) | 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 | – | – | (17,921) | – | – | (17,921) |
| Capital element of lease payments | – | – | – | (13,282) | – | (13,282) |
| Interest element of lease payments | – | – | – | (2,665) | – | (2,665) |
| Issuance of the Series A-2 Preferred Shares (as defined in Note 27) | – | – | – | – | 199,447 | 199,447 |
| Total changes from financing cash flows | – | – | 111,287 | (15,947) | 199,447 | 294,787 |
| **Exchange adjustments** | – | – | (8,513) | – | (1,752) | (10,265) |
| **Other changes:** | | | | | | |
| Increase in lease liabilities from entering into new leases during the year | – | – | – | 108,828 | – | 108,828 |
| Equity component of convertible bonds | – | – | (4,478) | – | – | (4,478) |
| Exchange of the convertible bonds and the issuance of the Series A-1 Preferred Shares (as defined in Note 25) | – | – | (438,167) | – | 388,397 | (49,770) |
| Re-classification and re-designation from ordinary shares to the Series A-2 Preferred Shares | – | – | – | – | 658,416 | 658,416 |
| Equity component of newly issued Series A-2 Preferred Shares | – | – | – | – | (26,178) | (26,178) |
| Interest charge (Note 6(a)) | – | – | 22,875 | 2,665 | 19,660 | 45,200 |
| | – | – | (419,770) | 111,493 | 1,040,295 | 732,018 |
| **At 31 December 2021** | – | – | – | 109,698 | 1,237,990 | 1,347,688 |

**(c) Total cash outflow for leases**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within operating cash flows | 306 | 36 | – |
| Within financing cash flows | 3,428 | 5,361 | 15,947 |
| | 3,734 | 5,397 | 15,947 |

All these amounts relate to the lease rentals paid.

## 20 INTEREST-BEARING BORROWINGS

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Secured bank loans** | | | |
| – Within 1 year or on demand | 40,548 | – | – |

## 21 TRADE AND OTHER PAYABLES

**The Group**

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables due to | | | |
| – third party suppliers | 6,246 | 5,914 | 28,482 |
| – related parties | 11,621 | 4,893 | 6,466 |
| | 17,867 | 10,807 | 34,948 |
| 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 28(b)) | – | 3,326 | – |
| Sales rebates | 9,729 | 11,052 | 20,753 |
| Sales return | 3,932 | 2,788 | 5,326 |
| Accrued payroll | 19,249 | 19,736 | 29,290 |
| Other payables and accrued charges | 17,328 | 15,094 | 39,349 |
| | 106,474 | 62,803 | 129,666 |

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 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 month | 12,403 | 8,844 | 33,112 |
| Over 1 month but within 3 months | 3,687 | 862 | 1,408 |
| Over 3 months but within 6 months | 1,639 | 1,038 | 187 |
| Over 6 months but within 1 year | 51 | – | 65 |
| Over 1 year | 87 | 63 | 176 |
| | 17,867 | 10,807 | 34,948 |

**The Company**

| | 31 December 2020 | 31 December 2021 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Amounts due to a subsidiary | 88 | – |
| Other accrued charges | – | 27,968 |
| | 88 | 27,968 |

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

## 22 CONTRACT LIABILITIES

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Advanced receipts from customers for sales of medical devices | 622 | 2,541 | 12,403 |

Movements in contract liabilities

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January | 84 | 622 | 2,541 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | (84) | (622) | (2,541) |
| Increase in contract liabilities as a result of receiving advance payments during the year in respect of unfulfilled performance obligation as at the year end | 622 | 2,541 | 12,403 |
| At 31 December | 622 | 2,541 | 12,403 |

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 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Within 1 year | 3,982 | 5,952 | 27,993 |
| After 1 year but within 2 years | 3,434 | 3,476 | 24,606 |
| After 2 years but within 5 years | 1,671 | 4,724 | 57,099 |
| | 5,105 | 8,200 | 81,705 |
| | 9,087 | 14,152 | 109,698 |

## 24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At the beginning of the year | (255) | (163) | 4,256 |
| Provision for PRC CIT for the year (Note 7(a)) | 7,412 | 6,673 | 10,785 |
| Tax paid | (8,542) | (5,135) | (11,455) |
| Tax refund | 1,222 | 2,881 | 562 |
| At the end of the year | (163) | 4,256 | 4,148 |
| **Representing:** | | | |
| Income tax recoverable | (163) | – | – |
| Income tax payables | – | 4,256 | 4,148 |
| | (163) | 4,256 | 4,148 |

**(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:

| | Deferred income | Accrued expenses and others | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| At 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 | 1,286 | 1,766 | 3,052 |
| At 31 December 2021 | 2,719 | 4,679 | 7,398 |

**(c) Deferred tax assets not recognised**

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

| | 31 December 2019 | | 31 December 2020 | | 31 December 2021 | |
|---|---|---|---|---|---|---|
| | RMB'000 | Expire year | RMB'000 | Expire year | RMB'000 | Expire year |
| Expire | 12 | 2020-2024 | 7 | 2021-2025 | 4,443 | 2022-2026 |
| Not expire | – | – | 43 | – | 4,578 | – |

In accordance with the accounting policy set out in Note 2(t), 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 2021, temporary differences relating to the undistributed profits of a PRC subsidiary amounted to RMB108,685,000 and RMB192,995,000 respectively. Deferred tax liabilities of RMB10,869,000 and

RMB19,300,000 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 2021, respectively, 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 for the convertible bonds (the "Convertible Bonds") 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.

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 equity value of the Group amounting to RMB4 billion at the predetermined exchange rate of RMB against US$, subject to the certain adjustments under the Subscription Agreement.

Upon the exercise of the conversion option, the Convertible Bonds will be settled by converting a fixed amount of cash in US$ into a fixed number of equity instruments issued by the Company. In accordance with the Group's accounting policy set out in Note 2(r), these Convertible Bonds are accounted for as compound financial instruments which contain both a liability component and an equity component.

In November 2021, the Company completed the Pre-**[REDACTED]** Investment (as defined and detailed in Note 27). Pursuant to the Subscription Agreement, the Convertible Bonds were simultaneously exchanged into an aggregate of 11,759,125 series A-1 preferred shares of the Company (the "Series A-1 Preferred Shares") at a price of approximately US$5.95 per Series A-1 Preferred Shares.

As the terms of Series A-1 Preferred Shares were substantially different from those of the Convertible Bonds, the Convertible Bonds were treated as the extinguishment of the Convertible Bonds before maturity and the issuance of the Series A-1 Preferred Shares. Accordingly, in accordance with the accounting policies of the Company, on the issuance date of the Series A-1 Preferred Shares, the fair value of the Series A-1 Preferred Shares is allocated to the liability and equity components of the Convertible Bonds and the amount of gain or loss relating to the liability component and equity component is recognised in profit or loss and equity, respectively. During the year ended 31 December 2021, the Company recognised a gain of RMB866,000 in other net income in relation to the change of liability component whereas the amount allocated to the equity component was recognised in capital reserve.

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

| | Liability component | Equity component | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2019, 31 December 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 year (Note 6(a)) | 22,875 | – | 22,875 |
| Interest paid during the year | (17,921) | – | (17,921) |
| Exchange of convertible bonds | (438,167) | (16,079) | (454,246) |
| Exchange adjustments | (8,513) | – | (8,513) |
| As at 31 December 2021 | – | – | – |

## 26 DEFERRED INCOME

| | Government subsidies for research and development projects |
|---|---|
| | RMB'000 |
| At 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 | 9,910 |
| Government grant recognised as other income | (1,340) |
| At 31 December 2021 | 18,124 |

## 27 OTHER FINANCIAL LIABILITIES

In November 2021, the Company and several investors (the "2021 Pre-**[REDACTED]** Investors") entered into a share subscription and purchase agreement, pursuant to which: (i) the 2021 Pre-**[REDACTED]** Investors subscribed for an aggregate of 2,032,495 newly issued series A-2 preferred shares of the Company (the "Series A-2 Preferred Shares") at an aggregate consideration of approximately US$31.26 million; and (ii) MicroPort Scientific Investment LTD ("MP Scientific", the immediate parent of the Company) transferred 7,720,432 ordinary shares of the Company to the 2021 Pre-**[REDACTED]** Investors at a consideration of approximately US$118.74 million, whereby the transferred ordinary shares were reclassified and redesignated as Series A-2 Preferred Shares (together the "Pre-**[REDACTED]** Investment").

As disclosed in Note 25, in November 2021, the Convertible Bonds were simultaneously exchanged into an aggregate of 11,759,125 Series A-1 Preferred Shares.

Significant terms of the Series A-1 Preferred Shares and Series A-2 Preferred Shares are outlined below:

*Liquidation preference*

In the event of any liquidation of the Company (such as liquidation, dissolution or winding up) or trade sale of its business, the holders of the Series A-1 Preferred Shares and Series A-2 Preferred Shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the other shareholders, an amount equals to the original issue price plus an interest accrued at a simple interest rate of 8% per annum.

*Redemption rights*

The Series A-1 Preferred Shares and Series A-2 Preferred Shares shall be redeemable by the Company upon the occurrence of certain contingent events, with the main conditions being: a qualified public **[REDACTED]** does not occur before 18 November 2024, at an amount equal to the original issue price plus an interest accrued at a simple interest rate of 10% per annum.

*Conversion feature*

Each Series A-1 Preferred Share or Series A-2 Preferred Share shall be convertible into such number of fully paid ordinary shares at any time at the option of the holder after the original issue date of the Series A-1 Preferred Shares and Series A-2 Preferred Shares. The initial conversion ratio for preferred share to ordinary share is 1:1. Such initial conversion ratio shall be subject to adjustment (including but not limited to dividends, share splits and combinations, capital reorganisation or reclassification). Each Series A-1 Preferred Share or Series A-2 Preferred Share shall automatically be converted into such number of the ordinary share of the Company upon the closing of a qualified public **[REDACTED]** as specified in the memorandum of association of the Company.

*Presentation and Classification*

The redemption obligations give rise to financial liabilities, which are measured at the highest of those amounts that could be payable, and on a present value basis. The conversion feature is recognised as an equity component as the Series A-1 Preferred Shares and Series A-2 Preferred Shares can be converted into ordinary shares where the number of shares to be issued is fixed.

The financial liabilities arising from the Series A-1 Preferred Shares and Series A-2 Preferred Shares are measured at the transaction price at initial recognition, and subsequently at amortised cost at an effective interest rate of 14.38%. A residual amount is allocated to equity for the conversion feature.

The movements of the Series A-1 Preferred Shares and Series A-2 Preferred Shares are set out as follows.

| | Liability component | Impact on equity | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2021 | – | – | – |
| Issuance of the Series A-2 Preferred Shares | 173,269 | 26,178 | 199,447 |
| Re-classification and re-designation from ordinary shares to the Series A-2 Preferred Shares | 658,416 | 381,448 | 1,039,864 |
| Exchange of the Convertible Bonds and the issuance of the Series A-1 Preferred Shares (Note 25) | 388,397 | 48,904 | 437,301 |
| Interest charged during the year (Note 6(a)) | 19,660 | – | 19,660 |
| Exchange adjustments | (1,752) | – | (1,752) |
| As at 31 December 2021 | 1,237,990 | 456,530 | 1,694,520 |

**28 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 December 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.

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

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | |
| | 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 |
| Outstanding at the beginning of the year | 5.15 | 2,169 | 5.46 | 2,193 | 6.10 | 1,413 |
| Granted during the year | 7.37 | 224 | – | – | 48.15 | 1,420 |
| Exercised during the year | 4.52 | (200) | 4.54 | (780) | 4.36 | (419) |
| Outstanding at the end of the year | 5.46 | 2,193 | 6.10 | 1,413 | 30.63 | 2,414 |
| Exercisable at the end of the year | 4.19 | 1,400 | 5.20 | 1,004 | 6.62 | 861 |

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from August 2022 through August 2031. As at 31 December 2019, 2020 and 2021, the weighted average remaining contractual life for the share options granted was 5.2 years, 5.3 years, 7.9 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 RMB966,000, RMB776,000 and RMB1,170,000 for the years ended 31 December 2019, 2020 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 RMB2,956,000, RMB3,326,000 and RMB5,294,000 for the years ended 31 December 2019, 2020 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 RMB131,000, RMB237,000 and RMB289,000 for the years ended 31 December 2019, 2020 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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cost of sales | 1 | 2 | 204 |
| Research and development costs | 1,389 | 1,245 | 3,141 |
| Selling and marketing expenses | 812 | 1,225 | 1,207 |
| Administrative expenses | 1,851 | 1,867 | 2,201 |
| Equity-settled share-based payment expenses recognised in the consolidated statement of profit or loss | 4,053 | 4,339 | 6,753 |
| Less: Recharge arrangement in connection with the share awards granted by the ultimate controlling party (Note 28(b)) | (2,956) | (3,326) | (5,294) |
| Equity-settled share-based payment expenses recognised in equity | 1,097 | 1,013 | 1,459 |

## 29 CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's equity between the beginning and the end of the year are set out below.

| | Note | Share capital | Share premium | Exchange reserve | Capital reserve | Accumulated losses | Total equity/(deficit) |
|---|---|---|---|---|---|---|---|
| | | 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 | | – | – | (89) | 11,601 | (2,351) | 9,161 |
| Changes in equity for 2021: | | | | | | | |
| Loss and total comprehensive income | | – | – | (3,182) | – | (71,198) | (74,380) |
| Issuance of ordinary share | 29(c)(ii) | 65 | 276,963 | – | – | – | 277,028 |
| Issuance of convertible bonds | 25 | – | – | – | 4,478 | – | 4,478 |
| Effects of the Restructuring | | – | – | – | 91,046 | – | 91,046 |
| Issuance of the Series A-2 Preferred Shares | 27 | – | – | – | 26,178 | – | 26,178 |
| Re-classification and re-designation from ordinary shares to the Series A-2 Preferred Shares | 27 | (5) | (276,963) | – | (381,448) | – | (658,416) |
| Exchange of the convertible bonds and the issuance of the Series A-1 Preferred Shares | 27 | – | – | – | 48,904 | – | 48,904 |
| Balance at 31 December 2021 | | 60 | – | (3,271) | (199,241) | (73,549) | (276,001) |

### (b) Dividends

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

### (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**

| | | Ordinary share | |
|---|---|---|---|
| | | No. of share | |
| | Note | '000 | RMB'000 |
| **Balance at 30 September 2020, date of the incorporation** | | – | – |
| Issuance of ordinary shares | 29(c)(ii) | -* | -* |
| **Balance at 31 December 2020 and 1 January 2021** | | –* | –* |
| Issuance of ordinary shares | 29(c)(ii) | 100,000 | 65 |
| Re-classification and re-designation to the Series A-2 Preferred Shares | 27 | (7,720) | (5) |
| **Balance at 31 December 2021** | | 92,280 | 60 |

* The amount is less than 1,000.

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 2019 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 December 2021 represented the issued share capital of the Company.

(i) 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 above transactions which were part of the Restructuring, were treated as a deemed distribution to the shareholders. Accordingly, 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 and related tax impact, was debited to capital reserve of the Group.

(iii) As disclosed in Note 27, MP Scientific transferred 7,720,432 ordinary shares to the 2021 Pre-**[REDACTED]** Investors, whereby the transferred ordinary shares were reclassified and redesignated as the Series A-2 Preferred Shares. The difference between (i) the initial carrying amount of the related Series A-2 Preferred Shares in amount of US$118,740,000 (equivalent to RMB757,853,000) and (ii) the carrying amount of ordinary share capital transferred of US$772 (equivalent to RMB5,000) has been debited to the share premium and capital reserve of the Company.

**(d) Nature and purpose of reserves**

(i) Share premium

The application of the share premium account is governed by the Companies Act of the Cayman Islands.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Company and certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in Note 2(w).

(iii) Capital reserve

The capital reserve primarily comprises the following:

- the fair value of the actual or estimated number of unexercised share options granted to executives and employees of the Group in accordance with the accounting policy adopted for 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;
- the amount allocated to the unexercised equity component of the Convertible Bonds at initial recognition (Note 2(r));
- the amount allocated to the equity component of the Convertible Bonds upon its extinguishment before maturity (Note 25); and.
- The amount allocated to the conversion feature of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares (Note 2(o)).

(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, preferred shares and convertible bonds as at the end of each of the reporting year 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 2019, 2020 and 2021 was RMB168,158,000, RMB689,878,000 and RMB1,063,050,000, respectively and the debt-to-capital ratio is 29.5%, 2.1% and 10.3%, 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.

## 30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**(a) Credit risk**

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

The management 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.

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 2019<br>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 | 4,069 | 3,688 | 1,858 | – | 9,615 | 9,087 |
| | 151,738 | 3,688 | 1,858 | – | 157,284 | 156,109 |

| | As at 31 December 2020<br>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 | 6,075 | 3,698 | 5,519 | – | 15,292 | 14,152 |
| Convertible bonds | 14,754 | 337,990 | – | – | 352,744 | 316,996 |
| | 83,632 | 341,688 | 5,519 | – | 430,839 | 393,951 |

| | As at 31 December 2021<br>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 | 129,666 | – | – | – | 129,666 | 129,666 |
| Lease liabilities | 28,533 | 26,317 | 66,290 | – | 121,140 | 109,698 |
| Other financial liabilities | – | – | 1,823,448 | – | 1,823,448 | 1,237,990 |
| | 158,199 | 26,317 | 1,889,738 | – | 2,074,254 | 1,477,354 |

**(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 2019, 2020 and 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 2019 | | 31 December 2020 | | 31 December 2021 | |
|---|---|---|---|---|---|---|
| | Effective interest rate | Amount | Effective interest rate | Amount | Effective interest rate | Amount |
| | | RMB'000 | | RMB'000 | | RMB'000 |
| **Net fixed rate instruments:** | | | | | | |
| Convertible bonds | N/A | – | 6.08% | (316,996) | N/A | – |
| Other financial liabilities | N/A | – | N/A | – | 14.38% | (1,237,990) |
| Lease liabilities | 4.75% | (9,087) | 4.75% | (14,152) | 4.75% | (109,698) |
| Interest-bearing borrowings | 3.92% | (40,548) | N/A | – | N/A | – |
| | | (49,635) | | (331,148) | | (1,347,688) |
| **Net variable rate instruments:** | | | | | | |
| Deposits with banks | 0.05%-0.35% | 22,211 | 0.00%~0.35% | 425,493 | 0.00%-2.55% | 593,287 |
| | | 22,211 | | 425,493 | | 593,287 |
| | | (27,424) | | 94,345 | | (754,401) |

**(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.

(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 2019 | 31 December 2020 | 31 December 2021 |
| | US$ RMB'000 | US$ RMB'000 | US$ RMB'000 |
| Cash and cash equivalents | 54 | – | 975 |
| Amounts due to group companies | – | (3,326) | (11,222) |
| Trade and other payables | (3,218) | (1,518) | (4,431) |
| Net exposure arising from recognised assets and liabilities | (3,164) | (4,844) | (14,678) |

(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 2019 | | 31 December 2020 | | 31 December 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 |
| | | RMB'000 | | RMB'000 | | RMB'000 |
| US$ (against RMB) | 3% | 78 | 3% | 120 | 3% | 363 |
| | -3% | (83) | -3% | (127) | -3% | (386) |

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.

**(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 | 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 | RMB'000 |
| **Recurring fair value measurement** | | | | |
| Financial assets: | | | | |
| - Unlisted equity securities (Note 15) | 37,051 | – | – | 37,051 |

As at 31 December 2021, there was 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.

Information about Level 3 fair value measurements

| | Valuation techniques | Significant unobservable inputs |
|---|---|---|
| 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 Periods in the balance of this Level 3 fair value measurement are as follows:

| | Unlisted equity securities |
|---|---|
| | RMB'000 |
| At 1 January 2019, 31 December 2019 and 1 January 2020 | – |
| 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 December 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 2019, 2020 and 2021.

## 31 COMMITMENTS

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

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Contracted for | 823 | 1,567 | 12,067 |
| Approved but not contracted for | 398 | 12,756 | 25,637 |
| | 1,221 | 14,323 | 37,704 |

## 32 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 | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Salaries and other benefits | 3,608 | 3,773 | 5,546 |
| Discretionary bonuses | 965 | – | 5,369 |
| Equity-settled share-based payment expenses | 3,559 | 3,906 | 4,359 |
| | 8,132 | 7,679 | 15,274 |

**(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:

| *Name of party* | *Relationship* |
|---|---|
| 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, "Shanghai MicroPort Medical") | Subsidiary of MPSC |
| MicroPort Scientific Ltd | 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)* (上海良固企業管理諮詢中心(有限合夥)) | Entity controlled by key management personnel of the Group |
| 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**

| | Amounts due (to)/from related parties | | | Related interest (expense)/ income | | |
|---|---|---|---|---|---|---|
| | 31 December 2019 | 31 December 2020 | 31 December 2021 | Year ended 31 December | | |
| | | | | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loans from subsidiaries of MPSC (i) | – | – | – | (91) | (397) | – |
| Lease liabilities due to related parties | – | – | (333) | – | – | (22) |
| Lease receivables due from a related party (ii) | – | – | 1,199 | – | – | 42 |

(i) 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.

(ii) In February 2020 and May 2021, MP NeuroTech Shanghai leased out its own properties to a related party and recognised rental income amounted to RMB340,000 and RMB1,112,000 for the years ended 31 December 2020 and 2021.

**(d) Cash deposits placed in a related party**

As at 31 December 2021, the Group has placed cash deposits amounted to RMB132,297,000 in SHRB with interest rate ranged of 2.55% per annum.

**(e) Other transactions with related parties**

| | Year ended 31 December | | |
|---|---|---|---|
| | 2019 | 2020 | 2021 |
| | RMB'000 | RMB'000 | RMB'000 |
| Service fee charged by subsidiaries of MPSC | 4,678 | 4,133 | 6,603 |
| Service fee charged by an equity-accounted investee of MPSC | 27 | – | 450 |
| Purchase of goods from subsidiaries of MPSC | 11,271 | 7,184 | 8,607 |
| Purchase of goods from an equity-accounted investee of MPSC | 289 | 1,428 | 2,239 |
| Purchase of equipment from subsidiaries of MPSC | 631 | 907 | 1,256 |
| Transfer of an intangible asset and equipment to subsidiaries of MPSC | 501 | – | – |
| Payment on behalf of the Group by MPSC | – | 6 | 1,793 |
| Payments on behalf of related parties by the Group | 2,392 | 763 | 481 |

## (f) Related party balances

| | 31 December 2019 | 31 December 2020 | 31 December 2021 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Amounts due from related parties** | | | |
| Trade related | – | 138 | 1,269 |
| Non-trade related | 2,848 | 2,274 | 66,744 |
| **Amounts due to related parties** | | | |
| Trade related | 11,621 | 4,893 | 8,348 |
| Non-trade related | 38,369 | 3,326 | – |

The non-trade related amounts due from related parties mainly represents the receivables in connection with the Restructuring (Note 18), which is expected to be settled prior to 30 June 2022.

**33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES**

As at 31 December 2021, the directors consider the immediate parent to be MicroPort Scientific, which is incorporated in British Virgin Islands and does not produce financial statements available for public use.

As at 31 December 2021, the directors consider the ultimate controlling party is MicroPort, 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.

**34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS**

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

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

**35 SUBSEQUENT EVENTS**

On [●] June 2022, a share subdivision was approved by the shareholders of the Company, pursuant to which, each issued and unissued share capital was subdivided to [five] shares of the corresponding class with par value of US$[0.00002] each.

**SUBSEQUENT FINANCIAL STATEMENTS**

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