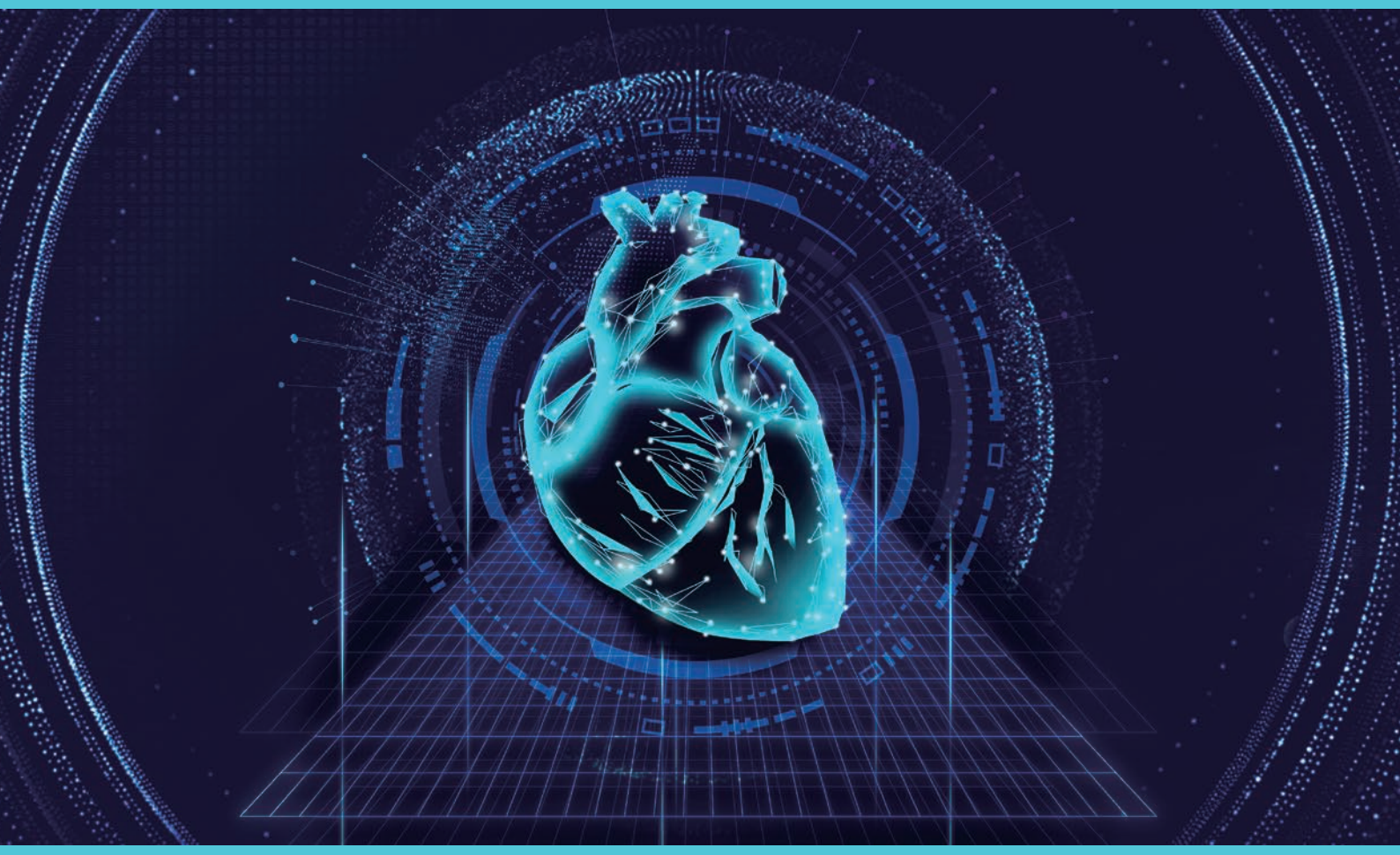
启明医疗®
VENUSMEDTECH

杭州啓明醫療器械股份有限公司
Venus Medtech (Hangzhou) Inc.
(A joint stock company incorporated in
the People's Republic of China with limited liability)

Stock Code: 2500



2021
ANNUAL REPORT

CONTENTS

Corporate Information

(As of December 31, 2021)

Name in Chinese:	杭州啓明醫療器械股份有限公司
Name in English:	Venus Medtech (Hangzhou) Inc.
Legal representative:	Mr. Min Frank Zeng
Chairman:	Mr. Min Frank Zeng
Registered capital:	RMB441,011,443[1]
Headquarters in the PRC:	
Registered and office address	Room 311, 3/F, Block 2, No. 88, Jiangling Road, Binjiang District, Hangzhou, PRC
Company website	http://www.venusmedtech.com/
E-mail	inquiry@venusmedtech.com
Principal place of business in Hong Kong:	40/F, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong[4]
Board of Directors:	
Executive Directors	Mr. Min Frank Zeng *(Chairman)*, Mr. Zhenjun Zi, Mr. Lim Hou-Sen (Lin Haosheng)
Non-executive Director	Ms. Nisa Bernice Wing-Yu Leung *(Vice chairwoman)*
Independent non-executive Directors	Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau, Mr. Chi Wai Suen
Supervisors:	Ms. Yan Xiao, Mr. Wei Wang, Ms. Lingling Yang[2]
Audit Committee:	Mr. Chi Wai Suen *(Chairman)*, Mr. Wan Yee Joseph Lau, Mr. Ting Yuk Anthony Wu
Remuneration and Assessment Committee:	Mr. Ting Yuk Anthony Wu *(Chairman)*, Mr. Wan Yee Joseph Lau, Mr. Chi Wai Suen
Nomination Committee:	Mr. Wan Yee Joseph Lau *(Chairman)*, Mr. Chi Wai Suen, Mr. Ting Yuk Anthony Wu
Joint Company Secretaries:	Mr. Haiyue Ma, Mr. Wong Wai Chiu[3]
Authorized Representatives:	Mr. Zhenjun Zi, Mr. Wong Wai Chiu[3]
Auditor engaged by the Company:	Ernst & Young *Certified Public Accountants and Registered Public Interest Entity Auditor*

1 As of the date of this annual report, the registered capital of the Company is RMB441,011,443. For details, please refer to the section of "Management Discussion and Analysis" in this annual report.

2 Ms. Lingling Yang will hold office until the conclusion of the AGM, and Ms. Yue Li has been proposed by the Board as a Shareholders' representative Supervisor candidate for the second session of the Supervisory Committee, subject to approval at the AGM. For details, please refer to the announcement published by the Company on March 31, 2022.

3 Mr. Wong Wai Chiu has been appointed as the joint company secretary and an authorized representative with effect from January 18, 2021. For details, please refer to the announcement of the Company dated January 18, 2021.

4 The principal place of business of the Company in Hong Kong was changed to 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from March 31, 2021. For details, please refer to the announcement of the Company dated March 31, 2021.

Chairman's Statement

Dear Shareholders,

In 2021, the second year since the outbreak of the COVID-19 pandemic, and also the opening year of China's "14th Five-year Plan", the healthcare industry achieved significant growth despite numerous challenges. With a focus on joint reform of medical insurance system, healthcare system and medical products distribution system and in pursuit of high-quality development, the healthcare industry is accelerating transformation and upgrading. The release of multiple major policies has set the tone for the growth of the healthcare industry over the next decade. Against such backdrop, China's healthcare industry is experiencing a severe test with the secondary market suffering from the "cold winter" amid the roll-out of the centralized procurement policy and fierce peer competition, which has casted significant uncertainties on the future prospect. Each and every market player in the medical industry has come to the deep understanding that only through remaining committed to innovation and globalization can we address such anxieties and competition.

As a leader engaged in the field of minimally invasive interventional therapy for heart valves in China, we have been committed to the development and commercialization of innovative medical devices for the treatment of structural heart diseases. In order to benefit Chinese patients with innovative cutting-edge technologies as soon as practicable, the Company has made unremitting efforts to become the first in China to market artificial aortic valve replacement systems. Since commercialization, the Company's TAVR products have been implanted in more than 9,000 surgeries. VenusA-Valve is also the only product with up to 9 years of follow-up data in China. In addition, the Company has established a comprehensive and integrated solution for structural heart diseases, covering heart valve diseases including aortic valve, pulmonary valve, mitral valve, tricuspid valve, as well as hypertrophic cardiomyopathy, hypertension renal artery denervation ablation and surgical accessory products.

The year of 2022 will mark the second anniversary since the Company adopted its globalization strategy. From the approved marketing of TriGUARD3 in the EU in 2020 to the commercialization of VenusP-Valve in the EU in 2022, Venus Medtech, an innovative Chinese brand, is well-positioned to establish presence among a growing number of doctors worldwide. The Company has completed the acquisition of Cardiovalve, a pioneering transcatheter mitral and tricuspid valve treatment company, on January 26. Given the tremendous market potential for the mitral and tricuspid diseases, the acquisition will facilitate the Company to improve its brand influence in the international market. We look forward to achieving one strategic milestone after another to benefit a wider population of patients.

We would like to express our sincere gratitude to all investors for their support and trust throughout the years. Keeping in mind the expectations of investors, I will join hands with our employees to strive to bring into market more China's independently-developed innovative devices. A journey of a thousand miles begins with a single step. Addressing the future pattern of the healthcare industry, we will remain true to our original aspirations, formulate strategies and corporate plans with unswerving dedication to quality and innovation, and enhance our competitiveness in a down-to-earth manner. We believe that Venus Medtech will ultimately outperform our innovative peers in the near future and become an innovative enterprise with international influence that lives up to history and the era.

Mr. Min Frank Zeng
Chairman of the Board

Hangzhou, People's Republic of China, March 31, 2022

Financial Summary

	For the year ended December 31,				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
REVENUE	**415,862**	276,047	233,272	115,348	18,164
Gross profit	**324,344**	227,280	194,665	98,980	15,087
LOSS BEFORE TAX	**(377,555)**	(185,843)	(381,543)	(299,620)	(157,448)
LOSS FOR THE YEAR	**(371,394)**	(182,868)	(380,765)	(300,518)	(157,948)
Loss attributable to:					
Owners of the parent	**(373,636)**	(181,989)	(380,723)	(300,421)	(156,532)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and diluted (RMB)	**(0.85)**	(0.45)	(1.22)	(1.03)	(0.67)

	As at December 31,				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total non-current assets	**1,669,835**	957,794	764,357	743,743	72,327
Total current assets	**3,439,622**	3,360,433	2,904,451	290,638	121,684
Total current liabilities	**208,534**	405,517	568,458	496,130	95,967
Total non-current liabilities	**269,079**	55,675	54,604	67,877	16,846
Non-controlling interests	**86,214**	41,611	8,768	8,810	8,907
Total equity	**4,631,844**	3,857,035	3,045,746	470,374	81,198

I. BUSINESS OVERVIEW

Overview

We are a global high-end innovative medical device manufacturer committed to developing and commercializing high-quality medical devices that benefit patients. Founded in 2009, the Company has established a global platform integrating R&D, clinical development, manufacturing and commercialization.

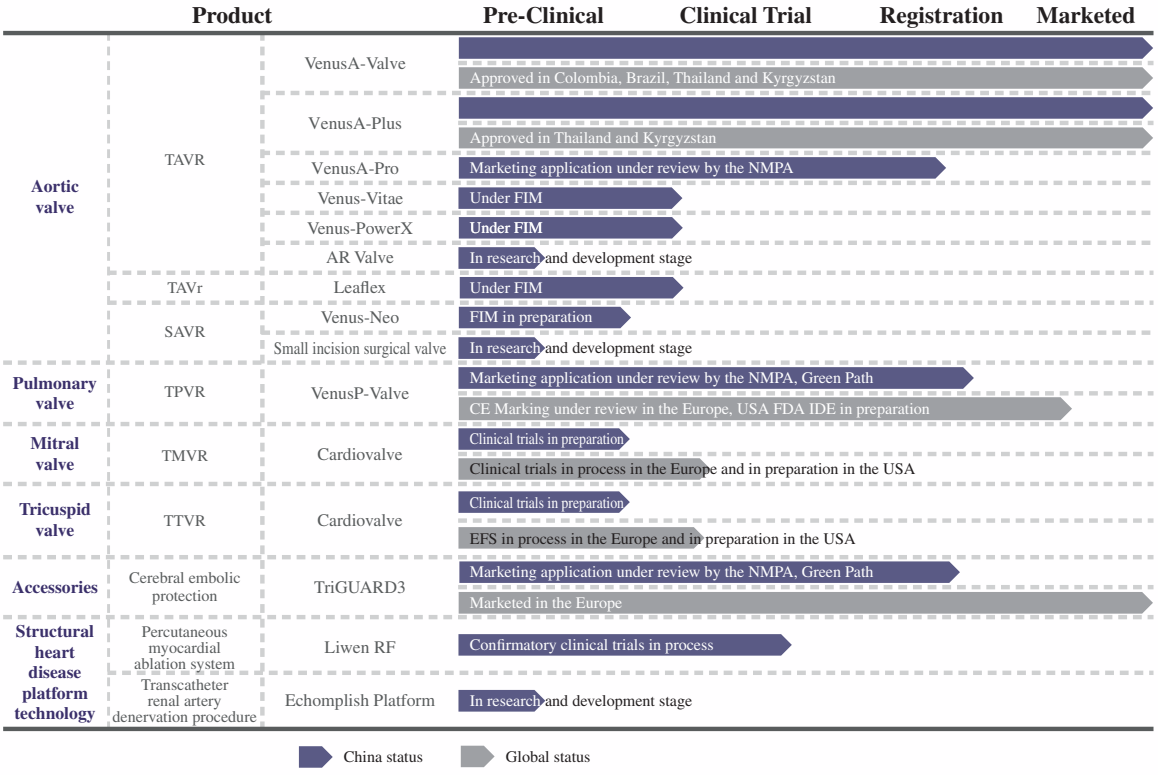
We have forged a product portfolio covering the interventional heart valve devices targeting valvular heart disease concerning aortic valve, pulmonic valve, mitral valve and tricuspid valve, ablation system for interventional treatment of hypertrophic cardiomyopathy (HCM), renal artery denervation ablation system for interventional treatment of hypertension and other surgical accessory consumables, all of which allow us to provide overall solutions for the patients. In the future, we will focus on the fields of new materials, bionics, image fusion technology and digital sensing, and leverage constant innovations to better cover the entire therapeutic process of patients, so as to satisfy the needs of doctors and patients population.

Throughout 2021 and up to the date of this report, the Company has achieved remarkable business success with a commitment to its long-standing strategic goals, and continued to consolidate its leading position in the industry. Leveraging our first-mover advantage and strong market education capability, we have witnessed ongoing rapid increase in sales volumes of VenusA-Valve and VenusA-Plus, maintained our leading market share and constantly expanded our commercialization team and product coverage to end hospitals. Meanwhile, our independently developed innovative products, such as dry tissue aortic valve products, progressed smoothly in clinical application. We also launched cooperation with international leading technology companies and carried out strategic acquisitions to improve our product coverage, which facilitated us to establish a comprehensive platform extending from research and development to commercialization.

Our Products and Product Pipeline

As of the date of this report, the Company has successfully established a product pipeline consisting of 14 innovative medical devices, including two marketed TAVR products (VenusA-Valve and VenusA-Plus), one TAVR product in registration stage (VenusA-Pro), two TAVR products in clinical stage (Venus-Vitae and Venus-PowerX), one aortic valve repair device in clinical stage (Leaflex), one TPVR product in registration stage (VenusP-Valve), one TMVR and TTVR product in clinical stage (Cardiovalve), two surgical valves in pre-clinical stage, one HCM ablation system in clinical stage (Liwen RF), one Renal artery denervation (RDN) system in R&D stage, one marketed valvuloplasty balloon products (V8 and TAV8) and one marketed cerebral embolic protection device (TriGUARD3).

The following chart summarizes the development status of our products and product candidates as of the date of this report:



VenusA-Valve and VenusA-Plus – TAVR Products

We currently have two TAVR products on the market, namely VenusA-Valve and VenusA-Plus. VenusA-Valve is our first-generation TAVR device, which is used to treat severe Aortic Stenosis (AS) using a transcatheter approach. VenusA-Valve received marketing approval from the NMPA in April 2017, which marked the first NMPA approved TAVR product in China. Moreover, VenusA-Valve was successfully registered in Southeast Asia including Thailand, and Latin America including Colombia and Brazil. It was registered in Kyrgyzstan in Central Asia in June 2021.

VenusA-Plus is an upgraded product of VenusA-Valve. VenusA-Plus was approved by the NMPA for marketing in November 2020, which is the first retrievable TAVR product in China. While maintaining the strong radial force of the first generation valve, VenusA-Plus introduces the functions of retrievability and repositioning, which may reduce the complexity of procedures and significantly shorten the learning cycle of surgeons. VenusA-Plus was approved in Thailand in December 2020 and in Kyrgyzstan in June 2021.

VenusA-Valve and VenusA-Plus, as the TAVR products with the largest market share in China, have accumulated abundant clinical follow-up data to verify their safety and effectiveness. They have been implanted into over 9,000 patients in clinical operations so far. The six-year follow-up results of VenusA-Valve clinical study released at CIT Conference in May 2021 showed that the all-cause mortality of patients with VenusA-Valve was 36.4%, and the cardiac mortality rate was only 11.4%.

At the 7th China Valve (Hangzhou) Conference in July 2021, the one-year clinical follow-up data of VenusA-Plus was released, which showed that compared with the previous 30-day clinical data, there was only one more all-cause death case, and no cardiac death case, demonstrating its good prognosis safety. Follow-up results also showed that patients with either tricuspid valve or mitral valve diseases did not experience aortic regurgitation or experienced trace regurgitation one year after the surgery, which accentuated the long-term effect.

The Company has entered into a strategic cooperation framework agreement with United Family Healthcare, a China's leading premium private healthcare service provider under New Frontier Health Corporation. Both parties will cooperate to establish a diagnosis and treatment cooperation pilot for Venus A-Valve and Venus A-Plus, and work jointly on the establishment of the full-process valvular heart disease specialist center in the field of disease diagnosis and treatment and postoperative rehabilitation management, so as to better provide patients with better diagnosis and treatment scheme.

For the year ended December 31, 2021, sales revenue from VenusA-Valve and VenusA-Plus was RMB405.3 million, representing an increase of 49% from RMB272.0 million for the year ended December 31, 2020.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET VENUSA-VALVE AND VENUSA-PLUS SUCCESSFULLY.

VenusP-Valve – TPVR Product

VenusP-Valve is a TPVR system, which is used to treat patients with RVOTD after undergoing TAP treatment. We have completed the clinical trials of VenusP-Valve in the European Union (EU) and China. In April 2019, VenusP-Valve was approved by the NMPA to be eligible for the Special Approval Procedures of Innovative Medical Devices promulgated by the NMPA. We submitted the application for the CE Marking in April 2019, completed peer review and currently expect to receive the CE Marking in 2022. Besides, we have submitted marketing application in China, and it is under review at present. Once approved for marketing, VenusP-Valve is expected to be the first self-expanding TPVR product in the EU, and the first large-sized TPVR product for patients with RVOTD after receiving TAP treatment globally. On March 22, 2021, VenusP-Valve has obtained the permit for special use from the Medicines & Healthcare Products Regulatory Agency in the United Kingdom and can be used in designated medical institutions, which means that VenusP-Valve has entered the UK market before obtaining the CE Marking.

Compared with marketed TPVR products in the overseas markets, VenusP-Valve has a wider range of specifications, which is not only suitable for patients implanted with artificial vascular channel, but also for patients with RVOTD undergoing TAP treatment without the use of stents and expansion balloons. It can meet the needs of more than 85% of patients.

At the PICS-AICS 2021 held in September 2021, two long-term clinical studies on VenusP-Valve, a transcatheter prosthetic pulmonic valve system, were published, which verified that VenusP-Valve promises long-term efficacy and safety with certain indicators that outperform its international peers. The 2-year clinical study in Europe showed that the success rate reaches 100% without reoperation or death in 2 years-time, moderate pulmonic regurgitation decreases from 16.88% before surgery to 0%, and severe pulmonic regurgitation declines significantly from 83.12% before surgery to 1.54%. The 5-year clinical study in China shows that the 5-year mortality rate of postoperative patients is only 3.64% with pulmonic regurgitation substantially improved, severe pulmonic regurgitation dropping from 54.5% to 0% and moderate to severe pulmonic regurgitation dropping from 36.4% to 2.22%.

VenusP-Valve has been used in clinic application for 9 years since 2013. In addition, there are nearly 300 cases of clinical use for humanitarian reasons in over 50 medical centers across more than 20 countries or regions, covering Asia, Europe, North America and South America.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET VENUSP-VALVE SUCCESSFULLY.

Venus-PowerX – New Generation TAVR Product

The Venus-PowerX product, a new generation TAVR system independently developed by the Company, is the world's first fully-released and retrievable self-expanding dry tissue valve product. It has completed the first application of First-in-Man (FIM) clinical trials in West China Hospital of Sichuan University on December 21, 2021, with Professor Chen Mao from the Department of Cardiology acting as the principle investigator (PI).

Venus-PowerX, a new generation self-expanding dry tissue valve TAVR product of the Company, targets the treatment of patients with severe AS. Compared with the first and second generation self-expanding valves, i.e. VenusA-Valve and VenusA-Plus, it has a shorter valve frame, and therefore enjoys advantages in clinical application. In addition, Venus-PowerX adopts the special dry tissue valve independently developed by the Company, whose advanced anti-calcification technology allows normal temperature preservation without damage to the mechanical properties of valve leaflets resulting from dehydration, thus promising long durability. In addition, the dry-tissue valve contains no aldehyde residue and can be pre-assembled, which not only improves the safety, but also facilitates clinical application, storage and transportation.

Venus-PowerX also adopts the wire-controlled design, which permits it to be retrieved after complete release, and therefore excels in terms of safety compared with products designed with traditional approaches for release and retrieval.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET VENUS-POWERX SUCCESSFULLY.

Venus-Vitae – New Generation TAVR Product

The Venus-Vitae product, a new generation of TAVR system independently developed by the Company, is a new generation balloon-expandable dry tissue TAVR device for the treatment of severe AS. We successfully completed the first two implantations in the FIM clinical trial in Argentina on December 16, 2021.

Compared with similar products, Venus-Vitae leverages advanced anti-calcification technology to improve valve durability. Its specially designed dry tissue, without aldehyde residue, allows pre-assembly, which not only improves safety, but also facilitates clinical application, storage and transportation. In addition, its unique patented valve lock wire design ensures that the valve does not shift on the balloon catheter. The product, which is designed with supra-annular prosthesis, complemented by short frame and smaller diameter delivery system, has better cross-aortic arch capability.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET VENUS-VITAE SUCCESSFULLY.

Cardiovalve – TMVR/TTVR Product

On December 7, 2021, we entered into an agreement with Cardiovalve, a company engaged in innovative transcatheter interventional replacement products for patients suffering from mitral or tricuspid regurgitation, to acquire the 100% share capital and corresponding interests of Cardiovalve at a consideration of US$266 million, which shall be settled in installments conditionally subject to completion of the agreed milestones. The acquisition was completed on January 25, 2022 and Cardiovalve has become a wholly-owned subsidiary of the Company.

Cardiovalve system is an innovative transcatheter valve replacement system which targets both mitral regurgitation and tricuspid regurgitation. Compared with similar products, its transfemoral approach significantly improves the safety of treatment and its 55 mm annuli is suitable for about 95% of the patient population. Meanwhile, its unique short frame design lowers the risk of LVOT obstruction. At present, the Cardiovalve system is undergoing multi-center clinical trials in the United States and Europe, and the initial clinical results are promising. Its treatment of mitral regurgitation has entered clinical study in Europe and has been approved for early feasibility study in the U.S.. Furthermore, its device for the treatment of tricuspid regurgitation received 'Breakthrough Device Designation' by the FDA in January 2020 and obtained approval for early feasibility study. Cardiovalve is the first company approved by FDA to conduct early feasibility study on indications of mitral regurgitation and tricuspid regurgitation.

Upon acquisition of Cardiovalve, the Company will continue to promote its clinical research in Europe and the United States, and at the same time accelerate its clinical development, registration and marketing in domestic market.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET CARDIOVALVE SUCCESSFULLY.

Surgical Valve

The surgical valve products independently developed by us are surgical valve replacement products for patients with AS and regurgitation. The surgical valve adopts dry tissue technology and uses bovine pericardium tissue. It leverages anti-calcification technology to improve valve durability without cold chain transportation. At present, there are two surgical valves in pipeline. One is the open-chest surgical valve, Venus-Neo. Compared with the existing marketed products, it improves hydrodynamic performance, increases effective opening area, reduces pressure difference across valves, and adopts supra-annular design with scalability, which offers a potential solution for future valve-in-valve procedures. The other is the small incision surgical valve which is implanted through the median or intercostal small incision, thus contributing to quick recovery and causing less trauma to patients. At present, it is undergoing animal study.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET SURGICAL VALVE SUCCESSFULLY.

TriGUARD3 – CEP Device

TriGUARD3, a cerebral embolic protection (CEP) device, can protect brain completely through covering the whole ascending aorta. It is the only CEP device designed to cover the whole ascending aorta (covering the innominate artery, left carotid artery and subclavian artery). It can greatly minimize the risk of brain damage and prevent cerebral embolism during TAVR and other structural heart disease surgeries.

TriGUARD3 obtained the CE Marking from the EU on March 4, 2020, and completed the first clinical application in the PRC on January 15, 2021. It completed the first commercial application in Asia-Pacific region in Hong Kong, the PRC on March 14, 2021 and its registered clinical trials were initiated in the General Hospital of the PLA Northern Theater Command on April 28, 2021 and completed the first patient enrollment. In October, the NMPA has officially accepted the marketing application of TriGUARD3 submitted by the Company. Marketing application filed with the FDA has been suspended in September 2021 after mutual communication.

For the year ended December 31, 2021, the sales revenue of TriGUARD3 was RMB9.4 million (year ended December 31, 2020: RMB3.3 million).

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET TRIGUARD3 SUCCESSFULLY.

Leaflex – Aortic Valve Repair Product

Leaflex is a non-implant catheter-based solution for AS treatment. It scores the calcification within the leaflets from the aortic side, and the ventricular side of leaflets remains basically intact without tearing the ventricular tissue of leaflets, so as to achieve complete movement, restore the mobility of leaflets and improve valve hemodynamics, thereby improving flow access and reducing the gradient across the valve. The Leaflex procedure is simple without implantation, and the hospitalization length-of-stay is short.

Leaflex can be used not only for young patients who may be too young for TAVR, but also for future value-in-valve procedures of aortic valve after TAVR implantation, so as to provide lifetime management of AS at a lower cost than replacement. In September 2020, we completed the cooperative transaction with Pi-Cardia, and introduced Leaflex products into the Chinese market. We have completed the first application of FIM clinical trials in China on October 17, 2021. Pi-cardia has commenced clinical trials in Europe.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET LEAFLEX SUCCESSFULLY.

Liwen RF – Ablation System

The Company announced in October 2021 to enter into an agreement with Hangzhou Nuocheng Medical Technology Co., Ltd. (杭州諾誠醫療科技有限公司) to acquire the 100% share capital and corresponding interests of Nuocheng Medical, at a consideration of not more than RMB493.0 million, which shall be settled in installments conditionally subject to completion of the agreed milestones. Accordingly, the Company obtained its Liwen RF ablation system.

Incorporated in 2017, Nuocheng Medical is an innovative medical device R&D enterprise incubated by Dinova Healthcare Group which is committed to providing safe and effective treatment for patients with HCM. Its independently developed Liwen RF™ ablation system adopts the international novel operation treatment through ventricular septum under the guidance of ultrasound, which offers a safe, effective, accurate and minimally invasive innovative treatment strategy for HCM, and has been widely demonstrated and recognized by major international academic conferences such as TCT, CSI and CIT. At present, the product has entered the multi-center clinical trial in China.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET LIWEN RF SUCCESSFULLY.

RDN Product

On June 30, 2021, the Company established a 51% owned subsidiary, Renaly Ltd, with an Israeli high-tech company, Healium, to introduce the new generation of innovative devices for RDN from Healium, and conduct R&D, production and commercialization of RDN products worldwide.

Its exclusive Dual-Mode Ultrasound Technology Platform can realize non-contact continuous ablation treatment with real-time ultrasound imaging, significantly reducing the occurrence of various problems such as insufficient nerve ablation or vascular damage caused by uncontrollable ablation. The delivery of accurate and efficient ablation shifts the treatment paradigm to more predictable outcomes and simplifies the procedure flow to ultimately improve the safety and efficacy of ablation procedures. Professor Martin B. Leon, a member of our Global Advisory Board and his team will serve as the global PI of the product.

WE MAY NOT BE ABLE TO ULTIMATELY DEVELOP AND MARKET RDN PRODUCT SUCCESSFULLY.

R&D Innovation

The Company primarily adopts independent R&D model and has established a global R&D innovation platform. Our three R&D centers are located in Hangzhou, the PRC, Caesarea, Israel and California, the U.S., and are consisted of talents with rich professional experience and innovative capability. The Company continues to be granted awards and included in national key projects for its R&D efforts. For example, in April 2021, the key materials of minimally invasive self-expanding and interventional pulmonic valve system won the first prize of Technical Invention Award in 2020 Scientific Research Outstanding Achievement Award of Higher Institutions (Science and Technology). In June 2021, the national key R&D project "Development and Application of Transcatheter Interventional Self-expandable Pulmonic Valve Replacement System" was officially launched.

The Company not only possesses strong in-house R&D capabilities, but also constantly enriches and improves its product pipeline through cooperation with innovative device companies and academic institutions, striving to keep abreast of structural heart disease technologies. The Global Advisory Board (comprising Professor Ziyad M Hijazi, Professor Martin B. Leon, Professor Horst Sievert and Professor Ron Waksman) consists of world-renowned experts in cardiovascular and structural heart disease interventional therapy, who offers regular insightful opinions and suggestions on the Company's R&D activities and global commercialization of products, so as to promote the Company's technological innovation and global layout of products. On April 16, 2021, the Company held an Investor Open Day, and invited top experts in cardiovascular field at home and abroad, such as Professor Martin B. Leon, Professor Scott Lim and Professor Ziyad Hijazi, to offer in-depth insights on the Company's product development, pipeline progress and international commercial layout.

On March 1, 2022, the Company announced to establish the Venus Global Heart Valve Innovation Center in Israel. The Venus Global Heart Valve Innovation Center will be dedicated to incubating breakthrough innovative treatment technologies, further improving the Company's global innovation system and product portfolio with a focus on, among others, developing a new generation of aortic regurgitation treatment technology leveraging the Cardiovalve technology platform and the application of digital health technology to valve system, and transferring our technologies to China and other regions around the world at an appropriate time. Meanwhile, the Company will also launch the China-Israel engineer exchange training program under the Venus Global Heart Valve Innovation Center, in an endeavor to integrate the unique resources of the both countries to nurture innovative talents and pave the way for our sustainable development.

For the years ended December 31, 2020 and 2021, our R&D expenses were RMB167.3 million and RMB258.3 million, respectively.

Intellectual Properties

The Company attaches great importance to intellectual property protection. Leveraging its strong R&D capability, as of February 28, 2022, the Company had a total of 756 patents and patents under applications, including 315 authorized invention patents. We had 284 patents under application and authorized in the PRC, including 177 authorized patents; and 445 patents under application and authorized overseas, including 252 authorized patents. We had 27 PCT applications. Our global IP portfolio mainly covers China, the U.S., Europe, Japan, Canada, Russia, India, Brazil and other countries.

External business development

The Company continues to improve its in-house R&D capability through the establishment of a strong internal R&D team, and meanwhile it also proactively seeks to establish partnership with the world's leading innovative device companies and academic institutions to gain access to the world's leading technologies and high-value products, expand the Company's product layout and enrich product pipelines.

On January 28, 2021, the Company reached cooperation with Endoluminal Sciences Pty Ltd., the global leader in transcatheter solutions for structural heart disease, and introduced its active anti-paravalvular leak technology into China and applied to the Company's new generation of valve products.

On May 6, 2021, the Company invested in Valgen Holding Corporation, an innovative medical device company. With such investment, the Company will strengthen its mitral valve repair and tricuspid valve repair product pipeline, and further improve its strategic layout in the field of structural heart disease treatment.

On June 30, 2021, the Company established a 51% owned subsidiary, Renaly, with an Israeli high-tech company, Healium, which focuses on the R&D of ultrasonic treatment and imaging capabilities, to introduce the new generation of innovative devices for RDN from Healium, and conduct R&D, production and commercialization of RDN products worldwide. Renaly, a 51% owned subsidiary, will be controlled by the Company. Professor Martin B. Leon and his team served as the global PI of the project.

On September 30, 2021, the Company, through one of its wholly-owned subsidiaries incorporated in China, entered into a share transfer agreement to acquire the equity interests in Nuocheng Medical to obtain its Liwen RF ablation system for the treatment of HCM. Such acquisition will significantly enhance the innovation of the Company's product pipelines, and create synergy with the Company's commercialization ability in the field of diagnosis and treatment of structural heart disease, thus consolidating the Company's competitive advantage.

On December 7, 2021, the Company entered into an agreement with Cardiovalve, a company engaged in innovative transcatheter interventional replacement products for patients suffering from mitral or tricuspid regurgitation, to acquire the 100% share capital and corresponding interests of Cardiovalve at a consideration of US$266 million, which shall be settled in installments conditionally subject to completion of the agreed milestones. The acquisition was completed on January 25, 2022 and Cardiovalve has become a wholly-owned subsidiary of the Company.

Manufacturing

We have an approximately 5,500 sq.m. facility in Hangzhou and an approximately 816 sq.m. facility in Israel for manufacturing our heart valve products and product candidates. Our manufacturing facilities comply with the GMP requirements in the U.S., the EU and the PRC and follow rigorous manufacturing and quality control standards to ensure high product quality and safety standards. The Company maintains strong synergy between R&D and production, and focuses on the management process of whole product life cycle. In the process of launching R&D for new products, it will pay due consideration to the convenience of production and optimizes product design to improve production efficiency and product quality. The Company continuously strengthens the production capacity and production management, establishes and improves advanced quality management system and refines production system. We conduct all the key valve manufacturing procedures in-house. Over the years, we have accumulated expertise and know-how in manufacturing heart valve products, which lays a solid foundation for our long-term growth.

Quality system

The Company has established a quality management system that meets the requirements of GMP of the NMPA of the PRC, cGMP of FDA of the U.S., MDR of EU, BGMP of ANVISA of Brazil, ISO13485 and other regulations and standards, and carries out quality control in the whole life cycle of products from R&D to post-marketing sales. The Company develops and maintains a quality management system with high standards and strict requirements to ensure the quality of its products. In 2019 and 2021, the Company was admitted to the first and third experience exchange meeting regarding national medical device production quality management standards. This year, the Company introduced and shared experiences with national medical device enterprises as an outstanding representative in Beijing. As the COVID-19 remains challenging globally, the Company accepted the remote and on-site quality system audit conducted by the EU Notified Body this year, and successfully passed the CE MDR qualification audit under the new EU MDR regulations. The Company was selected as the training base of medical devices in Hangzhou to provide the inspectors of medical device quality management system with a training platform integrating theoretical knowledge and practical operation.

Commercialization

We have continuously strengthened the construction of marketing systems, gradually established an independent marketing system matching our existing products and products to be marketed, and persisted in the strategic commercialization direction of professional and brand-oriented development. The Company adopted an independent marketing approach as a result of the industry development stage and market environment. As TAVR is at the initial development stage and only a small number of hospitals and doctors are capable of performing TAVR surgery, considerable academic promotion and professional trainings are crucial to the Company. The Company has established a professional in-house marketing team to focus on academic promotion and doctor education with our rich professional knowledge and clinical resources, in a bid to constantly foster and expand the TAVR market.

As the pioneer to launch TAVR product in China, we have developed a set of systematic TAVR training courses in the PRC to promote our products, improve TAVR awareness, and promote the penetration in the Chinese market.

To facilitate the marketing of innovative products and expansion into international market, we are also forming a global commercialization team. Following the marketing of TriGUARD3 in the European market in 2020, the Company has successively appointed Shakeel Osman as the senior vice president of sales in Europe to be responsible for the commercial promotion of congenital heart disease business; David Breant as the vice president of sales in Europe to be responsible for adult structural heart disease business and direct sales business in Germany, France and other regions; and Joyce Heo as the sales director to be responsible for the sales business in emerging markets.

Impact of the COVID-19 Pandemic

An outbreak of a respiratory disease COVID-19 was first reported in December 2019 and continues to spread globally. Significant rises in COVID-19 cases have been reported since then, causing governments around the world to implement unprecedented measures such as city lockdowns, travel restrictions, quarantines and business shutdowns. The Chinese government has again implemented significant regional travel restrictions in response to the outbreak of the Delta variant since July 2021 and the Omicron variant since November 2021.

Despite of the foregoing, our revenue for the year ended December 31, 2021, being approximately RMB415.9 million, increased by 50.7% compared to approximately RMB276.0 million for the year ended December 31, 2020. The pandemic had a material adverse effect on the Group's commercialization in China and Europe for 2021. As the future impact of COVID-19 in China and Europe is still uncertain, we expect our business operations, planned registration and evaluation process and commercialization in China and Europe will be subject to the impact of the COVID-19 pandemic.

As at the date of this report, we had no suspected or confirmed active COVID-19 cases on our premises or among our employees. We will continue to implement our remedial measures and may adopt additional measures as necessary to ease the impact of the COVID-19 outbreak on our operations. However, we cannot guarantee you that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial position or prospects.

II. FINANCIAL REVIEW

Overview

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

Revenue

During the Reporting Period, all of our revenue was generated from sales of medical devices. VenusA-Valve was commercialized in August 2017 and VenusA-Plus was approved by the NMPA for marketing in December 2020. Sales of VenusA-Valve/VenusA-Plus have comprised the major portion of our revenue, and are expected to account for a substantial portion of our sales in the near future.

The Group's revenue for the year ended December 31, 2021 was RMB415.9 million, representing an increase of 50.7% compared to RMB276.0 million for the year ended December 31, 2020. The increase was primarily attributable to the rapid increase of VenusA-Valve/VenusA-Plus, and enhanced the penetration of TriGUARD3 into the overseas market. For the year ended December 31, 2021, revenue from sales of VenusA-Valve and VenusA-Plus accounted for 97.4% of our total revenue, as compared to 98.5% for the year ended December 31, 2020.

The following table sets forth a breakdown of our revenue by product:

Revenue	Year ended December 31, 2021 RMB'000	Proportion	Year ended December 31, 2020 RMB'000	Proportion
VenusA-Valve/ VenusA-Plus	**405,346**	**97.4%**	272,010	98.5%
TriGUARD3	**9,381**	**2.3%**	3,347	1.2%
Others	**1,135**	**0.3%**	690	0.3%
Total	**415,862**	**100%**	276,047	100%

Cost of Sales

The cost of sales for VenusA-Valve, VenusA-Plus and TriGUARD3 primarily consists of staff costs, raw material costs, depreciation and amortization, utility costs and others.

The Group's cost of sales for the year ended December 31, 2021 was RMB91.5 million, representing an increase of 87.5% compared to RMB48.8 million for the year ended December 31, 2020. The increase was primarily attributable to the increase in staff cost and cost of raw materials as a result of increased sales volume of VenusA-Valve, VenusA-Plus and TriGUARD3.

Gross Profit and Gross Profit Margin

As a result of the aforementioned factors, the gross profit of the Group increased 42.7% from RMB227.3 million for the year ended December 31, 2020 to RMB324.3 million for the year ended December 31, 2021. Gross profit margin is calculated as gross profit divided by revenue. The gross profit margin of the Group decreased from 82.3% for the year ended December 31, 2020 to 78.0% for the year ended December 31, 2021, mainly due to a decrease in unit sales price of TAVR products, leading to a decrease in overall gross profit margin.

Other Income and Gains

The Group's other income and gains for the year ended December 31, 2021 was RMB307.1 million, representing an increase of 159.5% compared to RMB118.2 million for the year ended December 31, 2020, primarily attributable to the fair value adjustment of contingent consideration payables related to the acquisition of Keystone which were not required to be settled based on the acquisition agreement.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended December 31, 2021 was RMB216.1 million, representing an increase of 60.5% compared to RMB134.6 million for the year ended December 31, 2020. The increase was primarily attributable to the increase of sales revenue during the corresponding period of 2021, which was mainly due to the growth of staff cost resulting from the increased number of sales personnel and increase in investment in market exploration and promotion.

R&D Costs

The Group's R&D costs for the year ended December 31, 2021 was RMB258.3 million, representing an increase of 54.4% compared to RMB167.3 million for the year ended December 31, 2020. The increase was primarily attributable to our ongoing efforts to enrich and optimize product pipeline and the increase in staff cost due to the expansion of the R&D team.

The following table sets forth a breakdown of R&D costs:

	Year ended December 31, 2021 (RMB'000)	Year ended December 31, 2020 (RMB'000)
R&D Costs for Core Products		
Staff costs	**78,942**	41,328
Raw material costs	**38,062**	16,176
Third-party contracting costs	**13,313**	7,452
Intellectual property expenses	**6,189**	6,596
Clinical trial expenses	**54,160**	41,760
Others	**67,670**	53,939

Administrative Expenses

The Group's administrative expenses for the year ended December 31, 2021 was RMB128.6 million, representing an increase of 23.5% compared to RMB104.1 million for the year ended December 31, 2020. The increase was primarily attributable to the increase in staff remunerations and number of employees to support our business growth.

Other Expenses

The Group's other expenses for the year ended December 31, 2021 was RMB389.3 million, representing an increase of 219.6% compared to RMB121.8 million for the year ended December 31, 2020. The increase was primarily because the Company provided an impairment loss on certain intangible assets and goodwill. For more details, please refer to "Notes to Financial Statements – 15. Goodwill" and "Notes to Financial Statements – 16. Other Intangible Assets" of this report.

Impairment Losses on Financial Assets, Net

The Group's impairment losses on financial assets, net, for the year ended December 31, 2021 was RMB3.2 million, representing a change 3,300.0% compared to the reversed on impairment losses of RMB0.1 million for the year ended December 31, 2020. The change was primarily attributable to the increase in trade receivables resulting from the increase in sales revenue and the increase in provision for impairment allowance of certain trade receivables as a result of the increase in the aging of trade receivables.

Finance Costs

The Group's finance costs for the year ended December 31, 2021 was RMB1.9 million, representing a decrease of 54.8% compared to RMB4.2 million for the year ended December 31, 2020. The decrease was primarily attributable to no additional finance charge for a guarantee during the Reporting Period.

Share of Losses of Associates

The Group's share of losses of associates for the year ended December 31, 2021 was RMB11.7 million, representing a change of 2,050.0% from income of RMB0.6 million for the year ended December 31, 2020. The change was primarily attributable to losses incurred in the Reporting Period by two associates newly invested in the second half of 2020.

Income Tax

The Group's income tax credit for the year ended December 31, 2021 was RMB6.2 million, representing an increase of 106.7% compared to the income tax credit of RMB3.0 million for the year ended December 31, 2020. The increase was primarily attributable to the loss available for offsetting against future taxable profits arising from the acquisition of a subsidiary.

Non-IFRS Measures

To supplement our audited consolidated statement of profit or loss and other comprehensive income which is presented in accordance with the International Financial Reporting Standards ("IFRS"), we also use adjusted net loss as a non-IFRS measure, which is not required by, or presented in accordance with, the IFRS. We believe that the presentation of non-IFRS measure when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain non-operational or one-off expenses that do not affect our ongoing operating performance, including share awards. Such non-IFRS measure allows investors to consider metrics used by our management in evaluating our performance.

The following table shows our adjusted net loss and its reconciliation to loss for the periods indicated:

	Year ended December 31, 2021 (RMB'000)	Year ended December 31, 2020 (RMB'000)
Loss for the year	**(371,394)**	(182,868)
Add:		
Share awards[1]	**0**	9,000
Adjusted net loss for the year[2]	**(371,394)**	(173,868)

Notes:

(1) Share awards expenses are non-operational expenses arising from granting shares to selected executives, employees and R&D consultants, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities.

(2) We consider share awards expenses as non-operational or one-off expenses which do not affect our ongoing operating performance. We believe the net loss as adjusted by eliminating potential impacts of the share awards provides useful information to investors in facilitating a comparison of our operating performance from period to period.

The use of the non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to analysis of, our results of operations or financial condition as reported under IFRS. In addition, the non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Capital Management

The primary goal of the Group's capital management is to maintain the Group's stability and growth, safeguard its normal operations and maximize shareholders' value. The Group reviews and manages its capital structure on a regular basis, and makes timely adjustments to it in light of changes in economic conditions. To maintain or realign our capital structure, the Group may raise capital by way of bank loans or issuance of equity or convertible bonds.

Liquidity and Financial Resources

The Group's cash and cash equivalents as at December 31, 2021 were RMB2,955.2 million, representing an increase of 9.1% compared to RMB2,708.2 million for the year ended December 31, 2020. The increase was primarily attributable to the placing of new H Shares by the Company in January 2021.

We rely on capital contributions by our shareholders and bank loans as the major sources of liquidity. We also generate cash from our sales revenue of the existing commercialized products, including VenusA-Valve, VenusA-Plus and TriGUARD3. As our business develops and expands, we expect to generate more net cash from our operating activities, through increasing sales revenue of the existing commercialized products and by launching new products, as a result of the broader market acceptance of our existing products and our continued efforts in marketing and expansion, improving cost control and operating efficiency and accelerating the turnover of trade receivables by tightening our credit policy.

Borrowings and Gearing Ratio

The Group's total borrowings, including interest-bearing borrowings, as at December 31, 2021 were RMB4.9 million, while the Company did not incur borrowings as at December 31, 2020.

The gearing ratio (calculated by dividing the sum of borrowings and lease liabilities by total equity) of the Group as at December 31, 2021 was 1.5%, representing an increase of 66.7% compared to 0.9% for the year ended December 31, 2020.

Net Current Assets

The Group's net current assets, as at December 31, 2021 were RMB3,231.1 million, representing an increase of 9.3% compared to net current assets of RMB2,954.9 million as at December 31, 2020. The increase was primarily attributable to the placing of new H Shares by the Company in January 2021.

Foreign Exchange Exposure

We have transactional currency exposures. Certain of our bank balances, other receivables, other financial assets, other payables and other financial liabilities are dominated in foreign currencies and are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arise.

Significant Investments

We did not have any significant investments during the Report Period.

Material Acquisitions and Disposals

The Acquisition of 100% Equity Interests in Cardiovalve (the "Acquisition")

On December 7, 2021, the Company entered into the Share Purchase Agreement with the Purchaser, the Target Company, the Target Company Selling Shareholders and the Selling Shareholders' Representative, pursuant to which the Purchaser has agreed to acquire, and each of the Target Company Selling Shareholders has agreed to sell, all of the issued and outstanding shares of the Target Company (other than the Company-Owned Equity). The Consideration under the Share Purchase Agreement consists of (i) the Aggregate Closing Consideration, and (ii) the Earn-Out Consideration, which represents contingent payments upon the achievement of certain milestone events and may include the Regulatory Mitral Earn-Out Consideration, the Regulatory Tricuspid Earn-Out Consideration, and the Minimum Patient Earn-Out Consideration. Upon the Closing of the Share Purchase, the Company will hold the entire share capital of the Target Company through the Purchaser.

Concurrently with the execution of the Share Purchase Agreement, and as an inducement to the Target Company entering into the Share Purchase Agreement and to cause the Share Purchase and the other transactions thereunder to be consummated, the Company and Venus HK, a wholly-owned subsidiary of the Company, also entered into the Convertible Loan Agreement with the Target Company and Cardiovalve, which is a non wholly-owned subsidiary of the Target Company as of the date of this report and will become a wholly-owned subsidiary of the Target Company prior to the Closing, pursuant to which Venus HK has agreed to provide US$23,000,000 to the Cardiovalve in the form of a convertible loan. Please refer to the Company's announcement dated December 8, 2021.

Unless otherwise defined, capitalized terms in this sub-section shall have the meaning ascribed to such terms in the Company's announcement dated December 8, 2021.

Save as disclosed above, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Capital Expenditure

For the year ended December 31, 2021, the Group's total capital expenditure amounted to approximately RMB320.8 million, which was used in (i) the increase in investment in an associate; (ii) amounts paid to acquire a subsidiary; (iii) the purchase of items of property, plant and equipment; and (iv) the purchase of other intangible assets.

Charge on Assets

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

Contingent Liabilities

As at December 31, 2021, except for the contingent consideration payables recognised for the acquisition of subsidiaries, we did not have any contingent liabilities.

Subsequent Events

The completion of the Acquisition has taken place on January 25, 2022 and Cardiovalve has now become an indirect wholly-owned subsidiary of the Company. For details of the Acquisition, please refer to the announcements dated of December 8, 2021 and January 26, 2022, respectively.

Save as disclosed above, the Company is not aware of any material subsequent events from December 31, 2021 to the date of this report.

Employees and Remuneration Policies

As of December 31, 2021, we had 905 employees in total.

Among the 905 employees, 819 employees are stationed in China and 86 employees are stationed overseas primarily in the U.S. and Israel. In compliance with the applicable labor laws, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. These employment contracts typically have terms of three to five years. All the pension schemes in China, the U.S. and Israel are defined contribution schemes.

The Group's contributions to the central pension scheme vested fully and immediately with the employees. Accordingly, (i) for the year ended December 31, 2021, there was no forfeiture of contributions under the central pension scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the central pension scheme as at December 31, 2021.

To remain competitive in the labor market, we provide various incentives and benefits to our employees. We invest in continuing education and training programs, including internal and external training, for our management staff and other employees to upgrade their skills and knowledge. We also provide competitive salaries, packages and stock incentive plans for our employees, especially for key employees.

Future Investment Plans and Expected Funding

The Group will continue to expand its markets in the PRC and globally in order to tap its internal potential and maximize shareholders' interest. The Group will continue to grow through, among other means, self-development, mergers and acquisitions. We will employ a combination of financing channels to finance capital expenditures, including but not limited to internal funds and bank loans. Currently, the bank credit lines available to the Group are adequate.

The January 2021 Placing

On January 22, 2021, the Company entered into a placing agreement with Goldman Sachs (Asia) L.L.C. and UBS AG Hong Kong Branch (as the placing agents), pursuant to which the Company conditionally agreed to place 18,042,500 new H shares at the placing price of HK$80.08 per placing share to no less than six professional, institutional and/or individual investors which are not connected persons of the Company (the "January 2021 Placing"). The completion of the January 2021 Placing took place on January 29, 2021 and an aggregate of 18,042,500 new H shares have been successfully allotted and issued by the Company at the placing price of HK$80.08 per placing share on the same day. The aggregate nominal value of the placing shares under the January 2021 Placing was RMB18,042,500. The aggregate gross proceeds from the January 2021 Placing amounted to approximately HK$1,445.0 million and the aggregate net proceeds from the January 2021 Placing amounted to approximately HK$1,427.0 million after deducting the expenses of the January 2021 Placing. For details of the January 2021 Placing, please refer to the Company's announcements dated January 22, 2021 and January 29, 2021, respectively.

III. PROSPECTS

With an on-ongoing focus on the unmet medical needs, we will remain committed to the innovation-based and internationalization-driven development path, and strive to enhance our globalization, innovation and commercialization capacity in the structural heart disease treatment field.

Strengthen our Global Strategy

The Company makes constant efforts to implement its multi-level globalization strategy in terms of innovation, R&D, external cooperation and commercialization. Leveraging in-depth cooperation with global partners and keeping pace with international cutting-edge technologies and products, the Company has established a globalized product portfolio. Meanwhile, we continue to accumulate operating experience in the international markets, and have fostered a business team with extensive experience and global vision. Our global clinical and registration team has acquired the basic capability for clinical promotion and registration in the overseas market. In terms of commercialization, we will keep strengthening our overseas marketing efforts, establish overseas sales network and tap into the expertise of local professional sales personnel to explore the international market.

Improve Innovation Capacity

The Company has been upholding the principle of clinical value-oriented innovation, and continues to expedite the upgrading of existing product pipeline through increased investment, in an endeavor to further expand our leading edge in the structure heart disease treatment field. Besides, the Company maximizes its industry experience, resources and global leading product and technology platform to establish the overseas innovation ecosystem and cooperation network, thereby extending business presence to world cutting-edge frontiers. Specifically, we completed the acquisition of Cardiovalve, a renowned innovation company engaged in mitral valve and tricuspid valve replacement products. Taking Cardiovalve as a brand new starting point, the Company launched its innovative products in the European and American markets, which in turn propelled its globalization strategy.

Continue to Consolidate our Marketing Advantages

Unlike overseas markets, China's TAVR industry is still at the early stage with lower surgical penetration, while hospitals and doctors are the major hindrance to the rapid promotion of TAVR procedures in China. We will continue to leverage our first-mover advantage, reinforce the in-house marketing teams, focus on academic popularization and doctor education with our profound expertise and clinical resources, promote TAVR procedures and grow with doctors, in a bid to further enhance the hospital penetration of TAVR products. In addition, we will proactively facilitate patient education to improve their acceptance of TAVR procedures. Meanwhile, we will also make unremitting efforts to develop innovative products that better suit Chinese patients and are more friendly to doctors, anticipating to constantly drive market share and lead China's TAVR market.

IV. RISK MANAGEMENT

Principal Risks and Uncertainties facing the Company

The principal risks and uncertainties that may cause the Group's financial conditions or results to materially deviate from the expected or historical results can be categorized into the following areas: (A) risks relating to our business, comprising (i) risks relating to the development of our product candidates, (ii) risks relating to extensive government regulations, (iii) risks relating to the commercialization and distribution of our products, (iv) risks relating to the manufacture and supply of our products, (v) risks relating to our intellectual property rights, and (vi) risks relating to our reliance on third parties; (B) risks relating to our financial position and need for additional capital; (C) risks relating to our operations; and (D) risks relating to doing business in China, as described below:

Risks relating to Our Business

Risks relating to the Development of Our Product Candidates

- We have incurred net losses since our inception and may incur net losses for the foreseeable future, and potential investors may lose substantially all their investments in us given the high risks involved in the medical device business.

- Our future growth depends substantially on the success of our product candidates. If we are unable to successfully complete clinical development, obtain regulatory approval and commercialize our product candidates, or experience significant delays in doing so, our business will be materially harmed.

- If we do not introduce new products in a timely manner, our products may become obsolete and our operating results may suffer.

- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

- Clinical product development involves a lengthy and expensive process with an uncertain outcome, and unsuccessful clinical trials or procedures relating to products under development could have a material adverse effect on our prospects.

- If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Risks relating to Extensive Government Regulations

- All material aspects of the research, development and commercialization of our products are heavily regulated.

- If we are not able to obtain, or experience delays in obtaining, required regulatory approvals, we will not be able to commercialize our product candidates, and our ability to generate revenue will be materially impaired.

- Undesirable adverse events caused by our products and product candidates could interrupt, delay or halt clinical trials, delay or prevent regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any regulatory approval.

- Our products and any future products will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expenses and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products and/or product candidates.

- If our current and new products are not produced in compliance with the quality standards required under applicable laws, our business and reputation could be harmed, and our revenue and profitability could be materially and adversely affected.

- The recently enacted and future legislation may increase the difficulty and cost for us to obtain regulatory approval of, and commercialize our product candidates and affect the prices we may obtain.

Risks relating to the Commercialization and Distribution of Our Products

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

- Failure to achieve broad market acceptance or maintain good reputation necessary for our cardiovascular products and any future products would have a material adverse impact on our results of operations and profitability.

- We rely on our in-house marketing force to promote our products.

- There is no guarantee that we will succeed in expanding our sales network to cover new hospitals.

- If we fail to maintain an effective distribution channel for our products, our business and sales of the relevant products could be adversely affected.

- If we experience delays in collecting payments from our distributors, our cash flows and operations could be adversely affected.

- We face substantial competition, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.

- Our sales may be affected by the level of medical insurance reimbursement patients receive for TAVR procedures using our products.

Risks relating to the Manufacture and Supply of Our Products

- Delays in completing and receiving regulatory approvals for our manufacturing facilities, or damage to, destruction of or interruption of production at such facilities, could delay our development plans or commercialization efforts.

- If we fail to increase our production capacity as planned, our business prospects could be materially and adversely affected.

- The manufacture of our products is highly complex and subject to strict quality controls. If we or any of our suppliers or logistics partners encounter manufacturing, logistics, or quality problems, including as a result of natural disasters, our business could suffer.

- Fluctuations in prices of raw materials may have a material adverse effect on us.

- We may experience supply interruptions that could harm our ability to manufacture products.

- We rely on the supply from a limited number of suppliers, which may severely harm our operations if the supplier loses its qualification or eligibility because of its failure to comply with regulatory requirements or ceases its supply due to contractual disputes.

- Failure to maintain and predict inventory levels in line with the level of demand for our products could cause us to lose sales or face excess inventory risks and holding costs, either of which could have a material adverse effect on our business, financial condition and results of operations.

Risks relating to Our Intellectual Property Rights

- If we are unable to obtain and maintain patent protection for our products and product candidates through intellectual property rights, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties may compete directly against us.

- We may not be able to protect our intellectual property rights.

- We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time-consuming and unsuccessful. Our patent rights relating to our products and product candidates could be found invalid or unenforceable if being challenged in court or before the CNIPA or courts or related intellectual property agencies in other jurisdictions.

- If we are sued for infringing intellectual property rights of third parties, such litigation could be costly and time consuming and could prevent or delay us from developing or commercializing our product candidates.

- Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by the governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

- Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

- If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed. We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Risks relating to Our Reliance on Third Parties

- If the third parties with which we contract for pre-clinical research and clinical trials do not perform in an acceptable manner, or if we suffer setbacks in these pre-clinical studies or clinical trials, we may be unable to develop and commercialize our product candidates as anticipated.

- We rely upon strong relationships with certain key physicians and leading hospitals in the clinical development and marketing of our products.

- We have entered into collaborations, and may establish or seek collaborations or strategic alliances or enter into licensing arrangements in the future, and we may not realize the benefits of such collaborations, alliances or licensing arrangements.

- Our cross-border transfer of data may be limited or restricted.

Risks relating to Our Financial Position and Need for Additional Capital

- Goodwill represented a significant portion of our total assets. If we determine our goodwill to be impaired, our results of operations and financial condition may be adversely affected.

- If we determine our intangible assets (other than goodwill) to be impaired, our results of operations and financial condition may be adversely affected.

- We have historically received government grants and subsidies for our R&D activities and we may not receive such grants or subsidies in the future.

- Raising additional capital may cause dilution to our Shareholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

- Share-based payment may cause shareholding dilution to our existing Shareholders and have a material adverse effect on our financial performance.

Risks relating to Our Operations

- Our future success depends on our ability to retain key personnel in our R&D team, sales and marketing team and executives and to attract, retain and motivate qualified personnel.

- We have significantly increased the size and capabilities of our organization, and we may experience difficulties in managing our growth.

- If we engage in acquisitions or strategic partnerships, this may increase our capital requirements, dilute our Shareholders, cause us to incur debt or assume contingent liabilities, and subject us to other risks.

- If we fail to successfully integrate our recently acquired subsidiary or any future targets into our own operations, our post-acquisition performance and business prospects may be adversely affected.

- Product liability claims or lawsuits could cause us to incur substantial liabilities.
- If we become subject to litigation, legal or contractual disputes, governmental investigations or administrative proceedings, our management's attention may be diverted and we may incur substantial costs and liabilities.
- We may be subject, directly or indirectly, to applicable anti-kickback, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations in China and other jurisdictions, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.
- If we fail to comply with applicable anti-bribery laws, our reputation may be harmed and we could be subject to penalties and significant expenses that have a material adverse effect on our business, financial condition and results of operations.
- If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.
- Our internal computer systems may fail or suffer security breaches.
- If we or parties on whom we rely fail to maintain the necessary licenses for the development, production, sales and distribution of our products, our ability to conduct our business could be materially impaired.
- Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.
- Our insurance coverage may not completely cover the risks related to our business and operations.
- Negative publicity and allegations involving us, our Shareholders, Directors, officers, employees and business partners may affect our reputation and, as a result, our business, financial condition and results of operations may be negatively affected.

Risks relating to Doing Business in China

- The medical device industry in China is highly regulated and such regulations are subject to change which may affect approval and commercialization of our product candidates.
- Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.
- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.
- Potential investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.
- We are a PRC enterprise and we are subject to PRC tax on our global income, and the dividends payable to investors and gains on the sale of our Shares by our investors are subject to PRC tax. Under the Enterprise Income Tax Law of the PRC, our offshore subsidiaries may therefore be subject to PRC income tax on their worldwide taxable income.
- Payment of dividends is subject to restrictions under PRC law and regulations.
- Any failure to comply with PRC regulations regarding our Employee Incentive Scheme or the mandatory social insurance may subject the PRC plan participants or us to fines and other legal or administrative sanctions.
- Restrictions on currency exchange may limit our ability to utilize our revenue effectively.
- Our business benefits from certain financial incentives and discretionary policies granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.
- Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary's abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.
- The political relations between China and other countries may affect our business operations.

Key Principles of Risk Management

We recognize that risk management is critical to the success of our business. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the Chinese and global medical device markets, our ability to develop, manufacture and commercialize our products and product candidates, and our ability to compete with other medical device companies. We also face various financial risks. In particular, we are exposed to credit, liquidity, interest rate and foreign exchange risks that may arise in the normal course of our business.

We have adopted a consolidated set of risk management policies, which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an ongoing basis. The Audit Committee and ultimately the Board supervise the implementation of our risk management policies. Risks identified by our management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to the Board.

The following key principles outline our Group's approach to risk management and internal control:

- The Audit Committee oversees and manages the overall risks associated with our business operations, including:
  - reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives;
  - reviewing and approving our corporate risk tolerance;
  - monitoring the most significant risks associated with our business operation and our management's handling of such risks;
  - reviewing our corporate risk in light of our corporate risk tolerance; and
  - monitoring and ensuring the appropriate application of our risk management framework across our Group.

- The chief financial officer, Mr. Haiyue Ma, is responsible for:
  - formulating and updating our risk management policy and objectives;
  - reviewing and approving major risk management issues of our Company;
  - promulgating risk management measures;
  - providing guidance on our risk management approach to the relevant departments in our Company;
  - reviewing the relevant departments' reporting on key risks and providing feedback;
  - supervising the implementation of our risk management measures by the relevant departments;
  - ensuring that the appropriate structure, processes and competences are in place across our Group; and
  - reporting to the Audit Committee on the Group's material risks.
- The relevant departments in our Company, including the finance department, the legal department and the human resources department and the compliance department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments shall:
  - gather information about the risks relating to their operation or function;
  - conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives;
  - prepare a risk management report annually for our chief executive officer's review;

- monitor the key risks relating to their operation or function;
- implement appropriate risk responses where necessary; and
- develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

We consider that the Directors and senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Intellectual Property Rights Risk Management

Compliance with applicable PRC and overseas laws and regulations, especially laws and regulations governing the protection of our intellectual property rights and the prevention of liabilities resulting from potential illegal content of publication and intellectual properties infringement, are major focus areas of our operational risk management. Our legal department is responsible for approving contracts, monitoring any changes in the applicable laws and regulations and ensuring the ongoing compliance of our operations with the applicable law and regulations.

Our intellectual property department assists in conducting searches and analysis to help ensure that all of our intellectual property is under the protection of relevant laws and regulations, and also helps ensure the application for trademark, copyright or patent registrations for, as well as filing with relevant authorities of all of our products. For example, under our internal policies implemented in 2018, during the product development phase, our intellectual property department shall assess the potential legal issues surrounding the product being developed, such as making or obtaining necessary government filings or approvals, the feasibility of obtaining such approvals, potential intellectual property risks and third-party licenses required. The intellectual property department shall then administer the execution process of obtaining the necessary filings, approvals, and/or licenses. Other than some standard contracts which have been reviewed and adopted by the legal department, all the contracts of our Company are required to be reviewed and approved by our legal department prior to execution.

Directors, Supervisors and Senior Management

DIRECTORS

Mr. Min Frank Zeng (曾敏), aged 59, is the chairman of our Board and an executive Director. Mr. Zeng joined our Group in June 2013 as a Director. He is primarily responsible for the overall management, business strategies, regulatory approvals and commercial suitability and sustainability of products of the Group.

Mr. Zeng has more than 18 years of industry experience. Prior to joining our Group, Mr. Zeng served as a non-executive director of LifeTech Scientific Corporation, a company listed on the Stock Exchange (Stock Code: 1302) from September 2006 to August 2012. Mr. Zeng was the chief executive officer of Horizon Scientific Corporation, which primarily incubates new technologies for medical devices, from April 2004 to present.

Since Mr. Zeng joined our Company, he has brought in global vision and local expertise to every aspect of our business and helped our Company maintain close contact with leading cardiologists. He has overseen our Company's R&D of our comprehensive product portfolio that covers the transcatheter solutions for all four heart valves, including core valve products and complementary products, to provide comprehensive treatments for patients with structural heart diseases, particularly our overseas R&D. Mr. Zeng is also responsible for organizing our clinical trials. He has also led our manufacturing team and the management of commercialization of products, and has contributed to the personnel training of our Company.

Mr. Zeng received a bachelor's degree in solid mechanics from Tsinghua University in the PRC in July 1986 and a master's degree in engineering from the University of Texas at Austin in the United States in August 1994.

Mr. Zhenjun Zi (訾振軍), aged 52, is an executive Director and general manager of our Company. Mr. Zi joined our Group in November 2012 as a Director and general manager of our Company. He is primarily responsible for the overall management, business strategies, regulatory approvals and commercial suitability and sustainability of products of the Group.

Mr. Zi has extensive industry experience. Mr. Zi has served a non-executive director of Broncus Holding Corporation, a company listed on the Stock Exchange (Stock Code: 2216) since May 2021. Prior to joining our Group, Mr. Zi served as a member of senior management of Lifetech Scientific Corporation, a company listed on the Stock Exchange (Stock Code: 1302) from January 2003 to December 2011.

Since Mr. Zi joined our Group, he has led and contributed hugely to the pre-clinical, clinical trial and registration of our TMVR products and TPVR product for heart valves, such as VenusA-Valve and VenusP-Valve. Mr. Zi is primarily responsible for collaborating with well-known physicians and professionals from hospitals and research institutions and maintaining close relationships and communications with KOLs in the industry to understand the clinical needs of transcatheter heart valve replacement procedures.

Mr. Zi received a master's degree of science in applied chemistry from Hefei University of Technology in the PRC in April 1998.

Mr. Lim Hou-Sen (Lin Haosheng) (林浩昇), aged 49, is an executive Director, the chief operating officer and the chief technology officer of our Company. Mr. Lim joined our Group in December 2016 as the chief technology officer. Mr. Lim is primarily responsible for business operations, regulatory approvals, quality control and commercial suitability and sustainability of products of the Group.

Mr. Lim has more than 18 years of industry experience. Prior to joining our Group, Mr. Lim was the managing director and chief technology officer of Transcatheter Technologies GmbH, a medical device company incorporated in Germany, which primarily focuses on heart valve implantation and aortic therapy solutions, from January 2009 to October 2016. From September 2005 to December 2008, Mr. Lim was the founder and served as the chief executive officer of EndoCor Pte. Ltd., a company incorporated in Singapore, which develops minimally invasive heart valve and medical devices in the structural heart space. From March 2003 to December 2008, Mr. Lim was a managing director in a biomedical company named Embryon, Inc., which primarily engages in research and experimental development on biotechnology, life and medical science.

Mr. Lim received a bachelor's degree in mechanical engineering from Nanyang Technological University in Singapore in July 1999 and a master's degree of engineering from Nanyang Technological University in Singapore in June 2002.

Ms. Nisa Bernice Wing-Yu Leung (梁穎宇), aged 52, is the vice-chairwoman of our Board and a non-executive Director. Ms. Leung joined our Group in June 2013 as the vice-chairwoman of our Board and a Director. She is primarily responsible for the strategic development and business planning of our Group.

Ms. Leung has more than 20 years of industry experience. Ms. Leung has been a partner at Qiming Development (HK) Limited, a venture capital firm in China where she leads its health care investments, since December 2007. Ms. Leung has also been a co-founder of Biomedic Holdings Ltd., which has operations and investments in medical devices, pharmaceuticals and health care services in China, since February 2004. Ms. Leung was a venture partner at PacRim Venture Partners from July 2001 to June 2003.

Ms. Leung has also been a director at Berry Oncology Co., Ltd. (福建和瑞基因科技有限公司) since May 2018. Ms. Leung has served as an independent non-executive director of Hong Kong Exchanges and Clearing Limited, a company listed on the Stock Exchange (Stock Code: 0388) since April 2021, an independent director of Zai Lab Limited, a company listed on NASDAQ (NASDAQ ticker symbol: ZLAB) and the Stock Exchange (Stock Code: 9688) since August 2014, a non-executive director at CanSino Biologics Inc., a company listed on the Stock Exchange (Stock Code: 6185) and the STAR Market of the Shanghai Stock Exchange (Stock Code: 688185) since September 2015, and a non-executive director at New Horizon Health Limited, a company listed on the Stock Exchange (Stock Code: 6606) from October 2020 to February 2022. In addition, Ms. Leung served as a director at Gan & Lee Pharmaceuticals (甘李藥業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 603087) from March 2010 to March 2021, and at Chengdu Berry Genomics Co., Ltd. (成都市貝瑞和康基因技術股份有限公司), a company listed on Shenzhen Stock Exchange (Stock Code: 000710), from September 2013 to June 2017.

Ms. Leung was appointed as a Justice of the Peace in July 2016 by the Government of the Hong Kong Special Administrative Region.

Ms. Leung received a bachelor's degree in management from Cornell University in the United States in May 1992 and a master's degree in business administration from Stanford University in the United States in June 2001.

Mr. Ting Yuk Anthony Wu (胡定旭), aged 68, was appointed as a Director in November 2018 and was re-designated as an independent non-executive Director in July 2019. Mr. Wu is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

Mr. Wu is a leader in the healthcare industry and has extensive management experience in medical system. He joined the Hong Kong Hospital Authority in 1999 and was formerly its chairman from 2004 to 2013. He is the longest-serving chairman of the Hospital Authority. He had led the team of the Hospital Authority to manage all public hospitals and public clinics in Hong Kong and implement the public health policy of the Hong Kong Government. He had also actively promoted a number of public and private medical co-operation projects during his tenure. Mr. Wu is currently an advisor to the Public Policy Advisory Committee of the National Health Commission of, the principal advisor for international cooperation to the State Administration of Traditional Chinese Medicine of the People's Republic of China and a member of the Chinese Medicine Reform and Development Advisory Committee. He was a member of the State Council's Medical Reform Leadership Advisory Committee.

Other important public positions that Mr. Wu has served include a member of the 9th, 10th and 11th of, and a standing committee member of the 12th and 13th of the National Committee of the Chinese People's Political Consultative Conference, and a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the Task Force on Land Supply of the Hong Kong SAR, and has been awarded Gold Bauhinia Star and Justice of the Peace by the government of Hong Kong SAR. Mr. Wu was a member of the General Committee of the Hong Kong General Chamber of Commerce from 2000 to 2017, served as its chairman from 2010 to 2012, and is currently a member of its Council. Mr. Wu was a director of the Fidelity Funds from 2011 to 2014 and was the chairman of Bauhinia Foundation Research Centre from 2007 to 2012. Mr. Wu was a partner of Ernst & Young ("EY") from 1985 to 2005, and served as chairman of the EY's Far East Region from 2000 to 2005. He was also the chief advisor to MUFG Bank, Ltd., the chairman of The Board of Trustees of China Oxford Scholarship Fund, an honorary professor of the Faculty of Medicine of the Chinese University of Hong Kong and the Peking Union Medical College Hospital, and an honorary fellow of the Hong Kong College of Community Medicine.

Mr. Wu holds directorships in certain Hong Kong listed companies. He has been the chairman and a non-executive director of Clarity Medical Group Holding Limited (Stock Code: 1406) since March 2019. He is an independent non-executive director of Power Assets Holdings Limited (Stock Code: 6), Guangdong Investment Limited (Stock Code: 270) and China Taiping Insurance Holdings Company Limited (Stock Code: 966), the chairman and independent non-executive director of China Resources Medical Holdings Company Limited (Stock Code: 1515) and the independent non-executive director of CStone Pharmaceuticals (Stock Code: 2616). He was an independent non-executive director of Agricultural Bank of China Limited (Stock Code: 1288) from January 2009 to June 2015. He was an executive director of Sincere Watch (Hong Kong) Limited (Stock Code: 444) from March 2015 to August 2018.

Mr. Wu completed a foundation course in accountancy at the then Teesside Polytechnic in the United Kingdom in July 1975. Mr. Wu is a fellow of Hong Kong Institute of Certified Public Accounts ("HKICPA") and the Institute of Chartered Accountants in England and Wales ("ICAEW"), and the honorary chairman of the Institute of Certified Management Accountants (Australia) Hong Kong Branch.

On December 24, 2013, the Disciplinary Committee of the HKICPA found Mr. Wu's failure to observe, maintain or otherwise apply the requirements of the HKICPA in preserving the appearance of independence by acting as an independent financial advisor on behalf of EY to a non-listed company whilst also being a senior partner of EY who acted as auditors of such company in respect of the financial years ended December 31, 1995 to December 31, 1997, and is therefore a deemed auditor of that company under the Companies Ordinance, to be a professional misconduct (the "Incident"). Mr. Wu was ordered to pay a penalty of HK$250,000, had his name removed from the register for a period of two years from July 23, 2014, and together with the other respondents, was ordered to pay the costs of HK$2 million to the HKICPA. The Incident was then referred to the ICAEW by the HKICPA in 2014, and was dismissed by the ICAEW in 2017.

Mr. Wan Yee Joseph Lau (劉允怡), aged 75, was appointed as an independent non-executive Director in July 2019, with effect from the Listing Date. Mr. Lau is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

Mr. Lau, a world-renowned expert on hepato-pancreato-biliary surgery and an academician of the Chinese Academy of Sciences, is the Founding Master of Lee Woo Sing College and Choh-Ming Li Professor of Surgery of The Chinese University of Hong Kong, current chairman of the Medical Council of Hong Kong, past president of the International Hepato-Pancreato-Biliary Association and Asian-Pacific Hepato-Pancreato-Biliary Association. Mr. Lau has served an independent non-executive director of Broncus Holding Corporation, a company listed on the Stock Exchange (Stock Code: 2216) since September 2021. Mr. Lau has been an independent non-executive director of NISI (HK) Limited, a company specialized in noninvasive surgical innovations, since February 2017.

Mr. Lau holds many key positions in government and professional organizations. He is an editorial board member of 23 national and 10 international journals. He has been the chairman of the Medical Council of Hong Kong since March 2012. He was the president of the International Hepato-Pancreato-Biliary Association from April 2002 to May 2004. He was elected as an academician of the Chinese Academy of Sciences in 2003, and was awarded Honorary Fellow of Royal Australasian College of Surgeons in October 2003. He was the president of Asian-Pacific Hepato-Pancreato-Biliary Association from March 2009 to September 2011, and was awarded Honorary Fellow of College of Surgeons of Hong Kong in September 2011.

Mr. Lau was awarded the Wu Jieping Medical Prize in September 2012 for his momentous lifetime contributions to the global medical field and the Silver Bauhinia Star (SBS) in 2013 for his distinguished service to Hong Kong.

Mr. Lau received a bachelor's degrees in medicine and surgery from the University of Hong Kong in November 1972 and a doctor of medicine from the Chinese University of Hong Kong in December 1995.

Mr. Chi Wai Suen (孫志偉), aged 58, was appointed as an independent non-executive Director in July 2019, with effect from the Listing Date. Mr. Suen is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

Mr. Suen is a practicing solicitor in Hong Kong and a partner of Withers. He has more than 20 years of experience in corporate finance and with area of practice principally in initial public offerings on the Hong Kong Stock Exchange, mergers and acquisitions, corporate reorganizations and Listing Rules compliance, and he has advised clients from various industries such as clean energy, pharmaceutical, medical, retails, manufacturing, entertainment and biological. Prior to joining Withers, Mr. Suen was an associate and later a partner of DLA Piper Hong Kong from June 2007 to May 2012 and May 2012 to February 2018, respectively, and served as a manager in the investment products department of the Securities and Futures Commission of Hong Kong from October 2005 to July 2006, responsible for reviewing applications of collective investment schemes and monitoring continuing compliance of authorized schemes. Mr. Suen was an assistant solicitor at Woo Kwan Lee & Lo from September 2000 to March 2005.

Mr. Suen holds directorships in certain Hong Kong listed companies. He has served as an independent non-executive director of Xin Yuan Enterprises Group Limited (Stock Code: 1748) since September 2018, and Da Yu Financial Holdings Limited (Stock Code: 1073) since July 2019.

Mr. Suen received a bachelor of science degree from the University of East Anglia in the United Kingdom in July 1987 and a postgraduate certificate in laws from the University of Hong Kong in June 1998. Mr. Suen was admitted as a solicitor in Hong Kong in October 2000 and in England and Wales in December 2003. Mr. Suen has also been a fellow member of the Association of Chartered Certified Accountants since May 1998 and a certified public accountant of the HKICPA since April 1993.

SUPERVISORS

Ms. Yan Xiao (肖燕), aged 40, was appointed as the chairwoman of the Supervisory Committee on November 26, 2018 and an employee Supervisor on November 23, 2018. Ms. Xiao is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Ms. Xiao joined our Group in December 2014 and was our finance manager prior to her appointment as the chairwoman of the Supervisory Committee and an employee Supervisor. Prior to joining our Group, Ms. Xiao served as the accounting supervisor at Welform Precision Machining (Hangzhou) Co., Ltd from October 2009 to October 2014, a general ledger accountant at Wolf Packaging Machining (Hangzhou) Co., Ltd from September 2007 to September 2009.

Ms. Xiao received a bachelor's degree in business administration from Hangzhou Dianzi University in the PRC in June 2004. Ms. Xiao received the certificate of accounting profession of the PRC granted by Zhejiang Provincial Department of Finance in December 2008.

Mr. Wei Wang (王瑋), aged 40, was appointed as a Shareholders' representative Supervisor on November 26, 2018. Mr. Wang is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Mr. Wang joined our Group in November 26, 2018. Mr. Wang has served as a managing director of DCP Capital since 2017, focusing on private equity transactions in the Greater China region. Prior to that, Mr. Wang served as a director at Kohlberg Kravis Roberts & Co. L.P. from February 2011 to March 2016.

Mr. Wang has served as a non-executive director of China Outfitters Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1146), since May 2012.

Mr. Wang received a bachelor of science degree in economics from Shanghai Jiaotong University in the PRC in July 2005.

Ms. Lingling Yang (楊玲玲), aged 61, was appointed as a Shareholders' representative Supervisor on November 26, 2018. Ms. Yang is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Ms. Yang joined our Group in October 2015, was our public affairs manager from October 2015 to September 2018 and is currently our consultant. Prior to joining our Group, Ms. Yang served as an office director at Food and Drug Administration and Market Supervision Authority of Xihu District in Hangzhou from December 2005 to August 2015, a vice office director at Food and Drug Administration and director of the Regulations Department in Wenzhou from August 2001 to December 2005, a vice chief of Drug Administration and in Cangnan County from October 1998 to August 2000, various positions including the secretary of the Legal Bureau at the government of Cangnan County from August 1992 to October 1998, a human resource and legal officer at the Commercial Bureau of Cangnan County from August 1981 to August 1992, and a cashier at Wenzhou Pingyang Wujiaohua Company from December 1979 to August 1981.

Ms. Yang received a bachelor's degree in law from National University of Defense Technology in the PRC through long distance learning courses in June 2002. Ms. Yang received the PRC Certificate of Lawyer's Certificate granted by Zhejiang Provincial Department of Justice in April 1994, and the Lawyer's License of the PRC granted by Shanghai Bureau of Justice in May 2018.

Due to Ms. Yang's intention to devote more time on her other business engagements, Ms. Yang will hold office until the conclusion of the AGM and she is still obliged to perform her duties in accordance with the laws and regulations and the articles of association of the Company. Ms. Yang has confirmed that she has no disagreement with the Board and the Supervisory Committee, and there are no any other matters relating to her resignation that need to be brought to the attention of the Shareholders. Ms. Yue Li has been proposed by the Board as a Shareholders' representative Supervisor candidate for the second session of the Supervisory Committee, subject to approval at the AGM. For details, please refer to the announcement published by the Company on March 31, 2022.

SENIOR MANAGEMENT

Mr. Zhenjun Zi (訾振軍) is an executive Director and the general manager of our Company. For details of his biography, see "DIRECTORS" in this section.

Mr. Lim Hou-Sen (Lin Haosheng) (林浩昇) is an executive Director, the chief operating officer and the chief technology officer of our Company. For details of his biography, see "DIRECTORS" in this section.

Mr. Haiyue Ma (馬海越), aged 44, was appointed as the chief financial officer when he joined our Group in June 2018, and the joint company secretary in July 2019. Mr. Ma is primarily responsible for the finance management of our Group. Prior to joining our Group, Mr. Ma served as an executive director at the investment banking division of Morgan Stanley Huaxin Securities Co., Ltd. from July 2017 to June 2018. From November 2004 to July 2017, Mr. Ma held various positions at KPMG Huazhen LLP, including an audit manager from November 2004 to June 2007, an audit senior manager from July 2007 to September 2011 and an audit partner from October 2011 to July 2017. From May 2002 to November 2004, Mr. Ma held various positions, including audit manager at Ernst & Young Da Hua.

Mr. Ma received a bachelor's degree in accounting from Shanghai University of Finance and Economics in the PRC in June 1998. Mr. Ma is a member of the Chinese Institute of Certified Public Accountants.

Mr. Amit Ashkenazi, aged 45, was appointed as the head of our Israeli operations when he joined our Group in December 2021. Mr. Ashkenazi is primarily responsible for the operations of our Group in Israel.

Mr. Ashkenazi has extensive experience in the R&D of medical devices. He has served as the president of Keystone which was acquired by our Group in December 2018 since December 2021. Mr. Ashkenazi served as the vice president and chief operating officer of Keystone from 2016 to 2021, the vice president of Keystone from 2014 to 2015, responsible for managing the research and development team, the vice president of Keystone from 2013 to 2014, and a product manager of Keystone, from 2013 to 2014. Prior to joining Keystone, Mr. Ashkenazi served as a director of engineering for Trig Medical Ltd. where he was responsible for the product development and commercialization of guidance systems and disposable products from 2004 to 2013.

Mr. Ashkenazi received a bachelor of science degree in mathematics and computer science from Netanya College.

Directors' Report

The Board presents this directors' report in the Group's annual report for the year ended December 31, 2021.

PRINCIPAL ACTIVITIES

The principal activities of the Company are development and commercialization of transcatheter solutions for structural heart diseases. Further details of our business operations are set out in "Management Discussion and Analysis – I. Business Overview" of this report.

There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2021.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in "Financial Summary" and "Management Discussion and Analysis" of this report.

Environmental Policies and Performance

It is our corporate and social responsibility to promote a sustainable and eco-friendly environment. In this respect, we strive to minimize our environmental impact by reducing our carbon footprint and to build our corporation in a sustainable way.

We are subject to various environmental protection laws and regulations. Our operations involve the use of hazardous and flammable chemical materials. Our operations also produce such hazardous waste. We generally contract with third parties for the disposal of these materials and wastes. During the Reporting Period and up to the date of this report, we complied with the relevant environmental laws and regulations and we did not have any incidents or complaints which had a material adverse effect on our business, financial condition or results of operations during the Reporting Period.

For more details, please refer to "Environmental, Social and Governance Report" of this report for our work in respect of environmental protection, social and governance during the year.

Compliance with Relevant Laws and Regulations

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Reporting Period and up to the date of this report, the Group had complied with the laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the Corporate Governance Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period and up to the date of the report, none of the Group and the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the the China Securities Regulatory Commission (CSRC), banned from entering the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial organs or held criminally responsible, and none of them were involved in any other litigation, arbitration or administrative proceedings which would have a material adverse impact on our business, financial condition or results of operations.

Key Relationships with Stakeholders

We recognize that various stakeholders, including employees, medical experts, distributors, and other business associates, are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of the Group's workforce and to remain competitive in the labor market, we provide various incentives and benefits to our employees and invest in continuing education and training programs, including internal and external training, for our management staff and other employees to upgrade their skills and knowledge. We also provide competitive salaries, packages and stock incentive plans for our employees, especially for key employees.

We employ a strategic marketing model to promote and sell our products. Under this model, we promote our products to hospitals in the PRC through academic marketing, by establishing research and clinical collaboration and training relationships with hospitals and by leveraging our network with KOLs.

To increase awareness of our products and technologies, we organize educational symposia and provide training to physicians, hospital executives and researchers in the field. Our highly trained sales and marketing team focuses on interacting with physicians to educate them about, and train them in the use of, our products. Such interaction is fostered through regular visits to and communications with physicians, on-site demonstration of our products to physicians, our sponsorship of conferences, seminars and physician education programs and other activities.

We have taken an active role in the key cardiology conferences in China, which serve as good opportunities to educate and train physicians in respect of TAVR and TPVR procedures and a platform for us to present innovative and advantageous features of our products. Thanks to our advanced technology and our first-mover experience in China, our products have been among the central topics of academic discussions and examples for training, and our R&D experts and management have been invited as speakers to introduce their practices in this field. We have sponsored conferences that gathered leading international transcatheter heart valve replacement experts, interventional cardiologists and vascular surgeons.

Our existing relationships with hospitals also help promote our products among physicians and hospitals through on-site education and training. In our marketing efforts, we primarily target large Class III Grade A hospitals, which have more resources to perform interventional heart valve procedures than smaller hospitals.

We depend on KOLs to introduce and recommend our products to physicians and hospitals. KOLs have academic incentives in learning the latest disease treatment options available in China within their therapeutic areas, as well as introducing cutting-edge technologies and products that they believe have clinical benefits to other doctors.

We sell products directly to hospitals or medical centers and through distributors. In line with market practice, we sell a significant portion of our products to distributors who resell our products to hospitals. The Group selects the distributors based on their qualifications, reputation, market coverage and sales experience.

Key Risks and Uncertainties and Risk Management

Details of the key risks and uncertainties faced by the Company and our risk management are set out in "Management Discussion and Analysis – IV. Risk Management" of this report.

Events after the Reporting Period

Details of the events after the Reporting Period of the Company are set out in "Management Discussion and Analysis – II. Financial Review – Subsequent Events" of this report.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

List of Directors and Supervisors

The Directors during the Reporting Period and up to the date of this directors' report were:

Directors

Executive Directors
Mr. Min Frank Zeng (曾敏) *(Chairman of the Board)*
Mr. Zhenjun Zi (訾振軍) *(General Manager)*
Mr. Lim Hou-Sen (Lin Haosheng) (林浩昇) *(Chief Operating Officer, Chief Technology Officer)*

Non-executive Director
Ms. Nisa Bernice Wing-Yu Leung (梁穎宇) *(Vice-chairwoman of the Board)*

Independent Non-executive Directors
Mr. Ting Yuk Anthony Wu (胡定旭)
Mr. Wan Yee Joseph Lau (劉允怡)
Mr. Chi Wai Suen (孫志偉)

Supervisors
Ms. Yan Xiao (肖燕) *(Chairwoman of the Supervisory Committee)*
Mr. Wei Wang (王瑋)
Ms. Lingling Yang (楊玲玲)

Biographies of Directors, Supervisors and Senior Management

The biographical details of the Directors, Supervisors and senior management of the Company are set out in "Directors, Supervisors and Senior Management" of this report.

Changes in Directors, Supervisors and Senior Management

(i) Change in Directors and Composition of Board Committees

During the Reporting Period, there were no changes in Directors and composition of Board Committees. All the Directors have been proposed to be re-elected, subject to approval at the AGM.

(ii) Change in Supervisors

During the Reporting Period, there were no changes in Supervisors. Ms. Lingling Yang will hold office until the conclusion of the AGM and Ms. Yue Li has been proposed by the Board as a Shareholders' representative Supervisor candidate for the second session of the Supervisory Committee, subject to approval at the AGM.

(iii) Change in Senior Management

Mr. Christopher Lee Richardson, who was the head of U.S. operations and primarily responsible for the operations of our Group in the United States resigned on October 4, 2021.

Dr. Amit Ashkenazi was appointed as the head of Israeli operations primarily responsible for the operations of our Group in Israel on December 17, 2021.

Save as disclosed above, there were no other changes in senior management during the Reporting Period.

Service Contracts of Directors, Supervisors and Senior Management

Our Directors entered into service contracts with the Company in November 2019. The principal particulars of these service contracts comprise (a) a term of three years, which is equivalent to the term of the Board; and (b) termination provisions in accordance with their respective terms. Our Directors may offer themselves for re-election and reappointment subject to the Shareholders' approval. Their service contracts may be renewed pursuant to the Articles of Association and applicable regulations.

Each of our Supervisors entered into a contract with the Company in November 2019. Each contract contains provisions relating to compliance with relevant laws and regulations, observation of our Articles of Association and resolution of disputes by means of arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts that are expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

Given that the term of office of Directors and Supervisors has expired, the proposed re-election of Directors, and the proposed re-election and appointment of Supervisors are subject to the Shareholders' approval in the AGM. For details of the proposed re-election of Directors, and the proposed re-election and appointment of Supervisors, please refer to the announcement made by the Company on March 31, 2022.

Remuneration of Directors, Supervisors and Five Highest-Paid Individuals

The Company offers competitive remuneration packages to our Directors, and the Directors' remuneration are determined by our Board based on the recommendation of the Remuneration and Assessment Committee. Details of the remuneration of the Directors, Supervisors and the five highest paid individuals in the Group are set out in "Notes to Financial Statements – 8. Directors', Supervisors' and Chief Executive's Remuneration" and "Notes to Financial Statements – 9. Five Highest Paid Employees" of this report.

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

Directors' Retirement Benefits

Save as the pension scheme contributions disclosed in "Notes to Financial Statements – 8. Directors', Supervisors' and Chief Executive's Remuneration", none of the directors received or will receive any retirement benefits during the years ended December 31, 2021 and 2020.

Consideration Provided to Third Parties for Making Available Directors' Services

During the years ended December 31, 2021 and 2020, the Group did not pay consideration to any third parties for making available directors' services.

Information About Loans, Quasi-Loans and Other Dealings in Favour of Directors, Bodies Corporate Controlled by or Entities Connected with Directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended December 31, 2021 and 2020.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the year is set out in "Management Discussion and Analysis – II. Financial Review – Employees and Remuneration Policies" of this report.

Confirmation of Independence from the Independent Non-Executive Directors

The Company has received the annual confirmations of independence from all independent non-executive Directors, namely, Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau and Mr. Chi Wai Suen, pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed their respective confirmations of independence, and considers that all independent non-executive Directors have been independent for the year ended December 31, 2021 and remain so as of the date of this report.

Directors' Interests in Competing Businesses

Save as disclosed in the "Directors, Supervisors and Senior Management" of this report, none of the Directors have any disclosable interests in any business which competes or is likely to compete against the businesses of the Group for the year ended December 31, 2021.

Directors' and Supervisors' Interests in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party and in which a Director or Supervisor or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, has been entered into or was subsisting during the Reporting Period.

CONNECTED TRANSACTIONS

During the Reporting Period, the Group did not conduct any non-exempt connected transactions or continuing connected transactions in accordance with the Listing Rules.

For the year ended December 31, 2021, no related party transactions as set out in "Notes to Financial Statements – 36. Related Party Transactions" of this report constitute connected transactions or continuing connected transactions required to be disclosed under the Listing Rules.

DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As of December 31, 2021, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/Supervisor/ Chief Executive	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Listed Share Capital of the Company *(Note 4)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 4)*
Mr. Min Frank Zeng *(Note 1)*	H Shares	Interest of controlled corporations	33,651,618/ Long position	7.63%	7.63%
Mr. Zi *(Note 2)*	H Shares	Beneficial owner	32,197,802/ Long position	7.30%	7.30%
		Interest of controlled corporations	20,261,919/ Long position	4.59%	4.59%
	Unlisted Foreign Shares	Other	1,208/ Long position	0.00%	100.00%
Mr. Lim Hou-Sen (Lin Haosheng) *(Note 3)*	H Shares	Interest of controlled corporations	3,142,361/ Long position	0.71%	0.71%
	Unlisted Foreign Shares	Interest of controlled corporations	1,208/ Long position	0.00%	100.00%
Ms. Nisa Bernice Wing-Yu Leung	H Shares	Beneficial owner	386,406/ Long position	0.09%	0.09%

Notes:

(1) Horizon Binjiang LLC, an investment holding company incorporated in California, the United States, owns 33,651,618 H Shares of the Company. Mr. Min Frank Zeng, as its sole shareholder, is deemed to be interested in the interest owned by Horizon Binjiang LLC under the SFO.

(2) Mr. Zi beneficially owns 32,197,802 H Shares of the Company. In addition to his direct shareholding, he is also deemed to be interested in 20,261,919 H Shares and 1,208 Unlisted Foreign Shares of the Company through the below intermediaries he controlled under the SFO:

- Adventure 03 Limited, an investment holding company incorporated in Hong Kong, owns 9,000,636 H Shares in the Company. Dinova Healthcare Gamma Fund (USD) L.P. (as the sole shareholder of Adventure 03 Limited), Dinova Venture Partners GP III, L.P. (as the general partner of Dinova Healthcare Gamma Fund (USD) L.P.) and Dinova Capital Limited (as the general partner of Dinova Venture Partners GP III, L.P.), Xin Nuo Tong Investment Limited (as the sole shareholder of Dinova Capital Limited) and Mr. Zi (as the sole shareholder of Xin Nuo Tong Investment Limited) are deemed to be interested in the interest owned by Adventure 03 Limited in the Company under the SFO.

- Zhejiang Dinova Ruiying Venture Investment L.P. (浙江德諾瑞盈創業投資合夥企業(有限合夥)) ("Zhejiang Dinova"), a limited partnership and a venture capital fund holding various portfolios established in the PRC, owns 6,977,955 H Shares of the Company. Zhejiang Dinova Capital Management L.P. (浙江德諾資本管理合夥企業 (有限合夥)) (as the general partner of Zhejiang Dinova), Hangzhou Dinova Commercial Information Consulting Ltd. (杭州德諾商務信息諮詢有限公司) (as the general partner of Zhejiang Dinova Capital Management L.P.) and Mr. Zi (as a 40% shareholder of Hangzhou Dinova Commercial Information Consulting Ltd.) are deemed to be interested in the interest owned by Zhejiang Dinova in the Company under the SFO.

- DNA 01 (Hong Kong) Limited, an investment holding company incorporated in Hong Kong, owns 2,056,615 H Shares of the Company. Dinova Healthcare Delta Fund (USD) L.P. (as the sole shareholder of DNA 01 (Hong Kong) Limited), Dinova Venture Partners GP IV, L.P. (as the general partner of Dinova Healthcare Delta Fund (USD) L.P.), Dinova Venture Capital Limited (as the general partner of Dinova Venture Partners GP IV, L.P.), Xin Nuo Tong Investment Limited (as a 40% shareholder of Dinova Venture Capital Limited) and Mr. Zi (as the sole shareholder of Xin Nuo Tong Investment Limited) are deemed to be interested in the interest owned by DNA 01 (Hong Kong) Limited under the SFO.

- Shenzhen Dinova Ruihe Venture Investment L.P. (深圳市德諾瑞和創業投資合夥企業 (有限合夥)) ("Shenzhen Dinova"), a limited partnership established in the PRC and a venture capital fund holding various portfolios, owns 1,687,358 H Shares of the Company. Shenzhen Dinova Investment L.P. (深圳市德諾投資合夥企業 (有限合夥)) (as the general partner of Shenzhen Dinova), Shenzhen Dinova Investment Consulting Ltd. (as the general partner of Shenzhen Dinova Investment L.P.) and Mr. Zi (as a 66.67% shareholder of Shenzhen Dinova Investment Consulting Ltd.) are deemed to be interested in the interest owned by Shenzhen Dinova.

- The PRC Employee Entities own an aggregate of 539,355 H Shares of the Company. Hangzhou Nuoxin Investment Management Limited (杭州諾心投資管理有限公司) is the general partner of the PRC Employee Entities. Mr. Zi, as the sole shareholder of Hangzhou Nuoxin Investment Management Limited, is deemed to be interested in the interest owned by the PRC Employee Entities under the SFO.

- Mr. Zi holds voting rights of 1,208 Unlisted Foreign Shares of the Company, while Jupiter Holdings Limited and Mercury Holding Limited are entitled to the ownership, dividend rights, disposal rights and other benefits of the above-mentioned Unlisted Foreign Shares of the Company.

(3) Mr. Lim Hou-Sen (Lin Haosheng) is deemed to be interested in 3,142,361 H Shares and 1,208 Unlisted Foreign Shares of the Company under the SFO through his interest in the Offshore Employee Entities (Blue Summit Management Limited, Mercury Holding Limited and Jupiter Holding Limited).

(4) The Company has two classes of Shares: H Shares as one class of Shares, Unlisted Foreign Shares as another class. As of December 31, 2021, the total issued share capital of the Company was 441,011,443 Shares, which comprise 441,010,235 H Shares and 1,208 Unlisted Foreign Shares.

Substantial Shareholders' Interests or Short Positions

As of December 31, 2021, to the knowledge of the Company and the Directors after making reasonable inquiries, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) have interests or short positions in Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name of Shareholders	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Share Capital of the Company *(Note 3)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 3)*
Horizon Binjiang LLC *(Note 1)*	H Shares	Interest of controlled corporations	33,651,618/ Long position	7.63%	7.63%
Qiming Corporate GP III, Ltd. *(Note 2)*	H Shares	Interest in controlled corporations	58,777,980/ Long position	13.33%	13.33%
Qiming GP III, L.P. *(Note 2)*	H Shares	Interest in controlled corporations	58,777,980/ Long position	13.33%	13.33%
Qiming Venture Partners III, L.P. *(Note 2)*	H Shares	Interest in controlled corporations	41,231,229/ Long position	9.35%	9.35%

Name of Shareholders	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Share Capital of the Company *(Note 3)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 3)*
Ming Zhi Investments Limited *(Note 2)*	H Shares	Interest in controlled corporations	41,231,229/ Long position	9.35%	9.35%
Ming Zhi Investments (BVI) Limited *(Note 2)*	H Shares	Beneficial owner	41,231,229/ Long position	9.35%	9.35%
GIC Private Limited	H Shares	Investment manager	39,690,173/ Long position	8.99%	8.99%

Notes:

(1) Horizon Binjiang LLC, an investment holding company incorporated in California, the United States, owns 33,651,618 H Shares of the Company. Mr. Zeng, as its sole shareholder, is deemed to be interested in the interest owned by Horizon Binjiang LLC under the SFO.

(2) Qiming Corporate GP III, Ltd. is deemed to be interested in 58,777,980 H Shares of the Company through the below intermediaries it controls under the SFO:

- Ming Zhi Investments (BVI) Limited, an investment holding company incorporated in the British Virgin Islands, owns 41,231,229 H Shares of the Company. For the purpose of the SFO, Ming Zhi Investments Limited (as the sole shareholder of Ming Zhi Investments (BVI) Limited), Qiming Venture Partners III, L.P. (as a 96.94% shareholder of Ming Zhi Investments Limited) and Qiming GP III, L.P. (as the general partner of Qiming Venture Partners III, L.P) are deemed to be interested in the interest owned by Ming Zhi Investments (BVI) Limited.

- QM22 (BVI) Limited, an investment holding company incorporated in the British Virgin Islands, owns 17,546,751 H Shares of the Company. For the purpose of the SFO, QM22 Limited (as the sole shareholder of QM22 (BVI) Limited), Qiming Venture Partners III Annex Fund, L.P. (as the sole shareholder of QM22 Limited), Qiming GP III, L.P. (as the general partner of Qiming Venture Partners III Annex Fund, L.P.) and Qiming Corporate GP III, Ltd. (as the general partner of Qiming GP III, L.P.) are deemed to be interested in the interest owned by QM22 (BVI) Limited.

(3) The Company has two classes of Shares: H Shares as one class of Shares, Unlisted Foreign Shares as another class. As of December 31, 2021, the total issued share capital of the Company was 441,011,443 Shares, which comprise 441,010,235 H Shares and 1,208 Unlisted Foreign Shares.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

During the year ended December 31, 2021 and up to the date of this report, none of the Directors, Supervisors or their respective spouses or minor children under the age of 18 years were granted with rights, or had exercised any such rights, to acquire benefits by means of purchasing Shares or debentures of the Company. Neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors, Supervisors or their respective spouses or minor children under the age of 18 years to acquire such rights from any other body corporates.

RESULTS AND DIVIDENDS

The results of the Group for the year ended December 31, 2021 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this report.

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2021 (2020: Nil).

SHARE CAPITAL

Details of the issued shares of the Group during the year ended December 31, 2021 are set out in "Notes to Financial Statements – 30. Share Capital" of this report.

RESERVES AND DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company did not have any distributable reserves.

For the movement of distributable profit, please refer to the "Consolidated Statement of Changes in Equity" of this report.

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations made by the Group amounted to RMB107.5 million (2020: RMB58.4 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2021 are set out in "Notes to Financial Statements – 13. Property, Plant and Equipment" of this report.

ISSUANCE OF SHARES AND UTILIZATION OF PROCEEDS

(i) Use of Proceeds from the Initial Global Offering

The net proceeds received by the Company from its initial global offering (including the full exercise of the over-allotment option) amounted to HK$2,846 million (equivalent to RMB2,558 million) (after deducting the underwriting commissions and other estimated expenses in connection with the exercise of the initial global offering and the over-allotment option).

As of December 31, 2021, the Group had used the net proceeds from the Global Offering for the following purposes:

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Actual amount of utilized proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)
(A) For our Core Products:	35.00	895.3	449.3	446.0
(i) ongoing sales and marketing of VenusA-Valve in China and planned commercialization of VenusA-Valve in other countries	5.00	127.9	81.4	46.5
(a) the continuous expansion of market coverage of VenusA-Valve in China	3.15	80.6	80.6	–
(b) in the commercialization in Colombia	0.70	17.9	0.1	17.8
(c) the commercialization in the Philippines	0.70	17.9	0.3	17.6
(d) the commercialization in other jurisdictions such as Brazil and Taiwan	0.45	11.5	0.4	11.1

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Actual amount of utilized proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)
(ii) ongoing and planned R&D and commercial launches of VenusA-Plus,	12.00	307.0	230.7	76.3
(a) pre-clinical activities in China	0.32	8.2	8.2	–
(b) the ongoing clinical trial in China	0.90	22.9	22.9	–
(c) registration	0.37	9.6	4.9	4.7
registration in China	0.11	2.8	2.8	–
registration in other jurisdictions	0.26	6.8	2.1	4.7
(d) the commercialization in various jurisdictions	8.37	214.1	164.4	49.7
commercialization in China	6.32	161.7	161.7	–
commercialization in other markets	2.05	52.4	2.7	49.7
(e) post-marketing surveillance	2.04	52.2	30.3	21.9
(iii) ongoing and planned R&D and commercial launches of VenusP-Valve	18.00	460.4	137.3	223.1
(a) pre-clinical activities in the U.S.	1.06	27.1	27.1	–
(b) the clinical trial to be conducted for the FDA approval	2.17	55.5	3.1	52.4
(c) registration	0.92	23.4	13.2	10.2
NMPA	0.07	1.8	1.8	–
FDA	0.46	11.7	1.5	10.2
CE Marking	0.39	9.9	9.9	–
(d) commercialization in various jurisdictions	13.14	336.2	91.9	244.3
China	3.85	98.5	58.4	40.1
U.S. and Canada	1.27	32.5	0.3	32.2
EU	2.68	68.6	0.3	68.3
Other markets	5.34	136.6	32.9	103.7
(e) post-marketing surveillance	0.71	18.2	2.0	16.3

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Actual amount of utilized proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)
(B) Allocated to our other products and product candidates	30.00	767.4	632.3	135.1
(i) ongoing and planned R&D and marketing of CEP device	17.00	434.9	334.5	100.4
(a) pre-clinical activities	4.18	106.9	94.2	12.7
(b) clinical trials primarily for the ongoing Phase II REFLECT trial in the U.S. and the clinical trial for TriGUARD3 planned to be conducted in China	3.69	94.4	42.1	52.3
(c) registration and post-marketing surveillance	3.93	100.5	80.3	20.2
(d) commercialization in various jurisdictions	5.20	133.1	117.9	15.2
(ii) ongoing and planned R&D of VenusA-Pilot	3.00	76.7	58.5	18.3
(iii) ongoing and planned R&D of mitral valve products	2.00	51.2	51.2	–
(iv) R&D of tricuspid valve products	2.00	51.2	49.3	1.9
(v) ongoing and planned R&D of valvuloplasty balloon products such as V8 and TAV8	2.00	51.2	36.6	14.6
(vi) ongoing and planned R&D of other product candidates	4.00	102.2	102.20	0

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Actual amount of utilized proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)
(C) Payment of considerations and other transaction expenses related to acquisition of Keystone	10.00	255.8	–	255.8[1]
(D) Our continued expansion of product portfolio through internal research and/or potential acquisition	15.00	383.7	383.4	0.3
(E) Working capital and other general corporate purposes	10.00	255.8	255.8	–
TOTAL	100	2,558.0	1,720.9	837.1

Note:

1. The amount of unutilized proceeds for this purpose represents the amount of certain contingent milestone payment of consideration related to the acquisition of Keystone. As part of the share purchase agreement of Keystone, contingent consideration is payable depending on the occurrence of certain milestone events for TriGUARD3, which includes, among others, authorization and clearance by the FDA to market and sell TriGUARD3 in the U.S. Given the marketing application of TriGUARD3, which was contemplated under the share purchase agreement of Keystone and filed with the FDA, has been suspended in September 2021, the Board is of the opinion that as at December 31, 2021, such contingent consideration was no longer payable according to the share purchase agreement. For details and the relevant accounting treatment, please refer to "Notes to Financial Statements – 25. Other Payables and Accruals" of this report. The Company is considering the reallocation of the amount of unutilized proceeds for this purpose of RMB255.8 million to other purposes, and will make announcement on any change in use of proceeds and the corresponding timeline of such use as appropriate in due course.

Save as disclosed above under Note 1, regarding the net proceeds that had not been utilized as of December 31, 2021, the Company intends to use them in the same manner and proportions as stated in the Prospectus, and the unutilized amount of net proceeds is expected to be used by December 31, 2022.

(ii) Use of Proceeds from the September 2020 Placing

The net proceeds received by the Company from the placing of an aggregate of an aggregated of 18,500,000 new H Shares taken place in September 2020 (the "September 2020 Placing") were approximately HK$1,173 million after deducting the expenses of the placing.

The 2021 Interim Report of the Company published on September 29, 2021 (the "2021 Interim Report") included a table on p. 37 which indicated that all of the proceeds from the September 2020 Placing (the "September 2020 Placing Proceeds") were intended for working capital and other general corporate purposes. In this regard, the Company published an announcement dated March 14, 2022 (the "Supplemental UoP Announcement") to supplement that due to an inadvertent clerical error, and to be consistent with the announcements on the September 2020 Placing (the "September 2020 Placing Announcements") and the section under "Corporate Governance and Other Information – XI. Issuance of Shares and Utilization of Proceeds – The September 2020 Placing" of the 2021 Interim Report, the September 2020 Placing Proceeds were actually intended to be used for both (i) investments in upstream and downstream companies and (ii) working capital and other general corporate purposes. For clarity, the breakdown of the intended purposes of the September 2020 Placing Proceeds are listed in the table below. The use of the September 2020 Placing Proceeds for the year ended December 31, 2021 are as listed in the table below. In addition, as further listed in the table below, as at the date of the Supplemental UoP Announcement, all of the September 2020 Placing Proceeds have been used up in line with the intended purpose of the September 2020 Placing Proceeds as disclosed in the September 2020 Placing Announcements.

Use of proceeds	Amount of intended use of net proceeds (RMB million)	Amount of actual use of net proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)	Amount of actual use of net proceeds as of the date of the Supplemental UoP Announcement (March 14, 2022) (RMB million)	Amount of net proceeds unutilized as of the date of the Supplemental UoP Announcement (March 14, 2022) (RMB million)
(A) Investments in upstream and downstream companies	471.30	0	471.30	471.30	0
(B) Working capital and other general corporate purposes	562.71	562.71	0	562.71	0
TOTAL	1,034.01	562.71	471.30	1,034.01	0

(iii) Use of Proceeds from the January 2021 Placing

The net proceeds (the "January 2021 Placing Proceeds") received by the Company from the placing of an aggregate of 18,042,500 new H Shares taken place in January 2021 (the "January 2021 Placing") were approximately HK$1,427 million after deducting the expenses of the placing. For the year ended December 31, 2021, the Company has used RMB86.64 million for the following purposes:

Use of proceeds	Amount of intended use of net proceeds (RMB million)	Amount of actual use of net proceeds as of December 31, 2021 (RMB million)	Amount of unutilized proceeds as of December 31, 2021 (RMB million)	Amount of actual use of net proceeds as of the date of the Supplemental UoP Announcement (March 14, 2022) (RMB million)	Amount of net proceeds unutilized as of the date of the Supplemental UoP Announcement (March 14, 2022) (RMB million)
(A) development and research of the Company's product candidates, including Venus PowerX Valve, Venus Vitae Valve, an aortic valve repair device at pre-clinical stage (Leaflex), transcatheter mitral valve replacement (TMVR), transcatheter tricuspid valve replacement (TTVR) and other products and technologies ("Development and Research")	714.6	50.98	663.62	50.98	663.62
(B) development of and investment in other new technologies ("Investments")	238.2	35.66	202.54	49.60	188.60
(C) working capital and general corporate purposes ("General Working Capital")	238.2	–	238.20	103.61	134.59
Total	1,191.00	86.64	1,104.36	204.19	986.81

As disclosed in the Supplemental UoP Announcement, having considered the reasons as stated in the paragraphs under "Reasons for Change in Use of Proceeds" in the Supplemental UoP Announcement, and to capture acquisition opportunities which may complement the Group's coverage in the field of medical devices for heart valve replacement and repair, the Group intends to expand the scope of the unutilized January 2021 Placing Proceeds allocated to Development and Research to the following: accelerating the development and research of the Company's product candidates including Venus PowerXValve, Venus Vitae Valve, an aortic valve repair device at pre-clinical stage (Leaflex), transcatheter mitral valve replacement (TMVR), transcatheter tricuspid valve replacement (TTVR) and other products and technologies, and expansion of the Company's product candidates through investments, acquisition or other collaboration arrangements ("Expanded Development and Research"). Set out below is the proposed change of the use of the unutilized January 2021 Placing Proceeds:

Original use of net proceeds	**Changed use of net proceeds**	**Allocation of unutilized net proceeds (same as the amount of unutilized net proceeds as at the date of the Supplemental UoP Announcement (March 14, 2022)** *(RMB million)*
(i) Development and Research – i.e. accelerating the development and research of the Company's product candidates, including Venus PowerX Valve, Venus Vitae Valve, an aortic valve repair device at pre-clinical stage (Leaflex), transcatheter mitral valve replacement (TMVR), transcatheter tricuspid valve replacement (TTVR) and other products and technologies	(i) Expanded Development and Research – i.e. accelerating the development and research of the Company's product candidates including Venus PowerX Valve, Venus Vitae Valve, an aortic valve repair device at pre-clinical stage (Leaflex), transcatheter mitral valve replacement (TMVR), transcatheter tricuspid valve replacement (TTVR) and other products and technologies**, and expansion of the Company's product candidates through investments, acquisition or other collaboration arrangements**	663.62
(ii) Investments	Same as original	188.60
(iii) General Working Capital	Same as original	134.59
Total		986.81

The Company expects that the unutilized proceeds for Expanded Development and Research to be used by December 31, 2023 and the unutilized proceeds for Investments and General Working Capital to be used by December 31, 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2021, the Company had repurchased a total of 3,114,000 H Shares of the Company on the Stock Exchange at an aggregate cash consideration of HK$88,687,960.3 (excluding expenses). As of the date of this report, all the H Shares repurchased by the Company during the year ended December 31, 2021 had not been cancelled by the Company. The financial position of the Company is solid and healthy. The Board believes the share repurchases and subsequent cancellation of the repurchased H Shares can enhance the value of the Shares, thereby improving the return to shareholders of the Company. In addition, the share repurchases reflect the confidence of the Company in its business development and the long-term prospects of the industry. The Board believes that the share repurchases are in the interests of the Company and its shareholders as a whole.

Details of shares repurchased during the year ended December 31, 2021 are set out as follows:

Date of repurchases	Number of H Shares repurchased on the Stock Exchange	Price paid per H Share		Aggregate consideration paid	Proportion
		Highest	Lowest		
December 8, 2021	1,000,000	29	28.96	28,988,186.6	32.7%
December 17, 2021	500,000	29.23	28	14,198,498.7	16.0%
December 20, 2021	1,614,000	29	26.76	45,501,275.0	51.3%
Total	3,114,000	29.23	26.76	88,687,960.3	100%

Save for the aforesaid repurchases of H Shares, there was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries during the year ended December 31, 2021.

H SHARE FULL CIRCULATION

On June 15, 2020, the Company submitted an application (the "Application") to CSRC in respect of the conversion of certain of its domestic shares and unlisted foreign shares into H shares of the Company.

On June 19, 2020, the Company obtained from the CSRC an official acceptance letter in respect of the Application, pursuant to which, the application materials were complete and the CSRC had accepted and will process the Application.

On August 14, 2020, the Company received a formal approval from the CSRC of the Application, under which the Company is allowed to convert an aggregate of 221,752,871 unlisted domestic shares into overseas-listed shares that are eligible to be listed and traded on the Main Board of the Stock Exchange, and the listing of such shares on the Stock Exchange. The formal approval shall be valid for 12 months from August 11, 2020.

On November 16, 2020, the approval for the listing of and the permission to deal in 221,752,871 H shares, representing the maximum number of unlisted domestic shares to be converted under the conversion and listing of 221,752,871 unlisted domestic shares, was granted by the Stock Exchange.

On November 27, 2020, the conversion of 212,450,085 unlisted and unpledged domestic shares into the H shares was completed and the listing of such portion of converted H shares on the Stock Exchange commenced on November 30, 2020. It is expected that the conversion and listing of 9,302,786 unlisted and pledged domestic shares will be completed no later than August 11, 2021.

On July 20, 2021, after release of the pledge of the 9,302,786 unlisted and pledged domestic shares (the "Relevant Unlisted Domestic Shares") and with the authorisation and on behalf of the holders of the Relevant Unlisted Domestic Shares, the Company completed the cancellation registration procedure for the Relevant Unlisted Domestic Shares held by such shareholder in China Securities Depository and Clearing Corporation Limited ("China Clearing"), Beijing Branch and the name of the shareholder holding the Relevant Unlisted Domestic Shares has been removed from the register of members of Unlisted Domestic Shares maintained by China Clearing. The conversion of the Relevant Unlisted Domestic Shares into H Shares (the "Converted H Shares") was completed on July 20, 2021 and the listing of such portion of the Converted H Shares on the Stock Exchange has commenced on July 20, 2021.

For details in relation to the H share full circulation programme of the Company, please refer to the Company's announcements dated June 15, 2020, June 22, 2020, August 14, 2020, November 23, 2020, November 27, 2020 and July 20, 2021.

CONVERTIBLE BONDS

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

BANK LOANS AND OTHER BORROWINGS

Bank loans and other borrowings of the Group as of December 31, 2021 are set out in "Notes to Financial Statements – 26. Interest-bearing Bank Borrowings" of this report.

EQUITY-LINKED AGREEMENTS

Saved as disclosed in this report, there was no equity-linked agreement entered into by the Company during the year ended December 31, 2021.

PERMITTED INDEMNITY

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) in relation to the director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

The Company has maintained appropriate liability insurance policies for its Directors, Supervisors and senior management during the year ended December 31, 2021.

MANAGEMENT CONTRACTS

Save for employment contracts with employees, the Company did not enter into any contracts nor had any existing contracts in respect of all or any significant part of management and administration of business of the Company for the year ended December 31, 2021 and up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association and there is no restriction against such rights which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION INFORMATION FOR HOLDERS OF H SHARES

The holders of H Shares of the Company shall pay relevant tax and/or exemption in accordance with the following provisions:

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得税法》) and its implementation rules, dividends paid to individuals by the PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For an individual who has no domicile in the PRC and is not resident in the territory of the PRC or who has no domicile in the PRC and has been resident in the territory of the PRC for less than 183 days cumulatively within a tax year, his/her receipt of dividends from a PRC company is normally subject to a PRC withholding tax of 20% unless specifically exempted or reduced by an applicable tax treaty and other tax laws and regulations.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Holders of H Shares who are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall withhold the enterprise income tax at a flat rate of 10%. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the CSRC, for dividends derived by Mainland individual investors from investing in H Shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For mainland securities investment funds investing in shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends. For dividends derived by mainland resident enterprises where the relevant H shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2021, the respective percentages of the total sales attributable to the Group's largest customer and five largest customers in aggregate were 9.9% and 34.8%.

None of the Directors or any of their close associates or any Shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in our five largest customers.

During the year ended December 31, 2021, the percentage of purchases attributable to the Group's five largest suppliers did not exceed 30%.

Relationships with Major Customers and Suppliers

Customers

We have been devoted to providing excellent customer service with the purpose of maintaining long term cooperation, enhancing product quality, increasing sales volume and improving profitability. We have also established relationships with many KOLs in the medical community.

We sell a significant portion of our products to distributors, and our five largest customers in the Reporting Period were distributors.

Since our heart valve products are implanted within patients, as part of our customer service, hospitals conduct follow-up as designed for the procedure to observe the performance of our products based on the patients' physical conditions. We also provide channels for complaints regarding our products, including complaints on the quality of our products and adverse events after implantation. We also have a quality control department dedicated to tracking and recording severe adverse events and handling customer complaints and queries with online tracking system. We also investigates and analyzes the cause of issue raised by our customers and refers the quality issue to our management and relevant responsible departments for resolution and correction. We will recall our products for quality issues when necessary. During the Reporting Period and up to the date of this report, there had not been any product recalls due to quality issues.

Given that transcatheter heart valve replacement devices involve relatively new technology, we provide technical support to hospitals and physicians through our sales and marketing personnel. Our marketing and technical support personnel study patients' angiographs together with physicians and help determine whether interventional procedures are suitable for the patients and whether they need to be specifically made to order. Our marketing and technical support personnel sometimes observe transcatheter heart valve replacement procedures using our products and provide information during such procedures to help physicians understand our products. They also follow up with physicians after the procedures to collect data on the performance of our products.

Suppliers

During the Reporting Period, our purchases mainly include raw materials, machines and equipment and services from third parties such as contract research organizations, animal labs and ticket agents.

For the production of our heart valve products and product candidates, we primarily use a limited number of suppliers for our principal raw materials, although there are alternate suppliers available for most of such materials.

We generally enter into supply agreements with our principal raw material suppliers. Our agreements with the suppliers specifically list the requirements of the materials to be supplied. We will decide whether to accept the supply upon inspecting and examining the materials. For the supply of certain raw materials, to help ensure the supplier's compliance with our standard requirements, the suppliers are also required to present initial samples for our inspection and approval before starting serial production and conduct a yearly requalification test upon our request.

Our principal suppliers for raw materials usually provide us a credit term of up to 30 days.

MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group did not have any material litigation or arbitration.

MATERIAL CONTRACTS AND EXECUTION

During the Reporting Period, the Group did not have any material custody, contractual or lease arrangements, nor were there such arrangements carried forward to the Reporting Period from the previous period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had adopted and applied the principles and code provisions as set out in the Corporate Governance Code. During the year ended December 31, 2021, the Company has strictly complied with the code provisions in the Corporate Governance Code. For details, please refer to "Corporate Governance Report" of this report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report and based on the information available to the Company and to the knowledge of the Directors, the Company's public float complies with the requirements of Rule 8.08 of the Listing Rules.

AUDITORS

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by Ernst & Young, certified public accountants. There were no change in the auditors of the Company in the preceding three years.

A resolution for the appointment of Ernst & Young as the auditors of the Company for the 2022 financial statements will be proposed at the forthcoming AGM.

By order of the Board
Mr. Min Frank Zeng
Chairman of the Board

Hangzhou, the People's Republic of China, March 31, 2022

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

The Board presents this corporate governance report in the Group's annual report for the year ended December 31, 2021.

During the year ended December 31, 2021, the Company has strictly complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

II. SHAREHOLDERS AND GENERAL MEETINGS

(i) Rights of Shareholders' General Meetings and Shareholders

The Shareholders' general meeting is the organ of the highest authority of our Company and exercises the duties and powers in accordance with the laws, the Articles of Association and the rules of procedures of the Shareholders' general meeting of our Company.

In order to protect the rights of Shareholders, our Company will convene the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can exercise their rights fully. Separate resolutions will be proposed at general meetings on each substantial issue. Each resolution submitted to the Shareholders' general meeting will be voted pursuant to the Listing Rules, and the voting result will be published on the websites of the Stock Exchange and the Company after the meeting.

During the year ended December 31, 2021, our Company held one general meeting on May 21, 2021. All the proposed Shareholders' resolutions put to the above general meeting were resolved by poll vote and were duly passed. The vote tally of each such resolution was set out in the Company's announcements released on the day of the general meeting.

(ii) Attendance of the Directors at the Shareholders' General Meetings

The attendance records of each Director at the Shareholders' general meeting of the Company during the year ended December 31, 2021 are set out below:

Name of Director	Attendance/ Number of General Meeting
Mr. Min Frank Zeng	1/1
Mr. Zhenjun Zi	1/1
Mr. Lim Hou-Sen (Lin Haosheng)	1/1
Ms. Nisa Bernice Wing-Yu Leung	1/1
Mr. Ting Yuk Anthony Wu	0/1
Mr. Wan Yee Joseph Lau	0/1
Mr. Chi Wai Suen	1/1

III. BOARD OF DIRECTORS AND PERFORMANCE OF DUTIES

(i) Chairman and Chief Executive

Code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman of the Board is Mr. Min Frank Zeng. The Company does not maintain the office of chief executive officer. Instead, the general manager, Mr. Zhenjun Zi, is responsible for the day-to-day management of the Company. The division of responsibilities between the Chairman of the Board and the general manager has been clearly established.

(ii) Duties of the Board of Directors and the Management

The Board exercises the powers and duties set out in the Articles of Association, and shall be accountable to the Shareholders' general meeting. The duties of the Board include, but are not limited to, being responsible for convening the Shareholders' general meetings and reporting its work thereto; implementing resolutions adopted at the Shareholders' general meetings; making decisions on the operation plans and investment plans of the Company; formulating profit distribution plans and loss compensation plans of our Company; making decision on the internal management structure and mechanisms of the Company; appointing or dismissing the general manager; appointing or dismissing the deputy general manager, chief financial officer and other personnel who should be appointed or dismissed by the Board according to the nominations made by the general manager, and making decisions on their remuneration matters; formulating the basic management system of our Company; and other powers conferred by the relevant laws, regulations, securities regulatory rules, the Articles of Association or the Shareholders' general meeting.

The management of our Company is responsible for daily management, administration and operation of the Group. It oversees the production, operation and management of our Company, organising and implementing the resolutions of the Board and other duties specified in the Articles of Association. The Board shall discuss the authorization function and duty periodically. The management of our Company shall obtain approval from the Board before entering into any significant transaction.

(iii) Composition of the Board of Directors

Our Company strictly complies with the requirements under the Articles of Association and relevant rules in respect of the appointment of the Directors. Board meetings are convened in accordance with the Articles of Association and the rules of procedures of the Board of our Company.

As at the end of the Reporting Period, the Board of our Company comprises seven Directors, including three executive Directors (Mr. Min Frank Zeng, Mr. Zhenjun Zi and Mr. Lim Hou-Sen (Lin Haosheng)), one non-executive Director (Ms. Nisa Bernice Wing-Yu Leung) and three independent non-executive Directors (Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau and Mr. Chi Wai Suen). None of the Directors, Supervisors and senior management existed the relationships (including financial, business, family or other material/relevant relationships) with other Directors, Supervisors and members of the senior management of our Company. The Board complied with the requirements of appointing at least three independent non-executive Directors (among whom at least one independent non-executive Director holds the appropriate professional qualifications or accounting or relevant financial management professional knowledge) as set out in Rules 3.10(1) and 3.10(2) of the Listing Rules at any time during the year ended December 31, 2021. The Company also complied with the requirements of appointing independent non-executive Directors, accounting for one-third of the members of the Board, as set out in Rule 3.10A of the Listing Rules.

Directors are elected by the Shareholders' general meeting to serve a term of three years and are eligible for consecutive appointment if re-elected, where the term of re-election shall not exceed six years for independent non-executive Directors. Our Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Our Company considers that each independent non-executive Director is independent as specified in the Listing Rules. Independent non-executive Directors are able to exercise independent and objective judgments and protect the interests of minority Shareholders.

The Directors (including the independent non-executive Directors) provide the Board with varied and valuable experience in business and professional knowledge, so that the Board can fulfil its function efficiently and effectively. In particular, the independent non-executive Directors are members of the Audit Committee, the Remuneration and Assessment Committee and the Nomination Committee.

The Directors (including the independent non-executive Directors) have entered into service contracts with the Company for a term of three years and all of the Directors may offer themselves for re-election and re-appointment subject to the approval of the Shareholders. Their service contracts may be renewed in accordance with the Articles of Association and applicable regulations.

The biographies of all Directors are set out in "Directors, Supervisors and Senior Management" of this report.

(iv) Meetings of the Board of Directors and Attendance of Directors

The code provisions of the Corporate Governance Code prescribe that at least four regular Board meetings should be held each year. A notice of no less than 14 days shall be sent to all Directors before a regular meeting is convened so that they can have an opportunity to attend the meeting and include any relevant matters for discussion in the agenda. In addition, the Board meetings should be held at approximately quarterly intervals and have active participation of the majority of directors, either in person or through electronic means of communication.

The Board held 6 meetings during the year ended December 31, 2021 for reviewing and approving the annual results for the year ended December 31, 2020, unaudited interim results for the six months ended June 30, 2021, issue and placing of H Shares under general mandate and review of corporate governance policy of the Company and duties performed by the Board under paragraph D.3.1 of the Corporate Governance Code.

The chairman of the Board held one meeting with the independent non-executive Directors during the year ended December 31, 2021 without the presence of other Directors.

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

Name of Director	Attendance/ Number of Board Meetings
Mr. Min Frank Zeng	6/6
Mr. Zhenjun Zi	6/6
Mr. Lim Hou-Sen (Lin Haosheng)	6/6
Ms. Nisa Bernice Wing-Yu Leung	6/6
Mr. Ting Yuk Anthony Wu	6/6
Mr. Wan Yee Joseph Lau	5/5
Mr. Chi Wai Suen	6/6

(v) Training for Directors

The Directors are continually provided with information on the developments and changes in the Listing Rules, other relevant laws and regulatory requirements and the business and market environments to facilitate the performance of their responsibilities. Briefings and professional development trainings for the Directors are also arranged periodically by the Company and its professional advisors.

According to the records provided by the Directors, a summary of training received by the Directors for the year ended December 31, 2021 is as follows:

Name of Director	Training*
Mr. Min Frank Zeng	✓
Mr. Zhenjun Zi	✓
Mr. Lim Hou-Sen (Lin Haosheng)	✓
Ms. Nisa Bernice Wing-Yu Leung	✓
Mr. Ting Yuk Anthony Wu	✓
Mr. Wan Yee Joseph Lau	✓
Mr. Chi Wai Suen	✓

* During the Reporting Period, our Company arranged trainings for the Directors related to updates and changes in regulatory requirements, business and market environment in a variety of ways from time to time. The trainings include disclosure of corporate governance practices by the issuers.

IV. BOARD COMMITTEES AND PERFORMANCE OF DUTIES

Our Board delegates certain responsibilities to various committees. In accordance with the relevant PRC laws and regulations and the Corporate Governance Code, the Company has established three Board Committees, namely, the Audit Committee, the Remuneration and Assessment Committee and the Nomination Committee. As at the end of the Reporting Period, the composition of each Board Committee is listed as follows:

Name of Committees	Members of Committee
Audit Committee	Mr. Chi Wai Suen (Chairman) *(Note 1)*, Mr. Ting Yuk Anthony Wu and Mr. Wan Yee Joseph Lau
Remuneration and Assessment Committee	Mr. Ting Yuk Anthony Wu (Chairman), Mr. Wan Yee Joseph Lau and Mr. Chi Wai Suen
Nomination Committee	Mr. Wan Yee Joseph Lau (Chairman), Mr. Ting Yuk Anthony Wu and Mr. Chi Wai Suen

Note 1: Mr. Chi Wai Suen holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

(i) Audit Committee

1. Functions of the Committee

Our Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The primary duties of the Audit Committee include, but are not limited to, the followings: (i) proposing the appointment or change of external auditors to the Board, and monitoring the independence of external auditors and evaluating their performance; (ii) examining the financial information of our Company and reviewing financial reports and statements of our Company; (iii) examining the financial reporting system, the risk management and internal control system of our Company, overseeing their rationality, efficiency and implementation and making recommendations to the Board; and (iv) dealing with other matters that are authorized by the Board.

2. Work Summaries and Meetings of the Committee

During the Reporting Period, the Audit Committee held two meetings and its main work involved the following:

- reviewing the annual results and financial report for the year ended December 31, 2020;
- reviewing the unaudited interim results and financial report for the six months ended June 30, 2021;
- reviewing the financial reporting and the compliance procedures;
- reviewing the policies and practices on corporate governance;
- reviewing the compliance with the Corporate Governance Code and the disclosure requirement in the corporate governance report as contained in Appendix 14 to the Listing Rules;
- reviewing the code of conduct and the compliance manuals for employees and the Directors, the financial, operational and compliance monitoring;
- reviewing the risk management and internal control systems;
- reviewing the internal audit work of the risk management and internal audit department; and
- reviewing the work of the external auditor.

The Audit Committee met with the external auditor of the Company in the absence of the management of the Company once in relation to the provision of audit service to the Company for the year ended December 31, 2021.

3. Attendance of Members of the Committee

During the Reporting Period, the attendance records of the Audit Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Chi Wai Suen	2/2
Mr. Ting Yuk Anthony Wu	2/2
Mr. Wan Yee Joseph Lau	2/2

The Company's annual results for the year ended December 31, 2021 have been reviewed by the Audit Committee on March 31, 2022. The Audit Committee considers that the annual financial results for the year ended December 31, 2021 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

(ii) Remuneration and Assessment Committee

1. Functions of the Committee

Our Company has established a Remuneration and Assessment Committee with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code. The primary duties of the Remuneration and Assessment Committee include, but are not limited to, the followings: (i) advising the Board on the overall remuneration plan and structure of Directors, Supervisors and senior management and the establishment of transparent formal procedures for determining the remuneration policy of our Company; (ii) examining the criteria of performance evaluation of Directors, Supervisors and the senior management of our Company, conducting performance evaluation and making recommendations to the Board; (iii) making recommendations on the remuneration of Directors, Supervisors and the senior management staff in accordance with the terms of reference and the importance of their positions, the time they spend on such positions as well as the remuneration benchmarks for the relevant positions in other comparable companies; and (iv) dealing with other matters that are authorized by the Board, and if necessary, engaging external experts to provide relevant independent services.

2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Remuneration and Assessment Committee held one meeting during the year ended 31 December 2021 to review the remuneration policy and structure of the Company, and consider and make recommendation to the Board on the remuneration packages of the Directors, Supervisors and the senior management of the Company.

3. *Attendance of Members of the Committee*

During the Reporting Period, the attendance records of the Remuneration and Assessment Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Ting Yuk Anthony Wu	1/1
Mr. Wan Yee Joseph Lau	1/1
Mr. Chi Wai Suen	1/1

Details of the Directors' and Supervisors' remuneration are set out in "Notes to Financial Statements – 8. Directors', Supervisors' and Chief Executive's Remuneration" of this report. In addition, the remuneration payable to the senior management of the Company (who are not the Directors) by band for the year ended December 31, 2021 are set out in the section headed "Corporate Governance Report – V. Remuneration of Senior Management" of this report.

(iii) Nomination Committee

1. Functions of the Committee

Our Company has established a Nomination Committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary duties of the Nomination Committee include, but are not limited to, the followings: (i) conducting extensive search and providing to the Board suitable candidates for Directors, general managers and other members of the senior management; (ii) overseeing the implementation of a Board diversity policy; taking into account various factors when determining the composition of our Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure; (iii) examining the size and composition of the Board and its members in respect of their skills, knowledge, experience and diversity at least once every year, and making recommendations to the Board on any change in Board composition in accordance with our Company's strategies; (iv) researching and developing the standards and procedures for the election of the Board members, general managers and members of the senior management, and making recommendations to the Board; and (v) dealing with other matters that are authorized by the Board.

With respect to the nomination of new directors and re-election of directors, our Company follows a considered and transparent nomination policy. Details of which are set out in the sub-section "Other Relevant Matters – (XI) Nomination Policy" below.

2. Work Summaries and Meetings of the Committee

During the Reporting Period, the Nomination Committee held two meetings during the year ended December 31, 2021 to review the structure, size, composition and diversity (including skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board and make recommendations to the Board relating to the re-election of Directors to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company; to review the training and continuous professional development of the Directors and senior management; and to assess the independence of the independent non-executive Directors.

3. *Attendance of Members of the Committee*

During the Reporting Period, the attendance records of the Nomination Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Wan Yee Joseph Lau	2/2
Mr. Ting Yuk Anthony Wu	2/2
Mr. Chi Wai Suen	2/2

V. REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the senior management of the Company (who are not the Directors) by band during the Reporting Period is shown in the following table:

	Number of senior management Year ended December 31,	
Band of remuneration (in RMB)	2021	2020
1,000,000 – 2,000,000	1	1
2,000,000 – 3,000,000	1	–
3,000,000 – 4,000,000	1	–
4,000,000 – 5,000,000	–	1

VI. CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

Pursuant to Article 82 of the Articles of Association, when Shareholders request to convene an extraordinary general meeting or class meeting of Shareholders, the following procedures shall be followed:

(1) Shareholders who, individually or jointly, hold more than 10% of the Shares with voting rights at the intended meeting to be held, may sign one or more copies of the written request with the same format and contents for submission to the Board to convene an extraordinary general meeting or class meeting of Shareholders, and explain the topics for consideration at the meeting. The Board should provide a written reply on whether consent is granted or not to convene an extraordinary general meeting or class meeting of Shareholders within ten days after it has received the aforesaid written request. The aforesaid number of shares held shall be calculated on the date when the shareholders submit the written request.

(2) If the Board consents to convene an extraordinary general meeting or class meeting of Shareholders, a notice of meeting shall be issued within five days after the Board resolution is passed. If the original request is altered in the notice, consent from the relevant Shareholders should be obtained.

(3) If the Board objects to convening an extraordinary general meeting or class meeting of Shareholders, or fails to give a reply within ten days after receipt of the request, the shareholders who, individually or jointly, hold more than 10% of the Shares of the Company are entitled to make a proposal in writing to the Supervisory Committee for convening a meeting.

(4) If the Supervisory Committee has agreed to convene an extraordinary general meeting or a class meeting of Shareholders, it should issue a notice of meeting within five days after receipt of the request. Any alteration to the original proposal in the notice shall obtain consent from the relevant Shareholders. If the Supervisory Committee fails to issue a notice to convene a meeting within 30 days after receipt of the aforesaid written request, the Supervisory Committee is deemed not to convene and preside over the general meeting, the Shareholders who, individually or jointly, hold more than 10% of the Shares of the Company for more than 90 consecutive days, may convene a meeting by themselves within 4 months after the Board has received the request, and the procedures for convening the meeting shall follow the same procedures as convening a general meeting by the Board as far as possible.

When Shareholders convene a meeting by themselves due to the failure of the Board to convene a meeting, all reasonable expenses incurred shall be borne by the Company and shall be deducted from the amount payable by the Company to the defaulting Directors.

(i) Putting Forward Enquiries to the Board

For putting forward enquiries to the Board, Shareholders may send written enquiries to inquiry@venusmedtech.com by email.

(ii) Putting Forward Proposals at General Meetings

When the Company convenes a general meeting, the Board, the Supervisory Committee and the Shareholders who, individually or jointly, hold more than 3% of the total number of Shares of the Company with voting rights, shall have the right to submit new proposals in writing to the Company ten days prior to the date of general meeting. Proposals which are within the scope of powers and responsibilities of the general meeting shall be included in the agenda of the meeting by the Company. The convener shall issue a supplemental notice of general meeting within two days upon receipt of the proposals to announce the details of the proposals.

VII. OTHER RELEVANT MATTERS

(i) Compliance with the Model Code

The Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms no less exacting than the required standard set out in the Model Code. The Company has made specific enquiries to all Directors and Supervisors concerning their compliance with the Model Code. All Directors and Supervisors confirmed that they had strictly observed all standards set out in the Company's code of conduct regarding Directors' and Supervisors' securities transactions during the Reporting Period.

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the code of conduct regarding Directors' and Supervisors' securities transactions of the Company. No incident of non-compliance of the code of conduct regarding Directors' and Supervisors' securities transactions by the employees was noted by the Company during the year ended December 31, 2021.

(ii) Responsibilities of Directors for the Consolidated Financial Statements

The following responsibility statement of Directors regarding the consolidated financial statements shall be read in conjunction with the responsibility statement of the independent auditor included in the independent auditor's report. Each responsibility statement regarding the consolidated financial statements shall be interpreted separately.

All Directors acknowledge and confirm their responsibilities of preparing the consolidated financial statements which truly reflect the business and operating results of the Group for the year ended December 31, 2021, including the results and cash flows of the Group.

Management has provided the necessary explanation and information for the Board to evaluate the consolidated financial statements of the Company, which are submitted for approval of the Board with full knowledge.

To the best knowledge of all Directors, there are no events or situations which may cause any material adverse impact on the ongoing operations of our Group.

(iii) Appointment and Remuneration of Auditing

The Company appointed Ernst & Young as the auditor of the consolidated financial statements of the Group prepared under International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance for the year ended December 31, 2021. There has been no change in the auditor appointed during the Reporting Period.

The statement of the Company's external auditor related to the auditor's responsibilities for the audit of the consolidated financial statements is set out in Independent Auditor's Report of this report.

During the year ended December 31, 2021, the remuneration paid/payable to the external auditor of the Company for the provision of audit services for the year ended December 31, 2021 amounted to RMB5.1 million (including auditing fees incurred by each subsidiary).

During the year ended December 31, 2021, the remuneration paid/payable to the external auditor of the Company in respect of non-audit services for the year ended December 31, 2021 amounted to RMB0.5 million. The nature of such non-audit services is to provide advisory services.

(iv) Review by Audit Committee

The Audit Committee has reviewed the 2021 consolidated financial statements of the Group for the year ended December 31, 2021.

(v) Joint Company Secretaries

Mr. Haiyue Ma ("Mr. Ma"), our chief financial officer and one of our joint company secretaries, is responsible for raising corporate governance-related suggestions to the Board, and ensuring compliance with policies and procedures of the Board, applicable laws, rules and regulations.

To ensure a high standard of corporate governance, we have also appointed Mr. Wong Wai Chiu[1], a member of the Hong Kong Institute of Certified Public Accountants, to act as the other joint company secretary and to provide assistance to Mr. Ma. During the Reporting Period, Mr. Wong worked closely with Mr. Ma, the main contact person of Mr. Wong in the Company, to jointly discharge the duties and responsibilities as company secretary and assist Mr. Ma in acquiring the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules since his appointment date on January 18, 2021. Mr. Ma is also assisted by (a) the compliance advisor of our Company for the first full financial year from the Listing Date, particularly in relation to Hong Kong corporate governance practices and compliance issues; and (b) the Hong Kong legal advisor of our Company, on matters concerning our Company's ongoing compliance with the Listing Rules and the applicable laws and regulations.

Both Mr. Ma and Mr. Wong have confirmed that they had received no less than 15 hours of relevant professional training during the year ended December 31, 2021.

(vi) Communication with Shareholders

Our Company believes that effective communication with Shareholders is very significant to the investor relations enhancement and to enhance investors' understanding of the Company's business, performance and strategies. We also believe that it is important for the information of the Company to be disclosed to Shareholders and investors in a timely manner and without preservation.

[1] Mr. Wong Wai Chiu has been appointed as the joint company secretary and an authorized representative with effect from January 18, 2021. For details, please refer to the announcement of the Company dated January 18, 2021.

The Shareholders' general meeting provides opportunities of constructive communications between our Company and our Shareholders. Shareholders are encouraged to attend the Shareholders' general meetings in person, or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend in person. Our Company highly values the opinions, suggestions and concerns of the Shareholders and proactively carries out investor relation activities to keep in contact with the Shareholders and meet their reasonable demands in a timely manner.

The Company's website and enquiry email are available for Shareholders and investors to be updated on the latest information about the business operation and development, corporate governance practices and other latest information of the Company. Our Company also publishes announcements, circulars, notices of the Shareholders' general meeting, financial data and other information of our Company required to be disclosed under the Listing Rules from time to time on our Company's website. Shareholders are also encouraged to make enquiries by phone or email or write directly to the office address of our Company, which will be dealt with appropriately in a timely manner. Please refer to "Corporate Information" of this report for the contact details.

Shareholders' active participation at Shareholders' general meetings are encouraged. Our Directors, Supervisors and senior management will attend the Shareholders' general meetings, and shall also ensure that the external auditors will attend, to answer questions raised by the Shareholders.

Based on our review of the initiatives taken by the Company, we are of the view that the implementation of the Shareholders' communication policy is satisfactory and effective during the Reporting Period.

(vii) Board Diversity Policy

Our Company is committed to a merit based system for Board composition, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated. In order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance, we have adopted a Board diversity policy.

Under this policy, we seek to achieve Board diversity through the consideration of a number of factors when reviewing the composition of the Board in the director nomination and re-nomination processes, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. As part of the nomination and re-nomination processes, the Nomination Committee will assess the attributes, competencies, characteristics and backgrounds of the Board's current directors in light of the needs of the Board, including the extent to which the current composition of the Board and the number of women directors, which is consistent with the Board diversity policy. The ultimate decision of the appointment will be based on the merit of, and the contribution the selected candidates will bring to our Board. Any headhunting firm engaged to assist the Board or the Nomination Committee in identifying candidates for appointment to the Board shall be directed to consider the desire of our Company to have its Board reflect a wide range of attributes, competencies, characteristics and backgrounds as contemplated by the Board diversity policy.

The Board has not established a specific target number or date by which to achieve a specific number of women on the Board, as it will consider a multitude of factors in determining the best nominee at the relevant time, including the Company's objectives and challenges at the time. The Board currently consists of one female Director and six male Directors with a balanced mix of knowledge and skills, including but not limited to overall management and strategic development, finance, accounting and risk management, which has satisfied with the requirement of gender diversity by Hong Kong Stock Exchange.

The Nomination Committee annually reviews and monitors the implementation of the Board diversity policy to ensure its effectiveness. At present, the Nomination Committee considers that the Board members are fully diversified. The Nomination Committee will continue to monitor the implementation of the Board diversity policy and will regularly review the Board diversity policy to ensure its continued effectiveness.

(viii) Amendments to the Articles of Association

During the Reporting Period, the Articles of Association was amended once.

Given that (1) the Company was approved for full circulation of its shares by the CSRC in August 2020 and was therefore allowed to convert an aggregate of 221,752,871 domestic unlisted shares into H Shares and list the same on The Stock Exchange of Hong Kong Limited, and 212,450,085 unlisted and unpledged domestic shares were converted into H Shares in November 2020; (2) the Company completed the placing of 18,500,000 new H Shares under general mandate in September 2020; and (3) the Company completed the placing of 18,042,500 H Shares under general mandate in January 2021, the share capital of the Company changed accordingly and its registered capital increased from RMB404,468,943 to RMB441,011,443 as a result thereof. In this regard, the Company has amended the corresponding provisions of the Articles of Association under the mandate approved at the Shareholders' general meeting held on May 21, 2021. Such amendments took effect on the same day.

(ix) Risk Management and Internal Control

1. Risk Management

Details of the risk management of the Company are set out in "Management Discussion and Analysis – IV. Risk Management" of this report.

2. Establishment of the Internal Control System

The Board has established the internal control system, and monitored and reviewed on an annual basis in compliance with Paragraph C.2 of the Corporate Governance Code. Such system is designed to manage rather to eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

3. *Main Features of the Internal Control System and Process Used to Review the Effectiveness of the Internal Control System and Rectify Defects*

Below is a summary of the internal control policies, measures and procedures our Company has implemented:

- Our Company has adopted various measures and procedures regarding every aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. Our Company provides periodic training on these measures and procedures to our employees as part of our employee training program. Our Company also regularly monitors the implementation of those measures and procedures through our on-site internal control team for every stage of the produce development process.

- Our Directors, who are responsible for monitoring the corporate governance of our Group, with assistance from our legal advisors, periodically reviews our compliance status with all relevant laws and regulations after the Listing.

- Our Company has established the Audit Committee which (i) makes recommendations to our Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and renders advice in respect of financial reporting as well as oversees the risk management and internal control procedures of our Group.

- We have engaged Red Solar Capital Limited as our compliance advisor to provide advice to our Directors and management team until the end of the first fiscal year after the Listing Date regarding matters relating to the Listing Rules.

- We have engaged a PRC law firm to advise us on and keep us abreast of PRC laws and regulations. We continually arrange various training provided by external legal advisors from time to time when necessary and/or any appropriate accredited institution to update our Directors, Supervisors and senior management and relevant employees on the latest applicable laws and regulations.

- We maintain strict anti-corruption policies among our sales personnel and distributors in our sales and marketing activities. We also monitor to ensure that our sales and marketing personnel comply with applicable promotion and advertising requirements, which include restrictions on promoting our products for unapproved uses or patient populations, also known as off-label use, and limitations on industry-sponsored scientific and educational activities.

- The Company has an internal audit function, which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. During the year ended December 31, 2021, the Company did not identify any material issues.

4. Procedures for Processing and Releasing Inside Information

With approval from the Board and pursuant to the requirements of domestic and foreign laws and regulations, Listing Rules and Articles of Association as well as the practical conditions of our Company, our Company has formulated a policy on information disclosure management to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this system, our Company must, as soon as any inside information comes to its knowledge or a false market may be established, disclose the information to the public to the reasonable and practicable extent.

During the year ended December 31, 2021, our Company has truthfully, accurately, legally and timely disclosed information in strict compliance with the requirements of domestic and foreign laws and regulations, the Listing Rules, the Articles of Association and the policy on information disclosure management of our Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information fairly, timely and effectively.

5. Appraisal of Internal Control

The Board acknowledges that, during the Reporting Period, the Board and the management of our Company are jointly responsible for the establishment, the effective implementation and improvement of a sound internal control system. The objectives of internal control of our Company are: guaranteeing the legality of operations of our Company and the execution of internal regulatory system, protecting against operational risk and moral risk, securing the safety and completeness of the assets of the clients and our Company, ensuring the reliability, completeness and timeliness of the business records, financial information and other information of our Company and improving the operational efficiency and effectiveness of our Company.

As internal control has inherent restrictions, we can only reasonably guarantee that the above objectives may be achieved. Furthermore, the effectiveness of internal control may also change according to our Company's internal and external environment and operating conditions. Our Company has set up an inspection and supervision mechanism through which our Company can take measures to rectify deficiencies in the internal control once identified.

The Board conducts annual review on the risks management and internal control system of the Company. During the year ended December 31, 2021, the Group was not aware of any material defect in internal control of the Group. The Board is of the view that the Group has established an effective internal control system, which achieves our objectives of internal control and is free of material defect and acknowledged that the risk management and internal control systems are effective and adequate.

(x) Dividend Policy

Under our dividend policy, the Board is required to consider, among other things, the following factors when proposing dividends and determining the amount of dividends to be recommended to the Shareholders:

- the Company's actual and projected financial performance;
- the Company's working capital requirements, capital expenditure requirements and future business expansion plan;
- our present and future cash flow;
- other internal and external factors that may have an impact on our business operations or financial performance and position; and

- other factors that the Board deems relevant.

The PRC laws require that dividends be paid only out of our Company's distributable profits. Distributable profits are our Company's after-tax profits, less any recovery of accumulated losses and appropriations to statutory and other reserves that our Company is required to make. As a result, our Company may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if we become profitable.

Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents, including (where required) the approval of our Shareholders. According to our Articles of Association, we will distribute dividends in the form of cash or Shares out of our distributable profits only after we have made the following allocations from our distributable profits:

- offsetting losses in prior years, if any;

- allocating to the statutory reserve fund equivalent to 10% of our profit after payment of all tariff item, and, when the statutory reserve fund reaches more than 50% of our registered capital, no further allocations to this statutory reserve fund will be required; and

- allocating to the discretionary reserve fund according to the resolutions of the Shareholders' general meeting.

Any distributable profits not distributed in a given year are retained and available for distribution in subsequent years. Our Company's dividend distribution may also be restricted if our Company incurs debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that our Company or our subsidiaries may enter into in the future.

(xi) Nomination Policy

Our Company has established a considered and transparent nomination policy with respect to the standards and procedures for the nomination of new Directors and re-election of Directors. The Nomination Committee shall be responsible for nominating suitable candidates to the Board for consideration and making recommendations to the Shareholders regarding the election and re-election of Directors in accordance with the nomination policy.

In order to identify suitable candidates for the Board, the Nomination Committee considers the requirements under the Listing Rules, the Articles of Association and the relevant laws and regulations. Furthermore, in assessing the suitability of a proposed candidate, the Nomination Committee makes reference to factors, including but not limited to integrity, education, professional qualifications and past work experience, including part-time work experience, possession of necessary skills and experience; commitment in respect of available time and energy; diversity of the Board in areas, including but not limited to gender, age, cultural and educational background, race, professional experience, skill, knowledge and term of service; and the independent criteria as required under the Listing Rules for candidates for independent non-executive Directors.

The Nomination Committee shall convene a committee meeting, and invite members of the Board to nominate candidates (if any) for the Nomination Committee to consider before the meeting. The Nomination Committee may also nominate candidates that have not been proposed by members of the Board. The Nomination Committee shall then conduct due diligence in respect of each of the nominated candidates and make recommendations to the Board for its consideration. Recommendation from the Nomination Committee is still required with respect to the re-appointment of current members of the Board. The Board retains final discretion as to all matters relating to the nomination of candidates and the re-appointment of directors at the Shareholders' general meeting.

Unless otherwise provided by the laws and regulations or stipulated by any regulatory authority, there will be no disclosure to the public or acceptance of any public inquiry in relation to any nomination or any candidate, prior to the issuance of the Shareholders' circular. The Nomination Committee, the joint company secretaries or other employees of our Company authorised by the Nomination Committee may respond to the queries of the regulatory authorities or members of the public after the Shareholders' circular has been issued, but shall not disclose any confidential information relating to the nomination(s) or the candidate(s).

For the procedures for Shareholders' nomination of candidates to the Board, please see our Company's website for details.

Environmental, Social and Governance Report

This is the fourth Environmental, Social and Governance Report (ESG report) released by the Company and its subsidiaries (collectively referred to as "Venus Medtech", "the Group" or "We" in the ESG report). It is used to disclose the Group's strategy, practices, measures and performances in ESG in 2021 to stakeholders such as governments, shareholders, employees and clients.

In accordance with requirements in the *ESG Reporting Guide* set out in Appendix 27 to the Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited (HKEX), this report covers the main businesses of Venus Medtech in China as the Group primarily conducts production and sales activities in China. There is no material change in the scope of disclosure compared to the 2020 ESG report. The key performance indicators (KPIs) in environment aspect mainly cover the headquarters of the Group in Hangzhou, including office buildings, factories, Research and Development (R&D) Centre. The key performance indicators related to employees in the social category only cover the Group's employees in China, while the key performance indicators in other social categories mainly cover the Company and all its subsidiaries in China. The report covers the period from January 1, 2021 to December 31, 2021.

This report has been prepared in accordance with the reporting principles of the *ESG Reporting Guide*, which include:

- **Materiality**: The Group identifies key ESG issues through stakeholder engagement and materiality assessment, which are then disclosed accordingly in this report.

- **Quantification**: This report presents the environmental and social KPIs in quantitative terms, with narratives provided to explain the purpose and impacts and to provide comparative data.

- **Balance**: The content of this Report reflects objective facts related to the Group's ESG management, following the principle of balance.

- **Consistency**: The statistical method of disclosure in this report is consistent with the 2020 ESG report to ensure comparability of information.

Statement of the Board of Directors

The Group has established an ESG governance structure where the Board of Directors (the Board) assumes full responsibility for ESG strategies and reporting. To assess ESG risks, we conducted the materiality assessment to identify ESG issues and form targeted measures. Please refer to "ESG Governance" section for details.

Under the supervision of the Board, the Group has successfully achieved its 2021 environmental objectives and set new ones for 2022. Looking ahead, the Group will further adhere to the strategy of sustainable development, provide patients with reliable, accessible, and affordable products and services while actively fulfilling its environmental and social responsibilities, in a manner to achieve ESG goals of the next phase.

ESG GOVERNANCE

In continuously improving the sustainable development management system, Venus Medtech integrates ESG-related factors into its daily business decision-making process, including providing a safe and reliable medical products and services for society, protecting the legitimate rights of employees, creating a comfortable working environment and improving its own environmental performance. We have set up a three-level ESG governance structure comprising the Board, senior management, and ESG working group. Their respective ESG governance functions are defined to achieve top-down supervision of ESG-related issues and ensure the smooth operation of the ESG work of the Group.

The Board assumes full responsibility for formulating ESG management policies, reviewing ESG-related issues, and ensuring that the Group has in place appropriate and effective ESG risk management and internal control systems. Meanwhile, the Board regularly reviews the performance of the Group in relation to ESG objectives and approves the disclosures in the ESG report.

The Group's management is responsible for executing ESG risk management and internal control systems, reporting ESG risks and opportunities to the Board, and ensuring the effective operation of relevant ESG systems.

The ESG working group of Venus Medtech is composed of the key departments of the Group, with direct engagement of the department heads. It reports ESG-related risks of the Group, implements ESG management policies approved by the upper-level departments or persons, and designates specific persons to carry out ESG management and reporting.

Stakeholder Engagement

To understand the importance our stakeholders attach to the ESG issues and their suggestions, we maintain contact with governments and regulators, shareholders and investors, employees, customers, suppliers, communities and other stakeholders, through which we keep abreast of and respond to their demands and expectations, and further determine our sustainable development direction.

Stakeholders	Expectations and concerns	Communication channels	Communication frequency
Governments and regulators	Compliance with laws and regulations Paying taxes Product compliance Lead the healthy development of the industry Epidemic prevention and control	Compliance management Voluntary taxation Complying with national policies Continuous R&D innovation Risk analysis reports Reporting adverse events timely Participating government projects actively	Multiple times per year
Shareholders and investors	Return on investment Corporate governance Information disclosure Regular epidemic prevention and control	Announcements and circulars Financial reports Shareholders' meetings Roadshow Investor meetings	Multiple times per year

Stakeholders	Expectations and concerns	Communication channels	Communication frequency
Employees	Protection of employees' rights Career development channel Healthy and safe working environment Regular epidemic prevention and control	Employee satisfaction survey Regular meetings and trainings Employee care Intranet website and suggestion box	Multiple times per month
Customers	Protection of customers' rights and interests Product quality and safety Responsible marketing R&D innovation Improve product competitiveness	Daily communication and meetings Training courses Seminars R&D cooperation Service hotline and mailbox	Multiple times per month
Suppliers	Fair and open procurement Win-win cooperation	Daily communication and meetings Business visits Audit and performance evaluation	Multiple times per month
Communities	Community engagement Environmental awareness	The Group's official website Public welfare activities	Multiple times per year

Materiality Assessment

The Group regularly reviews and assesses its relevant ESG priorities, reviews such priorities' impacts on the Group and stakeholders, and updates ESG issues and their priority ranking.

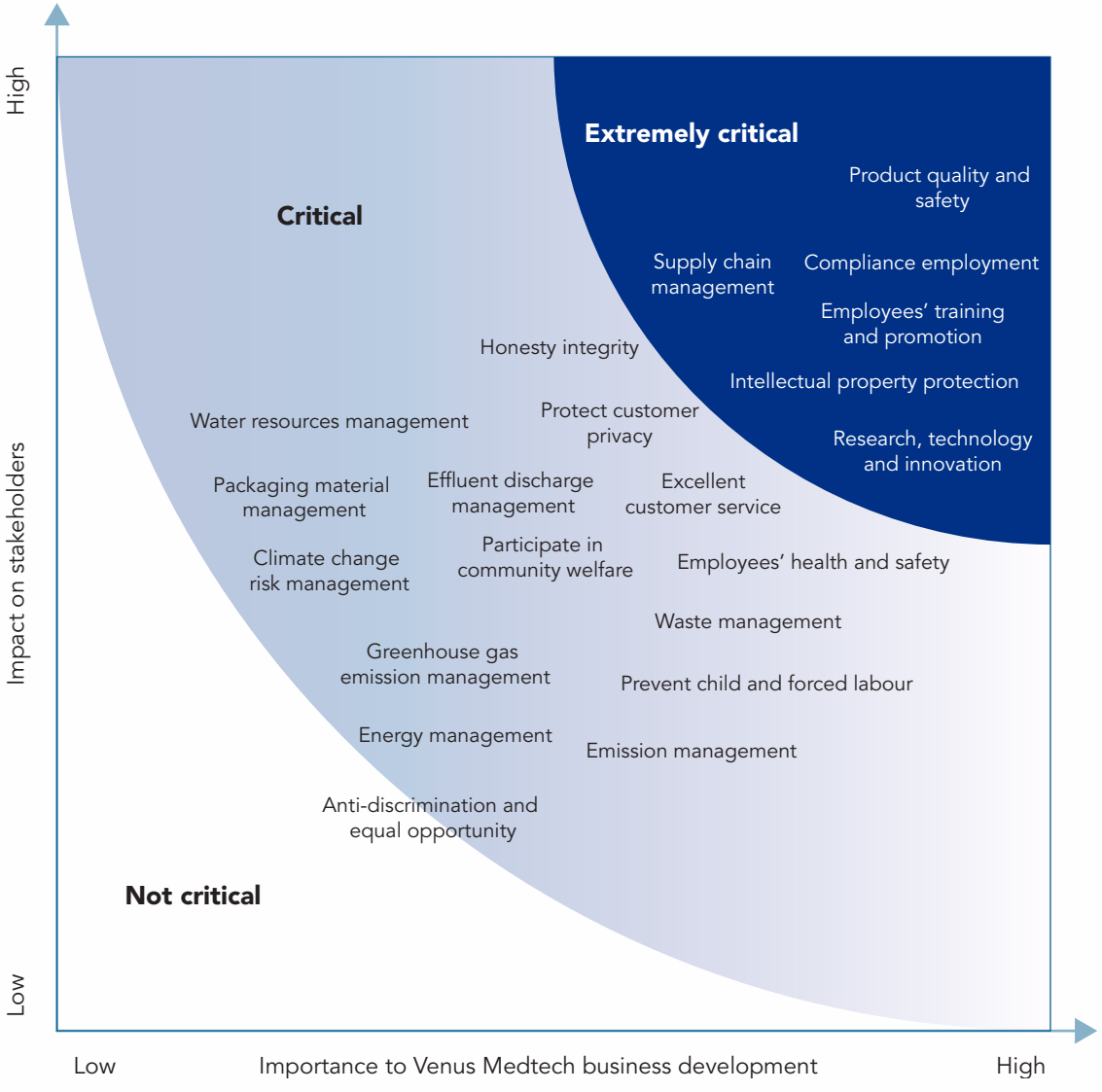
Step 1: Identifying ESG issues: According to the requirements of the *ESG Reporting Guide* and the status of the Group and the industry, we identified 21 ESG issues and classified them as social, economic, and environmental issues.

Social issues	Economic issues	Environmental issues
• Employees' training and promotion • Employees' health and safety • Compliance employment • Anti-discrimination and equal opportunity • Prevent child and forced labour • Participate in community welfare	• Supply chain management • Product quality and safety • Research, technology and innovation • Intellectual property protection • Excellent customer service • Protect customer privacy • Honesty and integrity	• Emission management • Greenhouse gas emission management • Effluent discharge management • Waste management • Energy management • Water resources management • Packaging material management • Climate change risk management

Step 2: Assessing the materiality: We invited internal stakeholders to assess the "importance to Venus Medtech business development" and "impact on stakeholders" of each issue through questionnaires and generated a materiality assessment matrix.

Step 3: Verifying the assessment results: The senior management of the Group and the ESG working group reviewed and confirmed the assessment results.

In 2021, the Group conducted a review on the ESG issues and their materiality assessment. We continued to use the previous materiality assessment results given that our business and related operating environment have not changed significantly compared to the previous fiscal year. The ESG materiality matrix is detailed below:

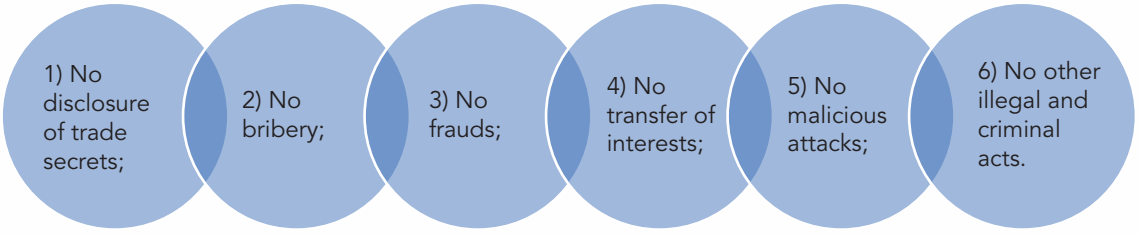


Materiality Assessment Matrix

Integrity Construction

The Group adopts and strictly follows a "zero tolerance" policy for any actions related to corruption, bribery, and anti-money laundering during its operation. We strictly follow the *Criminal Law of the People's Republic of China*《中華人民共和國刑法》, *Interim Provisions on Banning Commercial Bribery*《關於禁止商業賄賂行為的暫行規定》, *Anti-Money Laundering Law of the People's Republic of China*《中華人民共和國反洗錢法》, and other laws and regulations. In order to effectively prevent corruption and create a clean and upright working environment, we have formulated the *Anti-Corruption and Anti-Commercial Bribery Policy*《反腐敗反商業賄賂制度》and the *Anti-Money Laundering Management Regulations*《反洗錢管理規定》, focusing on the supervision and management of links that are prone to frequent corruption, such as business entertaining, business conferences, funding, sponsorship and donation.

In 2021, we defined the following six red lines of compliance:



Venus Medtech's Six Red Lines of Compliance

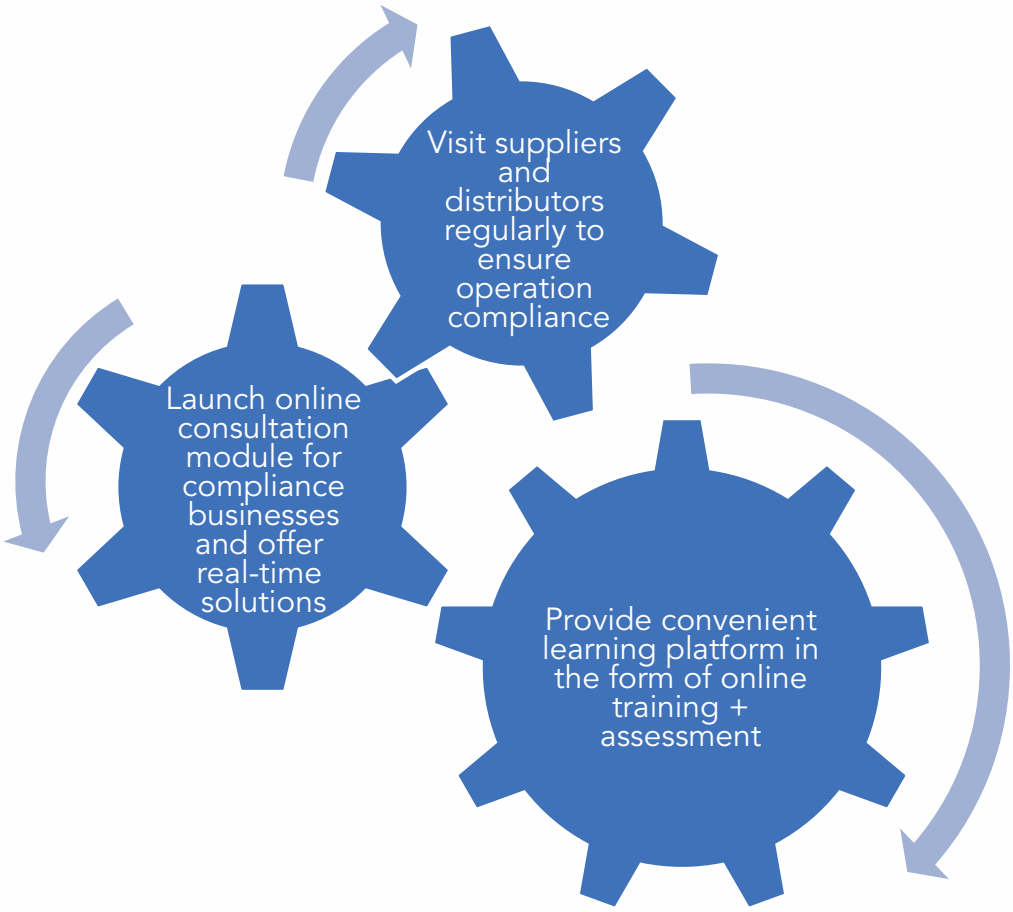
With support from a team experienced in public security and economic crimes investigation, the Security Affairs Department was established to investigate and prevent corruption, abuse of power, misconduct and other fraudulent behaviours, and investigate and handle such violations independently and impartially. The Business Departments of the Group are responsible to identify and record high-value transactions that are clearly inconsistent with its operations and report them to the Security Affairs Department for investigation and submit investigation results to the Board Audit Committee. The Group encouraging external personnel of the Group to report any misconduct discovered. If a report is verified to be true, the responsible person will face disciplinary actions depending on the severity of the circumstances, such as notification of criticism, recording of demerit and dismissal, and they will also be required to pay economic compensation as appropriate. If the case constitutes a crime, they will be transferred to judicial authorities and be prosecuted according to the law.

- Reporting email: hegui@venusmedtech.com

- Reporting hotline: 400 0902500

Employees of the Group are required to sign the *Employee Anti-Corruption Policy Certification* 《員工反腐敗政策認證》to regulate their behaviour and thereby developing an honest and fair working environment; distributors, agents and their sub-distributors are required to sign the *Confirmation Letter of Compliance Commitment for Distributors*《經銷商合規承諾確認函》to ensure compliance with the Group's *Distributor/Agent Anti-Corruption Compliance Policy*《經銷商/代理商反腐敗合規政策》in writing. All employees, managers or directors of the distributors are prohibited from obtaining business advantage through improper conduct.

Making full use of online consultation, training systems, and other resources, the Group embeds compliance requirements and concepts into daily operations and suppliers management, to ensure that compliance requirements are well implemented and further improve the legal and compliance system.



We introduced compliance courses into orientation training and on-the-job training to further enhance employees' compliance awareness. In September 2021, we provided cyber risk compliance training to all employees and assessed their performance through the online training system. From 30 November 2021 to 14 December 2021, all directors, supervisors and senior management of the Group received trainings on Hong Kong's anti-corruption laws and regulations, directors' general responsibilities as well as the latest developments in ESG, and studied 2021 proposed amendments to corporate governance issued by HKEX.

In 2021, the Group was not involved in any violation incidents related to corruption, bribery, extortion, fraud or money laundering.

QUALITY FIRST

As a R&D-driven medical devices company that first launched the transcatheter aortic heart valve replacement (TAVR) products in China, Venus Medtech has always been striving to integrate social responsibility into every aspect of its business operations, providing patients with reliable, accessible, and affordable products and services. Our minimally invasive interventional treatment is a catheter-based technique to implant valves in patients with heart valve diseases. For those who are not suitable for thoracotomy, this is greatly helpful in effectively reducing surgical risks.

Mission	To become a global leader that develops, supplies, and commercialises transcatheter solutions for structural heart diseases
Quality policy	Quality first, meet the requirements of applicable regulations, rely on the quality management awareness of all employees to continuously improve the quality system, provide customers with safe and excellent products and services in an effective manner

Quality Management System

We strictly abide by the laws and regulations of China, the United States, and EU, including the *Product Quality Law of the People's Republic of China*《中華人民共和國產品質量法》, *Measures for the Supervision and Administration of Medical Device Production*《醫療器械生產監督管理辦法》, and *Good Manufacturing Practices for Medical Devices*《醫療器械生產質量管理規範》, etc. Meanwhile, we have established a comprehensive quality management system based on the ISO 13485 Medical Device-Quality Management System, which passes independent third-party system certification, and is in compliance with the regulations of good manufacture practices (GMP) for medical products of China, the United States, and EU. The Chief Executive Officer (CEO) of the Group is ultimately responsible for the operation of the quality management system. Meanwhile, the senior management of different departments of the Group should fully cooperate with the director of the Quality Management Department to oversee the operation of the quality management system, so as to ensure that the system can be operated in an effective way.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Certificate of Registration

QUALITY MANAGEMENT SYSTEM - ISO 13485:2016 & EN ISO 13485:2016

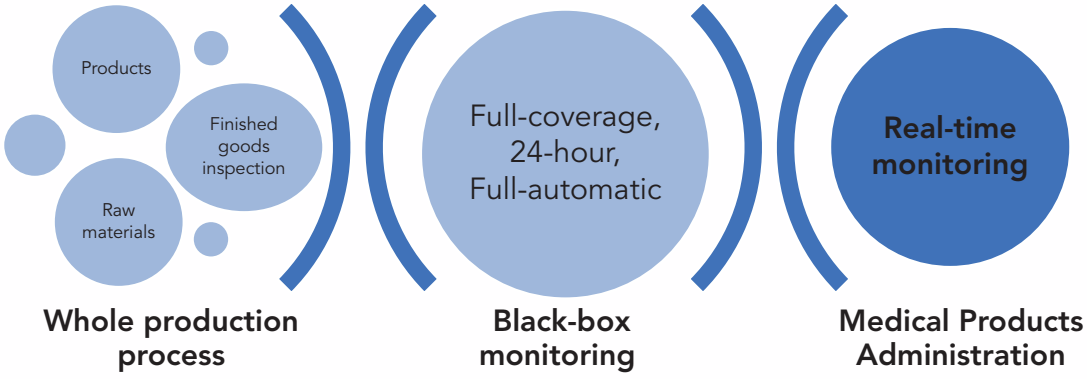
Quality Assurance (QA)

We set goals for the Group quality control every year and have established a complete set of system documents, including quality manuals, procedural documents, management policies, technical documents to ensure that the concept of quality control is carried out well in the entire life cycle of products. Our QA team mainly focus on the establishment, implementation, and maintenance of the quality management system, while conducting real-time monitor over our operations throughout the development and production processes to ensure that our operations comply with applicable regulatory and industry requirements.

To ensure the appropriateness, adequacy, and effectiveness of the quality system, we have organised a team of certified internal auditors. They conduct at least one independent internal audit on each department within the system every year and carry out management review on the quality management system twice a year. In addition, we invite second-party and third-party external review departments to conduct a review on each department and submit self-inspection reports and review and rectification results to relevant regulatory authorities.

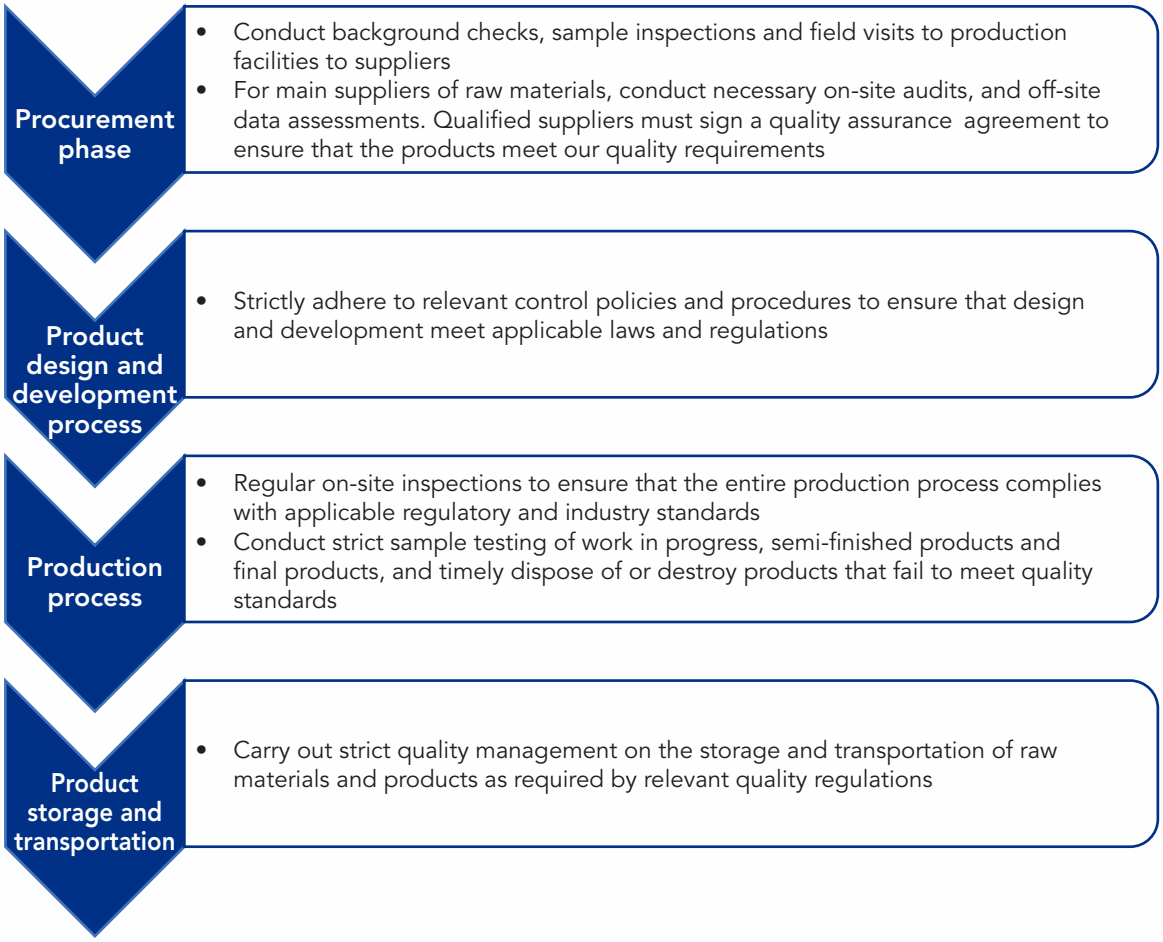
We regularly identify and monitor relevant laws and regulations, and general specifications for continuous improvement on existing quality system, in order to ensure that the Group meet the requirements of international and national laws and regulations as well as industry standards in terms of raw materials, personnel, facilities and equipment, production process, packaging and transportation, and sales. We also provide trainings to the quality team to improve employees' theoretical and practical capabilities. This year, our trainings included EU Medical Device Regulations (MDR) training, internal auditor training by China National Accreditation Service for Conformity Assessment (CNAS), campaign on medical device registration and medical device registration, ISO 13485 Standard training, etc.

We implemented the enterprise resource planning (ERP) system to achieve the entire process management of procurement, production, quality, warehouse, sales, and other processes. Meanwhile, we have independently developed a smart medical module, monitoring the whole process from product delivery to post-implantation use. On top of that, in August 2021, we filed our "Black-box" project of medical product safety smart regulation with Zhejiang Medical Products Administration. With full-coverage, 24-hour, and full-automatic monitoring on products, raw materials, finished goods inspection, and other information, the Group aims to assist regulators in achieving off-site smart regulation to better secure product quality and safety.



Quality Control (QC)

Our dedicated QC team carries out incoming inspection, process inspection, finished product inspection and other inspection tests entrusted by other departments according to the *Product and Process Monitoring and Measurement Control Procedure*《產品和過程的監視與測量控制程序》to ensure that products meet relevant quality requirements.



In 2021, we set up a sample testing centre that operated in accordance with the *Accreditation Criteria for the Competence of Testing and Calibration Laboratories*《檢測和校准實驗室能力認可准則》*(CNAS-CL01: 2018)* and relevant laws and regulations. The centre is equipped with technical capabilities to provide testing and calibration services as per relevant international and national accreditation criteria. In the future, we will make continuous improvement on our management system and organise regular management reviews, so as to ensure that the testing is conducted in a fair, scientific, authoritative and confidential manner and is able to better meet customers' needs.

Supply Chain Management

Venus Medtech strives to build harmonious partnerships and create a lasting business ecology, reaching a win-win cooperation. Our suppliers mainly include suppliers of raw materials, machinery, and third-party service providers (such as contract research organizations, animal laboratories, and market agents). We stipulate the evaluation, selection and monitoring activities of suppliers through guidance documents, such as the *Procedure of Procurement Control*《采購控制程序》, *Control Procedures of Supplier Management*《供應商管理控制程序》and *Regulations of Suppliers Audit Management*《供應商審核管理規定》. We divide our suppliers into Category A/B/C/D for management based on the product categories they provide.

The Group 's supplier management is divided into new supplier development and existing supplier management:

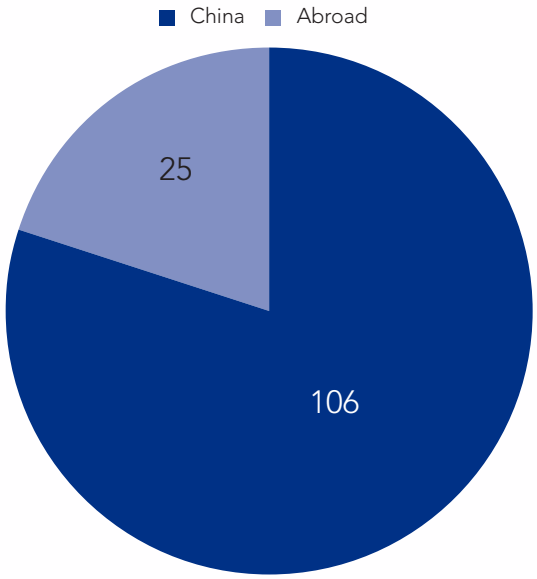
- For new suppliers, we review their qualifications, sample quality, delivery time, price, and quality system through document review, sample review, on-site review, and other methods. Suppliers reviewed as qualified will be included in the *List of Qualified Suppliers*《合格供方目錄》. For suppliers of animal-derived raw materials, we will review their relevant qualification certificates, animal quarantine certificates, quarantine standards they have implemented and other materials, and carry out extended investigation on, if necessary, breeding conditions, fodders, storage and transportation, and control on potentially infective viruses and infectious pathogens. For procurement of supplies with high cleanliness grade, suppliers are required to provide testing reports on their clean rooms.

- For existing suppliers, we monitor their product quality, services and other performance and make regular evaluation, including annual routine evaluation and quality system evaluation, to continuously track the quality of products and services. Suppliers rated as excellent will be considered as priority partners. For suppliers with poor scores, we will issue a rectification notice, requiring them to rectify within a time limit, and review again. Suppliers that fail to pass the rectification will be removed from the list.

With the globalization of Venus Medtech, the environmental and social risks of the supply chain have become a very important issue for the Group. We continue to implement the Group's environmental/occupational health and safety policy for suppliers, and according to the *Relevant Environmental and Health and Safety Impact Control Program*《相關方環境及健康安全影響控制程序》to manage the status and ability of production material suppliers, engineering contractors, and transportation contractors in environmental protection/occupational health and safety. We verify the ISO 14001 environmental management system and ISO 45001 occupational health and safety management system certification, pollution emissions, environmental accidents, industrial casualties, and other situations of production materials suppliers. We encourage suppliers to use environmentally friendly products and services and try to recycle packaging materials. The screw suppliers of the Group have recycled disposable plastic boxes of packaged screws according to requirements and replaced paper transport boxes with more durable plastic rotary boxes, saving about 4400 disposable plastic boxes and 28 shipping cartons annually.

As of 31 December 2021, we had 131 suppliers, 106 of which were from China. During the reporting period, we have conducted annual reviews of suppliers, of which 2 suppliers were dismissed because they did not meet our evaluation requirements.

Number of suppliers by geographical region



Protecting Customers' Rights and Interests

The Group abides by laws and regulations with special agreement on advertising of medical devices, such as the *Advertising Law of the People's Republic of China*《中華人民共和國廣告法》, the *Regulation on the Supervision and Administration of Medical Devices*《醫療器械監督管理條例》, and strictly controls the marketing information published on the website, packaging, and brochures, ensuring the legality and compliance of the publicity information and avoiding exaggerated publicity and the output of advertising materials cheating and misleading customers.

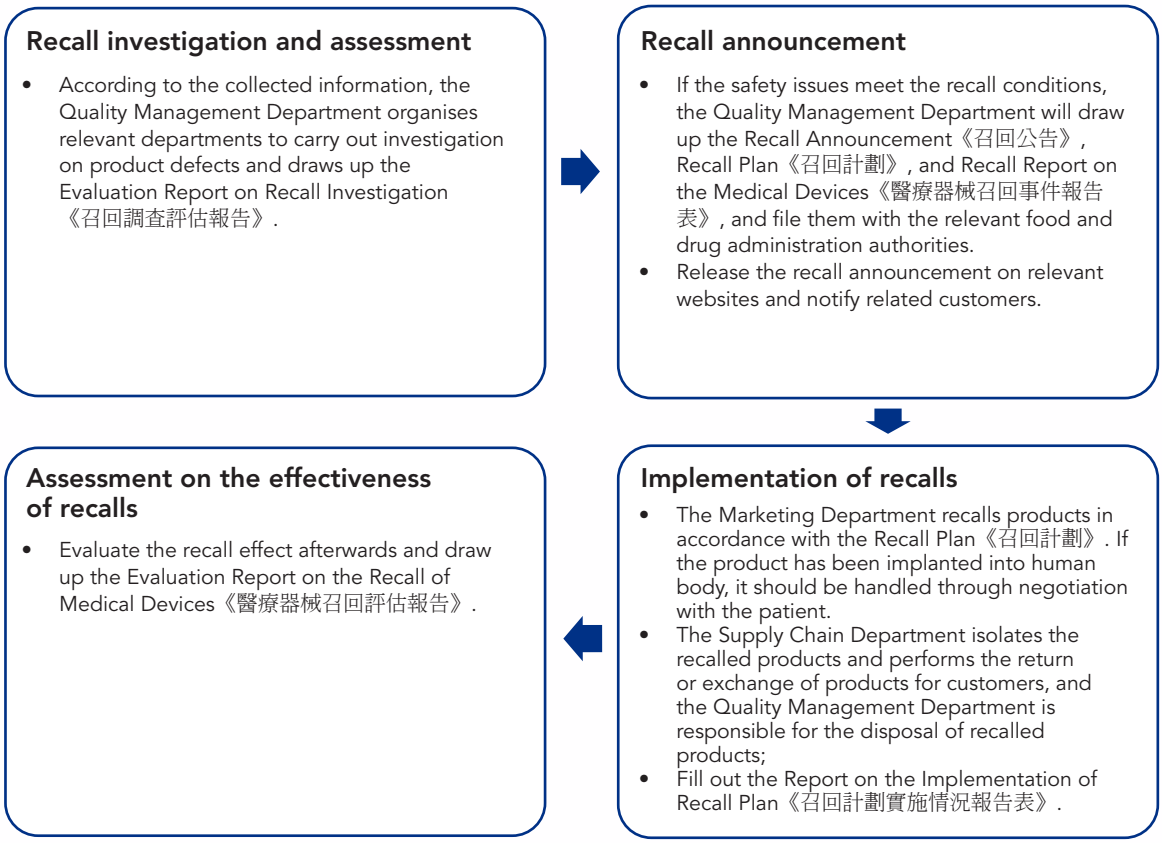
For the medical devices placed in the European Market, we formulate the Regulations for *European Conformity (CE) Marking Management*《CE標記管理規定》and other related policies for medical devices placed on the EU market to ensure that product labels, instructions and embedded cards are in compliance with relevant requirements of the EU MDR and better convey information about product safety and performance to users. Meanwhile, we have established a unique code for each product to realize the unique identification of medical devices (UDI), general query and identification during the whole product chain, and strengthen the product management during its full life cycle.

In strict compliance with laws and regulations such as *the Law of the People's Republic of China on the Protection of Consumer Rights and Interests*《中國人民共和國消費者權益法》and the *Product Quality Law of the People's Republic of China*《中華人民共和國產品質量法》, we listen to customers' opinions with an open mind to improve the quality of our products and services. Any employee who receives external feedback from users, patients, economic operators, regulators, etc., shall report to the Quality Management Department. The Quality Management Department will record, judge, and organize relevant departments to conduct investigation on complaints. We classify complaints into those that regarding medical issue, device quality, business, and others. Then, we make judgment according to the *Feedback Control Procedures*《反饋控制程序》, *Complaint Handling and Control Procedures*《投訴處理控制程序》and relevant procedure documents for product corresponding market, and finally taking corrective actions according to relevant measures, keeping tracking the follow-up activities, and offering feedback to ensure that customer complaints are resolved in a satisfactory manner.

Complaint channels:

- Complaint hotline: 0571-87772180
- Complaint email: pms@venusmdtech.com

When the complaint affects the delivered products, it needs to be processed through inspection, repair, destruction, etc., the recall procedure will be initiated. According to the severity of medical devices on health security risks, we divide the recall level of medical devices into three levels and implement corresponding response measures. We keep tracking the follow-up activities and offering feedback to ensure that customer complaints are resolved in a satisfactory manner.



During the reporting period, we have received 17 complaints and 5 adverse events related to our products and services, all of which were resolved 100%. There was no need to recall products for safety and health reasons.

Intellectual Property and Privacy Protection

We have formulated the General Provisions of *Intellectual Property Management*《知識產權管理總則》according to relevant laws and regulations, including the *Patent Law of the People's Republic of China*《中華人民共和國專利法》, the *Copyright Law of the People's Republic of China*《中華人民共和國著作權法》, the *Trademark Law of the People's Republic of China*《中華人民共和國商標法》and the *Anti-Unfair Competition Law of the People's Republic of China*《中華人民共和國反不正當競爭法》, to strengthen the fine management of the Group's intellectual property and safeguard the legal rights and interests of the Group's intangible assets. The Intellectual Property Department of the Group is responsible for the intellectual property management work including coordinating the intellectual property management within the Group, reviewing and filing intellectual property applications of the Business Department, and dealing with the external application and litigation of intellectual property.

In order to encourage employees to participate in technological innovation, we formulated the *Venus Innovation Incentive Policy*《啟明「五小」創新獎勵制度》for evaluating and giving rewards for employees' proposals of "inventions", "innovations", and "renovations". Meanwhile, we formulated annual training and publicity plans to strengthen employees' awareness of intellectual property protection. In 2021, third-party professional institutions were invited to provide new employees with patent engineer training, covering patent attorney examination training, patent creativity training, etc. In addition, we purchased professional online training courses from third-party professional institutions to assist our employees to enrich business knowledge, and we especially launched intellectual property training courses and online business knowledge examinations for R&D core team.

Patent engineer training

As a leading medical device company in China, Venus Medtech is well aware of the importance of information security and privacy protection. Among them, trade secrets are significant intangible assets and core competitiveness of an enterprise.

According to the Regulations of *the People's Republic of China on Protecting the Safety of Computer Information Systems*《中華人民共和國計算機信息系統安全保護條例》,*Personal Information Protection Law of the People's Republic of China full translation*《中華人民共和國個人信息保護法》, *Cyber Security Law of the People's Republic of China*《中華人民共和國網絡安全法》, and relevant laws and regulations, the Group has formulated the *Management Policy of Changes in Information System*《信息系統變更管理制度》, *Management Policy of Information System Accounts*《信息系統賬號管理制度》, *Management Procedures for Important Information Backup*《重要信息備份管理程序》and *Contingency Plans for Information System Security*《信息系統安全應急預案》to effectively strengthen the protection of network operation security and information security. The Group established ISO 27001 information security management system, which has been certified by a third party.

In practical operation, we have cooperated with third-party professional institutions to ensure that customer data is protected and desensitized to prevent the disclosure of sensitive information. Meanwhile, we conduct information security campaigns through emails, promotional videos, and other ways to raise employees' awareness of information security. In order to regulate communication channels and prevent disclosure of confidential information, we installed encryption software in our offices. We also contact confidential suppliers, enable our encryption system and record confidentiality training videos for such suppliers as training materials for their employees.

In 2021, assisted by professional information security third-party organization, we managed to detect cybersecurity risks, timely rectify risks areas, and make public of employees who had breached information security regulations. We also organized several special training sessions on trade secrets protection, to further strengthen the Group's trade secret protection, and improve the confidentiality awareness and cyber risk prevention capabilities of all employees. Experts from Economic Crime Investigation Department and Criminal Investigation Department of Nanshan Branch of Shenzhen Public Security Bureau were invited to share insights on the concept of trade secrets, risks, common disclosure channels, and confidentiality measures, etc.

Trade secret protection legal education special training

ISO 27001 information security management system training

Contribution to Industry Development

The innovation and development of an industry cannot be separated from the joint efforts from scientific research institutes, regulators, and enterprises. While developing itself, Venus Medtech actively participates in the compilation of relevant international and domestic regulations and standards for medical device industry. For example, the compilation of the *Cardiovascular Implants-Cardiac Valve Prostheses Part I: General Requirements* (ISO5840-1:2015)《心血管植入物人工心髒瓣膜第一部分:通用要求》. Meanwhile, Venus Medtech cooperates with regulators to carry out industry-related activities for the exchange of experience about quality management, and shares its practices of excellent quality management, to promote the development of medical industry.

The Group has become a "Training Base" for medical device inspectors in Hangzhou. The base provides public medical device inspectors with trainings on the design and development control, quality control, product realisation control, and risk management of three types of high-risk products, to improve the experience and ability of medical device inspectors in Hangzhou.

On 16 July 2021, invited by China Association for Medical Devices Industry and National Medical Products Administration, the Group attended "The Third Medical Device Manufacturing Quality Management Standards Seminar" in Beijing. Venus Medtech was honoured to be one of the eight outstanding enterprises selected nationwide to share experiences at this conference, delivering a speech themed "Quality Control of Innovative Devices in the Whole Life Cycle".

PEOPLE FIRST

Strictly abiding by employment-related laws and regulations, Venus Medtech strives to create a healthy and harmonious working environment, stick to labour standards and fully respect the rights and interests of each employee. In addition, we continuously improved the reward and punishment mechanism, providing employees with various incentives, benefits, and promotion channels. We give our employees the hope of future development with our professional talent plan, to give full play to the value and potential of each employee.

Employment Management

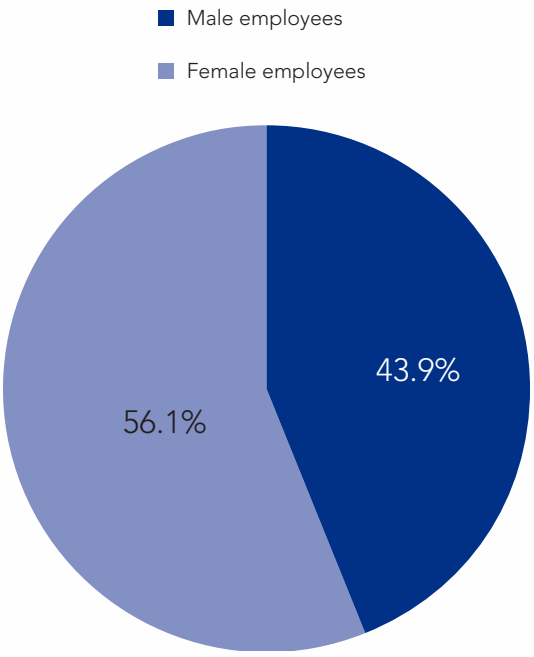
We carry out the recruitment following the principle of "open recruitment and merit-based recruitment; appointing people by abilities and objective assessment; giving priority to internal candidates over external ones under the same conditions". We choose effective recruitment channels out of internal recruitment, online recruitment, offline recruitment, head-hunting, and others that fit different positions and levels. To ensure the candidates meet the Group's job requirements, we conduct interviews, written tests, background checks, and other assessments. Approved new recruits are required to provide the original and copy of ID cards, academic certificates, and other relevant documents. We prohibit the employment of child labor, and check the valid identification in the recruitment process to prevent such incidents. In case of employment of child labour, the Group will conduct an investigation in accordance with relevant procedures. Any illegal action will be taken to the relevant judicial authorities with zero tolerance.

In strict compliance with relevant laws and regulations, including the *Labor Law of the People's Republic of China*《中華人民共和國勞動法》, the *Labor Contract Law of the People's Republic of China*《中華人民共和國勞動合同法》, and the *Provisions on the Prohibition of Using Child Labor*《禁止使用童工規定》, the Group standardizes the employee management and protects the legitimate rights and interests of employees through internal policies, such as the *Employee Manual*《員工手冊》, the *Employee Remuneration and Performance Management Policy*《員工薪酬與績效管理制度》and the *Measures for the Management of Attendance, Leave and Working Overtime*《考勤、休假及加班管理辦法》.

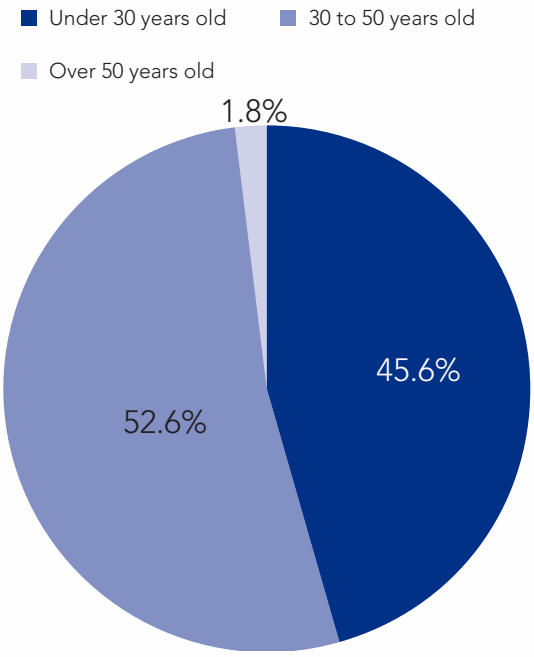
The Group adopts a standard working hour system, a comprehensive working hour system and a flexible working hour system. Employees have their attendance recorded through Ding Talk, which standardizes the management of working hours. Employees who need to work overtime should submit the application of working overtime in advance. We will pay the overtime wages or arrange deferred leaves according to the relevant regulations of the state and the Group. Our employees are entitled to rest days, holidays, paid annual leave, sick leave, maternity leave, marriage leave, bereavement leave, and other types of leave as stipulated by the laws and regulations of the state and the Group's policies.

By the end of 2021, the Group had 846 employees in China region, with 842 full-time employees, the specific employee proportions are as follows:

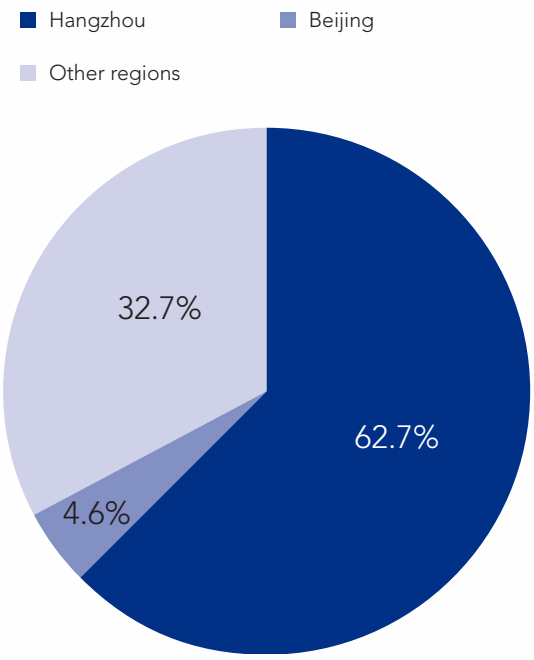
Proportion of employees by gender



Proportion of employees by age group

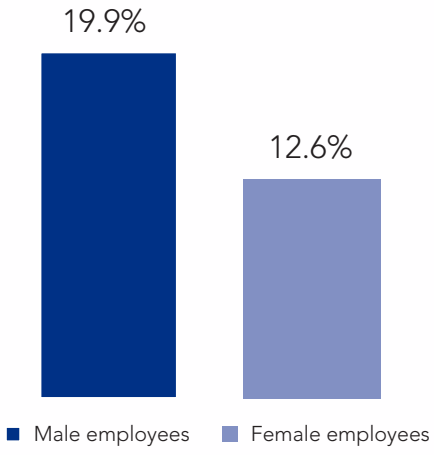


Proportion of employees by region

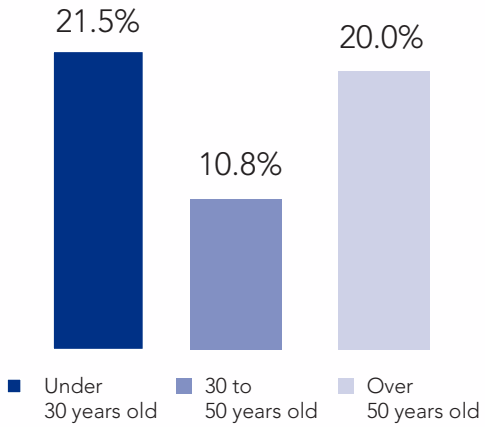


We strictly follow the labor contract and laws and regulations to execute the termination process. During the reporting period, the turnover rate of the Group in China region was 15.8%.

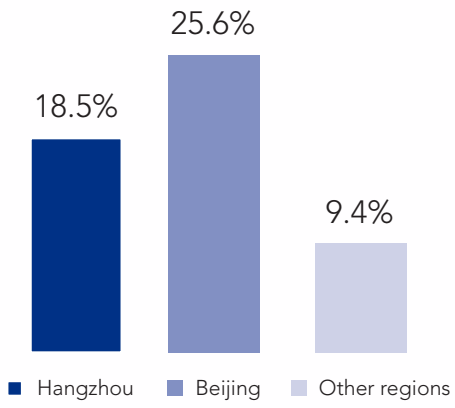
Employee turnover ratio by gender



Employee turnover ratio by age



Employee turnover ratio by region



Employees' Rights and Interests

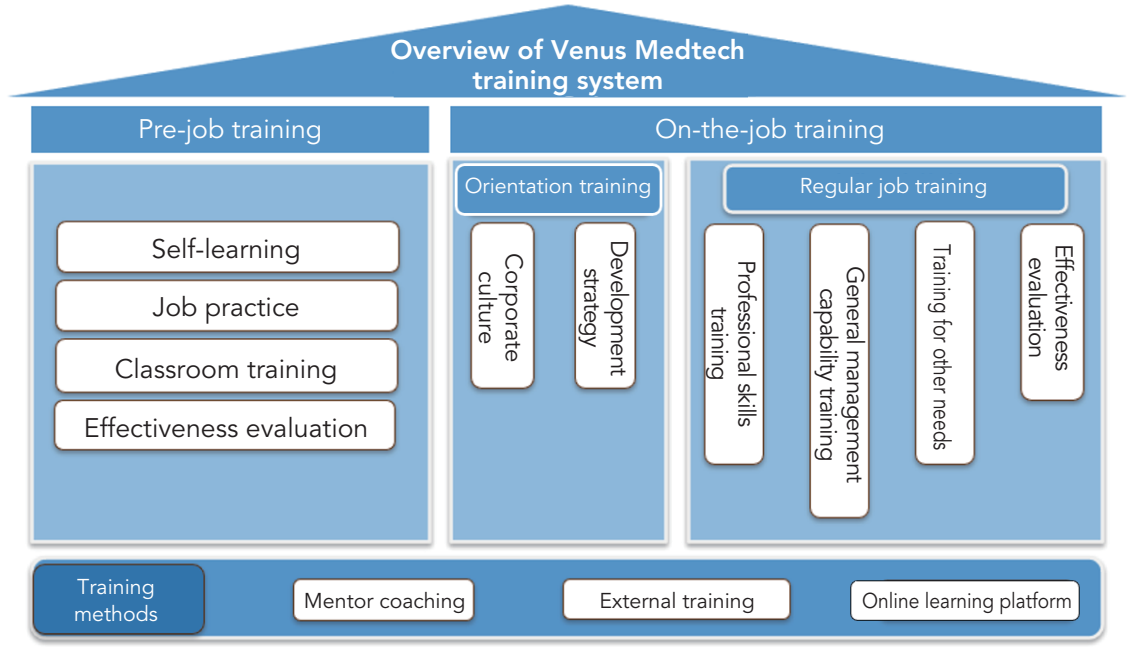
We strictly comply with the applicable laws and regulations and international conventions on human rights. There is no tolerance in any discrimination against any employee due to personal characteristics such as race, gender, colour, age, family background, national tradition, religion, physical attribute, and original nationality. We also advocate a relationship of "mutual respect, solidarity and cooperation, willing to offer help, patience and sincerity" between colleagues. We hope colleagues can help each other and create a harmonious and non-discriminatory working environment.

The Group has established a competitive remuneration and benefit system for employees to continuously stimulate their enthusiasm. An employee's wage consists of basic salary, performance bonus, post salary, year-end bonus, etc. The remuneration of an employee is determined by the importance and complexity of the work, working competence, performance, qualifications, and working conditions. We establish and continuously improve our performance management system and determine performance of employees based on key performance and core competency assessments and motivate employees with outstanding performance in order to attract and retain outstanding talents.

We pay social insurances and housing fund in full in a timely manner for all employees who enter labor contracts with the Group and purchase accident insurance (covering death due to COVID-19), supplementary business insurance for employees. We also purchase accident insurance for employees' children. Employees can enjoy free health examination, festival allowance, high temperature allowance in summer, holiday benefits, marriage gifts, and other benefits. For frontline production workers with cervical spine disease and eyestrain caused by long-term desk work, we provide them with massage armchairs in rest rooms to relieve the fatigue caused by work and prevent diseases.

Talent Cultivation

By combining talent introduction with internal training, Venus Medtech aims to cultivate outstanding talents with global competitiveness. With the Training Management Policy《培訓管理制度》and a sound training mechanism, we set up the annual employee training plan at the beginning of each year, to help employees improve work performance and capabilities and fuel the mutual growth of employees and Venus Medtech. Training status and capability development of employees are tracked through their personal training files, containing employees' training and evaluation records, and qualification certificates.



We also enrich the learning experience of our employees through diverse methods:

- **Mentor coaching**: We build a mentor team composed of leaders at the higher levels, business experts and department heads to help employees get familiar with their job, improve their skills and meet the needs of their posts.

- **External training**: We invite professional institutions like external training companies and management consulting companies to organize staff qualification training and other refresher training, to broaden employees' career development paths and fully develop their potential.

- **Online learning platform**: In order to increase the flexibility of training and expand the scope of training, we have launched an online learning platform that provides live broadcasts and replays of various courses and records the employees' progress of courses.

In order to encourage our employees to improve professional competence and quality, we offer cash rewards to employees who obtain higher qualifications or titles. Furthermore, we fully mobilize experienced employees to give lectures or develop courses that meet business demands, contributing more to capability building through knowledge inheritance and experience sharing. Excellent internal trainers will receive corresponding allowances and commendations.

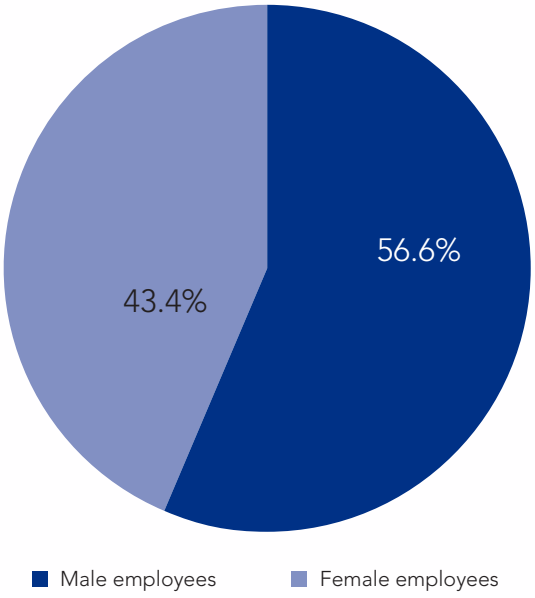
In 2021, to keep pace with our rapid development and retain outstanding talents, we launched the Management Empowerment – Leadership Excellence Training Program. We invited external experts to give lectures to our employees, helping them broaden their horizons and master excellent business management practices with a focus on key leadership skills.

Excellent Leadership Training

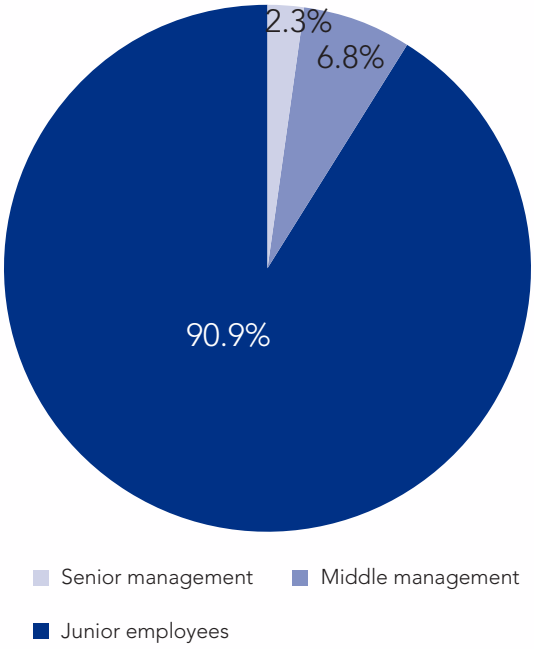
New Recruit Training Camp

In 2021, the percentage of employees trained in the Group is 61.0% and the total training hours of the whole year were 1,375.

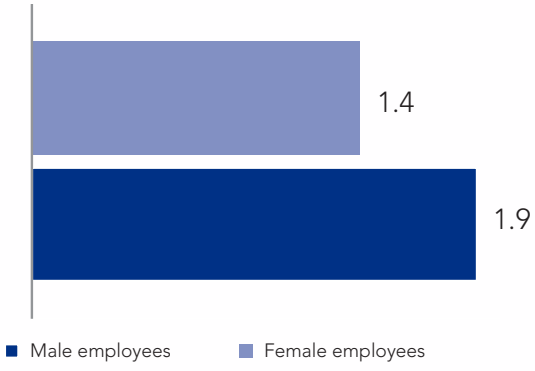
The percentage of employees trained by gender



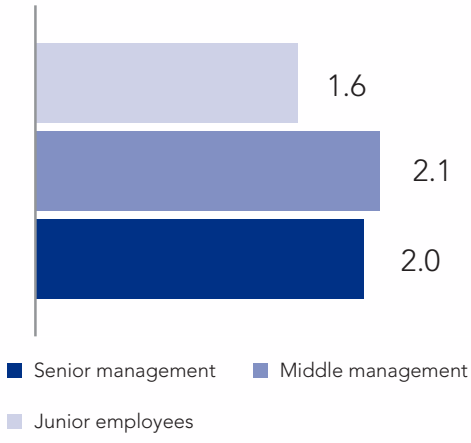
The percentage of employees trained by employee category



The average training hours completed per employee by gender (Unit: hours/person)



The average training hours completed per employee by employee category (Unit: hours/person)



Safety Management

Venus Medtech adheres to the safety policy of "Safety First and Precaution Crucial" and the principle of "Safety Before Production", in strict compliance with the laws and regulations on occupational health and safety such as the *Work Safety Law of the People's Republic of China*《中華人民共和國安全生產法》and the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*《中華人民共和國職業病防治法》, and other laws and regulations on occupational health and safety. The Group established ISO 45001 occupational health and safety management system, which has been certified by a third party. We formulated polices for safety hazard inspection, accident management, work-related injury insurance, and training management under the occupational health management manual and relevant documents. We review our ISO 45001 occupational health and safety system at least once a year.

We set up a work safety leader team composed of the Chief Operating Officer (COO) of the Group, the Safety Management Department, and heads of all departments. Each department has a work safety administrator, who has obtained the certificate of qualification on safety management after passing the training from the work safety supervision organization. The work safety leader team hold at least one special meeting on work safety on a quarterly basis to solve the problems of work safety through coordination. In order to comprehensively implement the work safety policy and clarify the responsibilities of staff at different levels for work safety, we have set up the work safety objectives for each department based on the work safety objectives and also formulated safety responsibility agreement for each department. All departments are required to sign the agreement to make joint efforts to the safe operation of the enterprise.

We carry out safety management from multiple perspectives, such as occupational disease prevention, management of special equipment, chemicals management, and related party management to meet relevant requirements of work safety:

- **Occupational disease protection**: We entrust a third-party organization with professional qualifications to conduct the monitoring of occupational hazard factors at least once a year. The corresponding occupational health records for employees are established and reported to the local work safety supervision organization. We provide our employees with national and industrial standards personal protective equipment, in order to improve employees' self-protection capability. The occupational health examination will be conducted before work, during the work, and before leaving work for employees engaged in operation exposed to occupational hazard. In 2021, the Group did not detect harmful factors exceeding the occupational exposure limit, and no employee suffering from occupational diseases was found in the physical examination.

- **Management of special equipment**: We require special operation personnel undergo special training and obtain relevant qualification certificates before engaging in special operations. We have strict regulations on the responsibilities of each department as well as purchase, installation, registration, file management, and use requirements for special equipment to ensure the safe use of special equipment. For special equipment like gas cylinders, suppliers are required to provide the *Gas Cylinder Filling License*《氣瓶充裝許可證》and store and use them correctly as required.

- **Chemicals management**: We give priority to the use of non-toxic and low-toxic materials instead of materials with high toxic content. We put signs of hazardous in storage places, provide Chinese manuals for toxic and hazardous substances, and strengthen ventilation. Explosion-proof lamps, explosion-proof cabinets, explosion-proof exhaust devices and fire extinguishing equipment are equipped in the storage places of precursor chemicals and explosive chemicals. 24-hour continuous monitoring is conducted to deliver warnings under abnormal conditions. For hazardous workplace, we take protective measures such as isolation and set up warning signs.

- **Related party management**: For external constructors, we sign a safety agreement with them and take charge of the safety management and supervision of site operation.

In order to effectively prevent the occurrence of all kinds of safety accidents, we carry out daily inspection, comprehensive inspection, professional (electrical, fire control, chemicals, etc.) inspection, seasonal and pre-holiday safety inspection. For unpredictable accidents, we have formulated the *Management Procedures for Safety Accidents*《安全事故管理程序》, and the safety management team will timely organize investigation on the accident and offer suggestions on solutions when an accident occurs. Employees subjected to work-related injuries will be provided with work-related injury insurance benefit. On 29 July 2021, the Safety Management Department organised a mid-year safety operation conference, at which the department put forward measures for safety hazards of each department and pointed out the focus in safety operation for the second half of the year.

We require new employees must go through safety education and training at company level, department level, and team level. The tests need to be passed before starting work, we also carry out training on knowledge of occupational disease prevention and relevant laws and encourage employees to learn from and discuss the accidents that have recently occurred. Furthermore, we invite external professional institutions to carry out comprehensive safety training activities on first aid, firefighting, and special operations to continuously improve employees' safety awareness and ability. In 2021, we conducted fire evacuation drills, fire-fighting drills, and Cardiopulmonary Resuscitation (CPR) drills to equip our employees with solid fire safety knowledge and enhance their evacuation and emergency handling abilities. In addition, we organized safety knowledge fun quiz, encouraging employees to find out safety hazard and provide suggestions for creating a safe working environment.

Firefighting Practice exercise

Cardiopulmonary Resuscitation Exercise

Safety knowledge fun quiz

In the past three years, there was no work-related fatality in the Group. In 2021, there was zero working day lost due to work-related injury in the Group.

Staff Care

The Group has established sound communication channels for employees through internal communication platforms, such as WeChat, Ding Talk, complaint box, email, and annual satisfaction survey, we listen to employees' voice and reply to them in a timely manner. Our labour union also provides guarantees for employees' rights and interests, staff care, and recreational activities. With our football, basketball, and badminton clubs, we arrange team building activities every year. In addition, we provide employees with holiday and birthday allowances, and send regards and offer support to employees in difficulties, so as to enhance employees' sense of belonging.

Team Building Activities

Sports Clubs

GREEN OPERATION

Venus Medtech actively fulfils its responsibility for environmental protection. We strictly abide by *Environmental Protection Law of the People's Republic of China*《中華人民共和國環境保護法》, the *Energy Conservation Law of the People's Republic of China*《中華人民共和國節約能源法》, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*《中華人民共和國固體廢物污染環境防治法》, and *Regulations on the Safety Administration of Dangerous Chemicals and other laws and regulations*《危險化學品安全管理條例》.

The Group established a sound environmental management system in accordance with the ISO 14001 standard and passed the ISO 14001 environmental management system certification. To better identify and prevent environmental risks, the Group relies on environmental risk factor identification to ensure that all factors that have or may have significant impacts on the environment are identified and controlled. Meanwhile, we ensure that rectification measures are well implemented through regular environmental protection inspections and special inspections.

Rectification rate of hidden hazards in 2021 reached 100%

In accordance with the principle of "Environment Management in Production Management", the Group has formulated a series of internal policies, including the *EHS Performance Evaluation Management Policy*《EHS績效考核管理制度》, the *Identification and Assessment Management Procedure of Environmental Factors*《環境因素識別與評價管理程序》,the *Control Procedure of Environmental Monitoring and Measurement*《環境監測與測量控制程序》,the *Energy and Resource Saving Control Procedure*《能源資源節約控制程序》,the *Hazardous Waste Management Policy*《危險廢棄物管理制度》and the *Management Procedure for Sewage and Waste Gas Discharge and Noise Control*《污水廢氣排放及噪聲控制管理程序》to offer guidance on environmental issues, such as the use of resources, emissions management, and pollution prevention and control. For office areas, we have formulated the Office Area Management Policy《辦公區域管理制度》, specifying the responsibilities of different departments for management of related equipment and areas, to strengthen the management of office areas and create an orderly office environment. We also take environmental protection as an important part in employee training and continue to raise the awareness of energy conservation and environmental protection for all employees in the Group, helping the Group achieve a green, healthy, and sustainable development.

For new, reconstruction, and expansion projects, the Group's Engineering Equipment Department organizes internal assessment, review, and acceptance of construction projects in strict accordance with relevant government and the Group's regulations to ensure that environmental protection facilities should be designed, constructed, and put into use in sync with the main part of the project.

We review and update our environmental protection objectives annually. The 2020 environmental protection objectives have all been achieved.

Environmental protection objectives

- Electricity and water consumption per unit product in 2021 would be the same as that or lower than that in 2020
- All new, reconstruction, and expansion projects in 2021 achieve organised waste management
- 80% reduction of hazardous liquid waste through low-temperature distillation, molecular sieve adsorption, and other processes by 2025

Use of Resources

The Group sticks to the principle of protecting natural resources and conserving social resources, we regularly evaluate the efficiency of resource use in daily operation, improve the efficiency of resource use.

Energy Saving

- Optimize operating procedures, organize production according to the plan, and avoid midway production stoppages.
- Control the opening and closing time and temperature settings of air conditioners to save energy.
- Choose office equipment that meets environmental protection requirements.
- Install single-tube energy-saving lamps in public areas of new production workshops in the factory, and complete regional electricity distribution in the design phase to achieve the goal of controlling the total electricity.
- Check the fuel used in commercial vehicles and ask for re-check in case of the fuel consumption exceeding the standard.
- Put up obvious signs of saving electricity and ask the staff to turn off the power in time after work.

Water Saving

- Use ultrasonic cleaning in manufacturing technique to realize the recycling of water resources, thereby achieving the purpose of saving water.
- Put up obvious signs of water conservation and conduct regular checks on water valves to avoid leakage.

Other Resources Saving

- Establish an online sharing platform for hazardous chemicals to realize real-time sharing between departments and avoid over-purchasing, overstock, and waste.
- Implement paper-saving measures such as planned paper use, double-sided use of paper, and management by specific personnel.

In 2021, the Group's KPIs in Use of Resources Aspect:

Type of resources	2021	2020	2019
Energy consumption in total (in MWh) [1,2]	7,557.42	3,555.44	3,078.32
Total direct energy consumption (MWh)	133.42	296.00	110.32
Including: gasoline (MWh)	133.42	296.00	110.32
Total indirect energy consumption (MWh)	7,424.00	3,259.44	2,968.00
Including: purchased electricity (MWh)	7,424.00	3,259.44	2,968.00
Intensity of energy consumption (in MWh per unit)	1.09	0.83	1.29
Water consumption in total (in tonnes) [3,4]	38,680	7,374	6,527
Intensity of water consumption (in tonnes per unit)	5.60	1.73	2.73
Packaging materials used for finished products in total (in tonnes) [5]	8.47	5.39	4.11
Packaging materials intensity for finished products (in kg per unit)	1.23	1.26	1.72

Notes:

1. The Group's total energy consumption is calculated based on the consumptions of electricity, fuel and the recommended parameter values related to frequently used fossil fuel as shown in Attached Table 2 to the Accounting Methods and Reporting Guide of Greenhouse Gas Emissions of Machinery Equipment Manufacturing Enterprises issued by the National Development and Reform Commission (NDRC).

2. Due to the increase in production and the number of employees of the Group in 2021, the electricity consumption in 2021 has increased by about 113% compared with 2020.

3. The Group's water consumption is mainly for domestic and production use and sourced from municipal water system, which can meet the water demand of daily operation.

4. Due to the increase in production and the number of employees of the Group in 2021, the water consumption in 2021 has increased by about 4 times compared with 2020.

5. The Group's main packaging materials include cartons, cardboard boxes, labels, specifications, glasses, foam and blister boxes.

Emissions

We strictly regulated the emissions generated in the course of operations and implemented a series of measures to minimise the impacts on environment. To improve compliance in waste disposal, we participated in and organised a number of environmental protection training sessions in 2021, including the training course of environmental management of solid waste and chemicals hosted by Department of Ecology and Environment of Zhejiang Province. Through this course, we learned the latest regulatory requirements and best industry practices about solid waste, which helped us to regulate the hazardous waste treatment process and ensure environmental safety.

Reduce Emissions
• Production and household effluent are collected separately through two sewage pipelines, which are strictly separated from rainwater pipelines, and are finally incorporated into the designated sewage pipeline network system in the industrial park for unified disposal and discharge as required. • Collect and classify hazardous waste generated in the production process and liquid waste generated by the disinfectant configuration at designated locations and regularly send them to the hazardous waste warehouse for temporary storage. The waste is then harmlessly processed by a qualified third-party environmental protection company on a regular basis. We entrust the medical waste disposal companies to handle the waste generated in the production process, such as petri dishes and test boxes. • External monitoring of wastewater outlet, exhaust gas outlet, and factory noise is conducted by a third-party professional environmental monitoring company every year, and any non-complying items are rectified timely. • Dry waste and hazardous waste collection bins was placed in the office areas and raise employees' awareness of waste sorting through waste sorting promotion activities.

In 2021, the Group's KPIs in Emissions Aspect:

Type of emissions	2021	2020	2019
Emission of NOx (in kg) [1]	18.63	21.70	10.98
Emission of SO_2 (in kg) [1]	0.22	0.50	0.19
Emission of particulate matter (PM) (in kg) [1]	1.37	1.60	0.81
Effluent in total (in tonnes) [2]	38,204	7,374	6,336
Hazardous waste emissions in total (in tonnes) [3]	491.78	266.90	194.44
Intensity of hazardous waste emissions (in tonnes per unit)	0.07	0.06	0.08
Non-hazardous waste emissions in total (in tonnes) [4]	10.60	0.86	0.45
Intensity of non-hazardous waste emissions (in kg per unit)	1.53	0.20	0.19
Greenhouse gas emissions in total (Scope 1 and Scope 2) (in tCO2e) [5]	5,255.40	2,365.39	2,114.96
Direct greenhouse gas emission (Scope 1) (in tCO2e)	32.62	72.37	26.97
Including: gasoline (in tCO2e)	32.62	72.37	26.97
Energy indirect greenhouse gas emission (Scope 2) (in tCO2e)	5,222.78	2,293.02	2,087.99
Including: purchased electricity (in tCO2e)	5,222.78	2,293.02	2,087.99
Intensity of greenhouse gas emissions (in tCO2e per unit)	0.76	0.55	0.89

Notes:

1. The waste gas emissions of the Group, which are mainly derived from gasoline used in vehicles, and are accounted in accordance with How to Prepare ESG Report? Appendix 2: Reporting Guidance on Environmental KPIs issued by HKEX.

2. Due to the increase in water consumption caused by the increase in production and the number of employees of the Group in 2021, the amount of wastewater in 2021 has increased by about 4 times compared with that in 2020.

3. The hazardous wastes generated by the Group mainly include waste reagent bottles, leftover materials of swine pericardium and hazardous liquid waste generated during the production process.

4. The non-hazardous wastes generated by the Group mainly include packaging waste left during the production processes. Due to the increase in production of the Group in 2021, the total amount of harmless waste discharged in 2021 has a large increase compared with that in 2020.

5. Based on operational characteristics, our greenhouse gas emissions are mainly from direct greenhouse gas emissions caused by gasoline consumption of vehicles (Scope 1) and indirect greenhouse gas emissions caused by purchased electricity (Scope 2). Greenhouse gas emissions are presented in terms of carbon dioxide equivalent and calculated according to the Accounting Methods and Reporting Guide of Greenhouse Gas Emissions of Machinery Equipment Manufacturing Enterprises issued by the NDRC.

Environmental and Natural Resources

In strict accordance with the *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise*《中華人民共和國環境噪聲污染防治法》, we have formulated the *Management Procedure of Sewage and Waste Gas Emissions and Noise Control*《污水廢氣排放及噪聲控制管理程序》. We regularly monitor the noise status and conduct sound insulation and vibration isolation for equipment with large noise to ensure that the noise generated in our production workshops and workplaces is lower than the allowable noise level specified in the *Noise Hygienic Standard for Industrial Enterprises*《工業企業噪聲衛生標准》. In addition to the above disclosures, we will not cause other significant environmental impacts or make heavy use of other environmental and natural resources in our operations.

Climate Change

Climate change has been increasingly exerting impacts on the globe. Extreme weather such as typhoons and floods will have impacts on the Group's normal operation. In order to cope with climate change, we have formulated special anti-typhoon and flood prevention emergency plans, which are included in the Emergency Plan for Work safety Accidents《生產安全事故應急預案》, and arranged the staff of the command centre, material support team, emergency relief team, publicity and information team and defined their responsibilities, so as to ensure that we can take measures timely to deal with any abnormalities, and avoid the impact of extreme weather on the Group's operation and health of employees.

In 2021, due to the impact of typhoon In-Fa, the Group initiated emergency plan, rationally arranged employee work plan to ensure that employees are in a safe zone, and formulated safety check list to eliminate potential safety hazards.

CONTRIBUTING TO THE SOCIETY

As a Chinese private enterprise that shoulders social responsibility, Venus Medtech always stays true to its original aspiration and forge ahead, sticks to the public welfare concept of "Dedication of Love Begins from Ourselves", striving to realise unity of economic and social value, as well as corporate and social development.

We are a member of the Red Cross Society of China Hangzhou Branch and have established the Red Cross Society of Venus Medtech. We are giving full play to the active role of the Red Cross Society in building a harmonious socialist society by participating in and promoting various forms of humanitarian assistance and social service activities and spreading the love of the Group.

Free Health Clinics

In 2021, despite the unstable COVID-19 situation, Venus Medtech still cared for patients with heart valve diseases. While constantly innovating and improving the heart valve product pipeline, we continue to promote heart health knowledge, and launch free public welfare programs to improve people's health condition. As of December 2021, we co-organized more than 60 free treatment events in 21 provinces, municipalities, and autonomous regions across the country, engaging 300+ medical specialists and benefitting 2,000+ patients. On 3 December 2021, we won the "2021 Corporate Public Welfare Contribution Pioneer Award" issued by Qingsongchou for our outstanding contributions in public welfare.

Supporting Education

In 2021, Venus Medtech donated RMB1 million to Hangzhou Binjiang People's Education Foundation as study and living subsidies for students in economic difficulty. This can support reform and development of local education and contribute to the development of a modern education system in the Binjiang District.

Voluntary Blood Donation

As the leader of the medical industry, while benefiting patients with edging technologies, Venus Medtech also shows love and care through voluntary blood donation. In August 2021, a total of over 100 members from Venus Medtech registered as volunteers to donate their blood, striving to be practitioners of public welfare undertakings.

Independent Auditor's Report

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To the shareholders of Venus Medtech (Hangzhou) Inc.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Venus Medtech (Hangzhou) Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 151 to 280, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and purchased intellectual property	
The Group had goodwill of RMB519,711,000 in the consolidated financial statements and intellectual property of RMB271,628,000 as disclosed in note 16 to the financial statements as at 31 December 2021. Intellectual property is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life. The Group is required to perform an impairment test of goodwill at least on an annual basis, and to perform an impairment test of intellectual property when an indication of impairment exists. The impairment test is based on the recoverable amount of the cash-generating unit to which the goodwill is allocated, and the recoverable amount of each individual asset, which is applicable. The recoverable amount is the higher of the cash-generating unit's or asset's value in use and its fair value less costs of disposal. This matter was significant to our audit because the impairment test process was complex and involved significant judgements and estimates.	We evaluated management's identification of the cash-generating units and the allocation of goodwill within the Group. We also evaluated management's assessment of impairment indications and management's determination of the cash-generating units to which the intellectual property belongs. We obtained and reviewed management's future forecasted cash flows and key assumptions used in the value-in-use calculation by comparing to the Group's development plan, budget and financial projections and analysis on the industry. We reviewed management's rationales that the cash-generating unit's value in use is higher than its fair value less costs of disposal based on the current available information. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rate calculation, the terminal growth rate applied and the valuation model with forecasted cash flows. We also focused on the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment assessment of goodwill and purchased intellectual property (continued)	
The Group's disclosures about the impairment test of goodwill and intellectual property are included in notes 2.4, 3, 15 and 16 to the financial statements.	
Cut-off of research and development costs	
The Group incurred significant research and development ("R&D") costs of RMB258,336,000 in the consolidated financial statements for the year ended 31 December 2021, which mainly consist of clinical trial expenses and service fees paid to outsourced service providers, staff costs and others. The R&D activities with these service providers were typically performed over an extended period. This matter was significant to our audit because the amount of research and development costs was significant and allocation of these costs to the appropriate reporting period based on the progress of the R&D projects involved judgement. The Group's disclosure about R&D costs is included in notes 2.4 and 3 to the financial statements.	We reviewed the key terms set out in agreements with the outsourced service providers. We evaluated the progress of the R&D projects based on inquiry with project managers, inspection of supporting documents and obtaining confirmations from the outsourced service providers, on a sample basis, to determine whether these costs were recorded in the appropriate reporting period. We also performed search for unrecorded liabilities procedure subsequent to the year ended 31 December 2021.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Directors' Report and the Corporate Governance Report, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Directors' Report and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**415,862**	276,047
Cost of sales		**(91,518)**	(48,767)
Gross profit		**324,344**	227,280
Other income and gains	5	**307,147**	118,160
Selling and distribution expenses		**(216,067)**	(134,572)
Research and development costs		**(258,336)**	(167,251)
Administrative expenses		**(128,585)**	(104,064)
Other expenses		**(389,257)**	(121,844)
Impairment losses on financial assets, net		**(3,185)**	50
Finance costs	7	**(1,905)**	(4,172)
Share of (losses)/profits of associates		**(11,711)**	570
LOSS BEFORE TAX	6	**(377,555)**	(185,843)
Income tax credit	10	**6,161**	2,975
LOSS FOR THE YEAR		**(371,394)**	(182,868)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(17,671)**	(52,524)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**3,158**	(30,346)
Income tax effect		**(568)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**2,590**	(30,346)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(15,081)**	(82,870)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(386,475)**	(265,738)

	Note	2021 RMB'000	2020 RMB'000
Loss attributable to:			
Owners of the parent		**(373,636)**	(181,989)
Non-controlling interests		**2,242**	(879)
		(371,394)	(182,868)
Total comprehensive loss attributable to:			
Owners of the parent		**(388,578)**	(264,859)
Non-controlling interests		**2,103**	(879)
		(386,475)	(265,738)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB(0.85)**	RMB(0.45)

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**142,237**	69,295
Right-of-use assets	14	**108,510**	30,710
Goodwill	15	**519,711**	487,317
Other intangible assets	16	**304,744**	233,004
Investments in associates	17	**76,184**	37,995
Deferred tax assets	29	**8,170**	1,156
Equity investments designated at fair value through other comprehensive income	18	**16,194**	6,525
Financial assets at fair value through profit or loss	22	**477,155**	64,473
Prepayments, other receivables and other assets	21	**16,930**	27,319
Total non-current assets		**1,669,835**	957,794
CURRENT ASSETS			
Inventories	19	**90,519**	59,904
Trade receivables	20	**302,096**	231,031
Prepayments, other receivables and other assets	21	**89,232**	34,984
Due from related parties	36(c)	**–**	22,500
Financial assets at fair value through profit or loss	22	**–**	44,128
Pledged deposits	23	**2,563**	259,716
Cash and cash equivalents	23	**2,955,212**	2,708,170
Total current assets		**3,439,622**	3,360,433
CURRENT LIABILITIES			
Trade payables	24	**8,751**	5,295
Lease liabilities	14	**17,727**	11,092
Other payables and accruals	25	**144,732**	358,487
Interest-bearing bank borrowings	26	**4,900**	–
Government grants	27	**14,993**	14,046
Contract liabilities	28	**2,845**	2,442
Refund liabilities	5(c)	**14,106**	14,155
Tax payable		**480**	–
Total current liabilities		**208,534**	405,517
NET CURRENT ASSETS		**3,231,088**	2,954,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,900,923**	3,912,710

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Other payables and accruals	25	**167,480**	–
Lease liabilities	14	**48,148**	21,671
Deferred tax liabilities	29	**53,451**	32,942
Government grants	27	**–**	1,062
Total non-current liabilities		**269,079**	55,675
Net assets		**4,631,844**	3,857,035
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**441,012**	422,969
Reserves	31	**4,104,618**	3,392,455
		4,545,630	3,815,424
Non-controlling interests		**86,214**	41,611
Total equity		**4,631,844**	3,857,035

Mr. Min Frank Zeng **Mr. Zhenjun Zi** **Mr. Lim Hou-Sen (Lin Haosheng)**

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent								
	Share capital RMB'000 (note 30)	Share premium* RMB'000 (note 31)	Other reserves* RMB'000 (note 31)	Fair value reserve* RMB'000 (note 31)	Exchange fluctuation reserve* RMB'000 (note 31)	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	404,469	2,923,182	259,195	(468)	15,334	(564,734)	3,036,978	8,768	3,045,746
Loss for the year	–	–	–	–	–	(181,989)	(181,989)	(879)	(182,868)
Other comprehensive loss for the year:									
Exchange differences related to foreign operations	–	–	–	–	(52,524)	–	(52,524)	–	(52,524)
Changes in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	(30,346)	–	–	(30,346)	–	(30,346)
Total comprehensive loss for the year	–	–	–	(30,346)	(52,524)	(181,989)	(264,859)	(879)	(265,738)
Waiver from a non-controlling shareholder	–	–	–	–	–	–	–	(8,778)	(8,778)
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	42,500	42,500
Issue of placing shares	18,500	1,028,449	–	–	–	–	1,046,949	–	1,046,949
Share issue expenses	–	(12,644)	–	–	–	–	(12,644)	–	(12,644)
Equity-settled share award expense	–	–	9,000	–	–	–	9,000	–	9,000
At 31 December 2020	422,969	3,938,987	268,195	(30,814)	(37,190)	(746,723)	3,815,424	41,611	3,857,035

	Attributable to owners of the parent									
	Share capital RMB'000 (note 30)	Treasury shares* RMB'000 (note 31)	Share premium* RMB'000 (note 31)	Other reserves* RMB'000 (note 31)	Fair value reserve* RMB'000 (note 31)	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	422,969	–	3,938,987	268,195	(30,814)	(37,190)	(746,723)	3,815,424	41,611	3,857,035
Loss for the year	–	–	–	–	–	–	(373,636)	(373,636)	2,242	(371,394)
Other comprehensive loss for the year:										
Exchange differences related to foreign operations	–	–	–	–	–	(17,532)	–	(17,532)	(139)	(17,671)
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	2,590	–	–	2,590	–	2,590
Total comprehensive loss for the year	–	–	–	–	2,590	(17,532)	(373,636)	(388,578)	2,103	(386,475)
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	–	42,500	42,500
Issue of placing shares	18,043	–	1,187,853	–	–	–	–	1,205,896	–	1,205,896
Share issue expenses	–	–	(14,564)	–	–	–	–	(14,564)	–	(14,564)
Shares repurchased	–	(72,548)	–	–	–	–	–	(72,548)	–	(72,548)
At 31 December 2021	441,012	(72,548)	5,112,276	268,195	(28,224)	(54,722)	(1,120,359)	4,545,630	86,214	4,631,844

* These reserve accounts comprise the consolidated reserves of RMB4,104,618,000 (2020: RMB3,392,455,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(377,555)**	(185,843)
Adjustments for:			
Finance costs	7	**1,905**	4,172
Bank interest income	5	**(33,380)**	(34,667)
Other interest income	5	**(16,100)**	–
Fair value gain on a derivative financial instrument	5	**(10,014)**	(44,128)
Fair value adjustments of contingent considerations	5	**(239,048)**	–
Loss on disposal of items of property, plant and equipment	6	**18**	560
Waiver from a non-controlling shareholder upon liquidation of a subsidiary	5	**–**	(8,073)
Impairment of trade and other receivables, net		**3,048**	(50)
Loss on liquidation of a subsidiary		**136**	–
Depreciation of property, plant and equipment	13	**14,844**	10,633
Depreciation of right-of-use assets	14	**14,325**	10,285
Amortisation of other intangible assets	16	**22,452**	16,794
Equity-settled share award expense		**–**	9,000
(Reversal of write-down)/write-down of inventories to net realisable value	19	**(1,434)**	2,512
Share of losses/(profits) of associates	17	**11,711**	(570)
Fair value losses/(gains), net:			
Financial assets at fair value through profit or loss – mandatorily classified as such	5	**656**	(1,310)
Impairment of other intangible assets	16	**46,189**	–
Impairment of goodwill	15	**189,957**	–
Foreign exchange differences, net		**42,222**	96,455
		(330,068)	(124,230)
Increase in inventories		**(29,181)**	(37,627)
Increase in trade receivables		**(74,132)**	(68,755)
(Increase)/decrease in prepayments and other assets		**(17,263)**	397
Increase in other receivables		**(21,292)**	(2,049)
Increase in trade payables		**3,456**	3,843
Decrease in other payables and accruals		**(8,553)**	(26,793)
Increase in contract liabilities		**403**	50
(Decrease)/increase in refund liabilities		**(49)**	1,793
Decrease in government grants		**(115)**	(8,938)
Decrease in pledged time deposits		**(121)**	(1,753)
Cash used in operations		**(476,915)**	(264,062)
Interest received		**28,643**	32,530
Net income tax paid		**(8,645)**	(5,473)
Net cash flows used in operating activities		**(456,917)**	(237,005)

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(82,070)**	(49,782)
Payment for leasehold land	14(a)	**(43,389)**	–
Purchases of other intangible assets		**(19,705)**	(74,265)
Investments in associates		**(51,075)**	(39,525)
Purchases of equity investments designated at fair value through other comprehensive income		**(6,511)**	(7,131)
Purchases of financial assets at fair value through profit or loss		**(413,338)**	(63,163)
Proceeds from disposal of items of property, plant and equipment		**–**	32
Repayment of consideration from non-controlling shareholders of a subsidiary		**22,500**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**54,142**	–
Loans to third parties		**(339,000)**	(149,857)
Repayments of loans to third parties		**335,000**	140,358
Interest received		**15,000**	–
Acquisition of a subsidiary	33	**(124,592)**	(54,610)
Net cash flows used in investing activities		**(653,038)**	(297,943)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling shareholders		**42,500**	20,000
Proceeds from issue of placing shares		**1,191,332**	1,034,305
Deposit for a guarantee of a loan facility		**–**	(266,577)
Proceeds from a deposit for a guarantee of a loan facility		**247,594**	270,278
Interest income from a deposit for a guarantee of a loan facility		**4,737**	3,796
Repayment of bank borrowings	34(b)	**(4,700)**	(120,000)
Principal portion of lease payments	34(b)	**(15,552)**	(9,567)
Interest portion of lease payments	34(b)	**(1,835)**	(1,654)
Interest paid	34(b)	**(127)**	(671)
Repurchase of shares		**(72,548)**	–
Payment for a deferred finance charge for a guarantee		**–**	(2,159)
Net cash flows from financing activities		**1,391,401**	927,751

	2021 RMB'000	2020 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**281,446**	392,803
Cash and cash equivalents at beginning of year	**2,708,170**	2,413,254
Effect of foreign exchange rate changes, net	**(34,404)**	(97,887)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,955,212**	2,708,170
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,604,591**	2,423,054
Non-pledged time deposits	**350,621**	285,116
Cash and cash equivalents as stated in the statement of cash flows and statement of financial position	**2,955,212**	2,708,170

1. CORPORATE INFORMATION

Venus Medtech (Hangzhou) Inc. (the "Company") is a joint stock company with limited liability established in the People's Republic of China (the "PRC"). The registered office of the Company is located at Room 311, 3/F, Block 2, No. 88, Jiangling Road, Binjiang District, Hangzhou, the PRC.

During the year, the Group was principally engaged in the research and development, and the manufacturing and sale of bioprosthetic heart valves.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 December 2019.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal valueof issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Venus Medtech of America	United States of America ("USA") 31 August 2012	United States dollars ("US$") 10,000,000	100% (direct)	Research and development
Jilin Venus Haoyue Medtech Limited ("Haoyue")*	PRC/ Mainland China 14 October 2020	RMB100,000,000	15% (indirect)**	Research and development
Hangzhou Nuocheng Medical Technology Co., Ltd. ("Nuocheng")*	PRC/ Mainland China 9 November 2017	RMB100,000,000	100% (indirect)	Research and development
JVH of America ("JVH")	USA 30 October 2020	US$1,000,000	15% (indirect)***	Research and development
Keystone Heart Ltd. ("Keystone")	Israel 17 November 2004	Nil	100% (indirect)	Research and development and manufacturing
510 Kardiac Devices, Inc. ("510 Kardiac")	Israel 5 February 2015	US$2,166,364	100% (indirect)	Research and development

1. CORPORATE INFORMATION (Continued)

Information about subsidiaries (Continued)

* The entity is a limited liability enterprise established under the PRC law.

** Haoyue is accounted for as a subsidiary of the Group even though the Group has only a 15% equity interest in this company, with 60% of voting rights based on the contractual arrangement, as further detailed in note 36 (b) to the financial statements.

*** JVH is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

During the year, the Group acquired Nuocheng from independent third parties. Further details of this acquisition are included in note 33 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial assets and liabilities at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

(a) (Continued)

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

(b) Amendment to IFRS 16 issued in March 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[2, 4]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[2]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments at fair value through other comprehensive income and financial assets and liabilities at fair value through profit or loss at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

(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 parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery	9%-19%
Office equipment	6%-32%
Motor vehicles	19%-24%
Leasehold improvements	10%-58%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents machinery and office equipment under installation and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intellectual property

Purchased intellectual property is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 19 years, which is determined by considering the typical product life cycles for the intellectual property and the technical obsolescence.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 2 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	2 to 6 years
Motor vehicles	3 years
Leasehold land	50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(b) Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

The subsequent measurement of financial assets depends on their classification as follows: (Continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

The subsequent measurement of financial assets depends on their classification as follows: (Continued)

Financial assets at fair value through profit or loss (Continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General approach (Continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on market historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, interest-bearing bank borrowings and financial liabilities at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents (Continued)

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a government grant account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, 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 between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of medical devices

Revenue from the sale of medical devices is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the medical devices.

Some contracts for the sale of medical devices provide customers with rights of sales rebates. The rights of sales rebates give rise to variable consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Sale of medical devices (Continued)

(i) Sales rebates

The Group may provide retrospective sales rebates to certain distributors based on their purchase amount, which are recognised as basic sales rebates, and may also provide additional sales rebates when distributors meet their performance requirements, such as sales targets, as agreed in the distribution agreements between the Group and the distributors. Rebates are offset against amounts payable by the distributor arising from its purchase. The expected value method is used to estimate the amount of the additional sales rebates. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(ii) Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(iii) Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

The Company grants share award as incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) and non-employees of the Group receive remuneration and rewards in the form of share-based payments, whereby employees and non-employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees and non-employees is measured by reference to the fair value at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

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

Termination benefits

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

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency, as the major operations of the Group are within Mainland China. The functional currency of certain subsidiaries incorporated outside Mainland China is US$ and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Research and development costs

Research and development costs are expensed in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised or expensed requires management to make assumptions and judgements regarding the technical feasibility of completing the intangible asset, future economic benefits and so forth.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the historical observed default rates from listed companies in the same sector. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the medical industry sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of financial instruments

The Group has used the discounted cash flow method for the valuation of the unlisted debt investments and contingent consideration payables, investment cost method (valued based on a recent transaction valuation) for the valuation of unlisted equity investments and valuation techniques similar to forward pricing for the valuation of a derivative financial instrument to determine the fair value of these financial assets at the end of year as detailed in note 38 to the financial statements. These valuations require the Group to make estimates about scenario probabilities, risk-free rate, discount rate and forward exchange rate, and hence, they are subject to uncertainty. In addition, the Group makes estimates about the discount of cash flow for unlisted debt investments. The Group classifies the fair value of these instruments as Level 2 and Level 3. Further details are included in notes 18 and 23 to the financial statements.

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents transferred from third parties. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. If the Group's estimate of the duration of the sale of a product is shorter than the patent life, then the shorter period is used. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at the end of each reporting period based on changes in circumstances.

Impairment of non-financial assets (other than goodwill)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill) (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the year.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires estimations of the recoverable amount of the cash-generating unit to which the goodwill is allocated, which is the higher of the cash-generating unit's value in use and its fair value less costs of disposal using cash flow projections based on a financial budget. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB519,711,000 (2020: RMB487,317,000). Further details are given in note 15 to the financial statements.

Estimating variable consideration for sales rebates

The Group estimates variable consideration to be included in the transaction price for the sale of medical devices with rights of sales rebates.

The Group's expected sales rebates are analysed on a per distributor basis for contracts that are subject to distributors' performance requirements such as sales targets. Determining whether a distributor will be likely entitled to rebate will depend on the distributor's historical rebates entitlement and accumulated purchases to date. Any significant changes in experience as compared to historical purchasing patterns and sales rebate entitlements of distributors will impact the expected rebate percentages estimated by the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimating variable consideration for sales rebates (Continued)

The Group updates its assessment of expected sales rebates quarterly and refund liabilities are adjusted accordingly. Estimates of expected sales rebates are sensitive to changes in circumstances and the Group's past experience regarding sales rebate entitlements may not be representative of distributors' actual sales rebate entitlements in the future. As at 31 December 2021, the amount recognised as refund liabilities for the expected sales rebates was RMB14,106,000 (2020: RMB14,155,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Further details are included in notes 10 and 29 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2021 RMB'000	2020 RMB'000
Mainland China	**405,346**	272,010
Others	**10,516**	4,037
	415,862	276,047

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

(b) Non-current assets

	2021 RMB'000	2020 RMB'000
Mainland China	**477,893**	170,734
USA	**31,692**	59,086
Israel	**134,740**	166,157
	644,325	395,977

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

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

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

	2021 RMB'000	2020 RMB'000
Customer A	**N/A***	30,705
Customer B	**N/A***	30,269

* Less than 10% of the Group's revenue

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers		
Sale of medical devices	**415,862**	276,047

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Geographical markets		
Mainland China	**405,346**	272,010
Others	**10,516**	4,037
Total revenue from contracts with customers	**415,862**	276,047
Timing of revenue recognition		
Goods transferred at a point in time	**415,862**	276,047

(b) Performance obligations

There was no revenue recognised during the year that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods.

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

	2021 RMB'000	2020 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**2,845**	2,442

The amounts of transaction prices allocated to the performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(c) Refund liabilities

	2021 RMB'000	2020 RMB'000
Refund liabilities arising from sales rebates	**14,106**	14,155

	2021 RMB'000	2020 RMB'000
Other income		
Bank interest income	**33,380**	34,667
Other interest income	**16,100**	–
Government grants (note (a))	**6,687**	29,749
Others	**1,918**	233
	58,085	64,649
Gains		
Fair value adjustments of contingent considerations	**239,048**	–
Fair value gains, net:		
Financial assets at fair value through profit or loss – mandatorily classified as such	**–**	1,310
Fair value gain on a derivative financial instrument	**10,014**	44,128
Waiver from a non-controlling shareholder upon liquidation of a subsidiary	**–**	8,073
	249,062	53,511
	307,147	118,160

Note:

(a) The government grants mainly represent incentives received from the local governments for the purpose of compensation for expenditure arising from research activities and clinical trial activities and awards for new valve product development and expenditure incurred on certain projects.

6. LOSS BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold*		**87,351**	46,236
Research and development costs**		**258,336**	167,251
Depreciation of property, plant and equipment	13	**14,844**	10,633
Depreciation of right-of-use assets	14(a)	**14,325**	10,285
Amortisation of other intangible assets***	16	**22,452**	16,794
Impairment of trade receivables, net	20	**3,067**	(76)
Impairment of other receivables	21	**(19)**	26
(Reversal of write-down)/write-down of inventories to net realisable value	19	**(1,434)**	2,512
Impairment of other intangible assets	16	**46,189**	–
Impairment of goodwill	15	**189,957**	–
Auditor's remuneration		**5,124**	3,871
Government grants		**(6,687)**	(29,749)
Bank interest income		**(33,380)**	(34,667)
Other interest income		**(16,100)**	–
Loss on disposal of items of property, plant and equipment, net		**18**	560
Lease payments not included in the measurement of lease liabilities	14(c)	**1,932**	942
Waiver from a non-controlling shareholder upon liquidation of a subsidiary		**–**	(8,073)
Fair value gain on a derivative financial instrument		**(10,014)**	(44,128)
Fair value losses/(gains), net:			
Financial assets at fair value through profit or loss – mandatorily classified as such		**656**	(1,310)
Fair value adjustments of contingent considerations		**(239,048)**	–
Foreign exchange differences, net		**31,716**	60,145
Employee benefit expenses (excluding directors', supervisors' and chief executive's remuneration (note 8)):			
Wages and salaries		**198,379**	133,342
Pension scheme contributions****		**7,226**	1,165
Staff welfare expenses		**38,764**	15,290
		244,369	149,797

6. LOSS BEFORE TAX (Continued)

* The cost of inventories sold includes RMB44,676,000 (2020: RMB23,734,000) relating to employee benefit expenses, depreciation and amortisation, which is also included in the respective total amounts disclosed above for each type of expenses.

** The research and development costs include RMB97,909,000 (2020: RMB62,679,000) relating to employee benefit expenses, depreciation and amortisation, which are also included in the respective total amounts disclosed above for each type of expenses. It also included share award expense for a specialist of nil (2020: RMB9,000,000) during the year.

*** The amortisation of other intangible assets is included in "Cost of sales", "Selling and distribution expenses", "Administrative expenses" and "Research and development costs" on the face of the consolidated statement of profit or loss and other comprehensive income.

**** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 RMB'000	2020 RMB'000
Interest on bank loans	**70**	505
Interest on lease liabilities	**1,835**	1,654
Finance charge for a guarantee	**–**	2,013
	1,905	4,172

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	**1,185**	1,011
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,608**	3,229
Pension scheme contributions	**106**	6
	3,714	3,235
	4,899	4,246

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 RMB'000	2020 RMB'000
Mr. Ting Yuk Anthony Wu	**423**	337
Mr. Wan Yee Joseph Lau	**427**	337
Mr. Chi Wai Suen	**335**	337
	1,185	1,011

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
2021					
Mr. Zhenjun Zi [1]	–	847	33	–	880
Mr. Lim Hou-Sen (Lin Haosheng)	–	1,005	33	–	1,038
Mr. Min Frank Zeng [2]	–	1,368	7	–	1,375
	–	3,220	73	–	3,293
2020					
Mr. Zhenjun Zi [1]	–	803	2	–	805
Mr. Lim Hou-Sen (Lin Haosheng)	–	1,243	2	–	1,245
Mr. Min Frank Zeng [2]	–	780	–	–	780
	–	2,826	4	–	2,830

During the year ended 31 December 2021, no director was granted share award (2020: Nil).

(1) Mr. Zhenjun Zi was also the general manager of the Company during the year.

(2) Mr. Min Frank Zeng was also the chairman of the board of directors of the Company during the year.

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(c) Chief executive

The Group did not appoint a chief executive, and the duty of chief executive was performed by the general manager.

(d) Non-executive directors

There were no fees and other emoluments payable to non-executive directors during the year (2020: Nil).

(e) Supervisors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
2021					
Ms. Yan Xiao	–	388	33	–	421
Mr. Wei Wang	–	–	–	–	–
Ms. Lingling Yang	–	–	–	–	–
	–	388	33	–	421
2020					
Ms. Yan Xiao	–	403	2	–	405
Mr. Wei Wang	–	–	–	–	–
Ms. Lingling Yang	–	–	–	–	–
	–	403	2	–	405

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2020: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the four (2020: five) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, bonuses, allowances and benefits in kind	**6,881**	15,284
Pension scheme contributions	**126**	9
	7,007	15,293

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**–**	2
HK$5,000,001 to HK$5,500,000	**–**	1
	4	5

10. INCOME TAX

PRC

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations, the subsidiaries which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Company, since it was recognised as a High and New Technology Enterprise on 4 December 2019, and was entitled to a preferential tax rate of 15% during the year (2020: 15%).

USA

Pursuant to the relevant tax laws of the USA, federal corporation income tax was levied at the rate of 21% (2020: 21%) on the taxable income arising in the USA during the year.

Israel

Pursuant to the relevant tax laws of Israel, the corporate income tax was levied at 23% (2020: 23%) on the taxable income arising in Israel during the year.

United Kingdom ("UK")

Pursuant to the relevant tax laws of the UK, the principal federal tax was levied at the rate of up to 19% (2020: up to 19%) on the taxable income arising in the UK during the year.

Netherlands ("NL")

Pursuant to the relevant tax laws of the NL, the corporate income tax was levied at the rate of up to 25% (2020: up to 25%) on the taxable income arising in the NL during the year.

10. INCOME TAX (Continued)

The income tax expense/(credit) of the Group during the year is analysed as follows:

	2021 RMB'000	2020 RMB'000
Current – PRC		
Charge for the year	**1,601**	–
Current – USA		
Charge/(credit) for the year	**17**	(461)
Overprovision in prior years	**(773)**	–
Current – Israel		
Charge for the year	**361**	235
Current – UK		
Charge for the year	**6**	110
Current – NL		
Charge for the year	**181**	55
Deferred tax (note 29)	**(7,554)**	(2,914)
	(6,161)	(2,975)

10. INCOME TAX (Continued)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate to the tax credit at the effective tax rate is as follows:

	2021 RMB'000	2020 RMB'000
Loss before tax	**(377,555)**	(185,843)
Tax at the statutory tax rate	**(73,352)**	(33,867)
Preferential income tax rates enacted by local authority	**73,756**	4,488
Adjustments in respect of current tax of previous period	**(773)**	–
Expenses not deductible for tax	**3,905**	5,905
Income not subject to tax	**(40,267)**	(178)
Additional deductible allowance for research and development costs	**(11,010)**	(5,506)
Tax losses utilised from previous periods	**(1,616)**	–
Temporary differences and tax losses not recognised	**43,196**	26,183
Tax credit at the Group's effective tax rate	**(6,161)**	(2,975)

Deferred tax assets have not been recognised in respect of the following items:

	2021 RMB'000	2020 RMB'000
Tax losses	**1,380,847**	997,367
Deductible temporary differences	**775,283**	197,182
	2,156,130	1,194,549

10. INCOME TAX (Continued)

The Group has tax losses arising in Mainland China of RMB454,323,000 (2020: RMB332,627,000) that will expire in one to ten years for offsetting against taxable profits.

The Group has tax losses arising in the USA of US$2,055,000 (equivalent to RMB13,256,000) (2020: US$1,945,000 (equivalent to RMB13,418,000)) that have no limitation for offsetting against future taxable profits.

The Group has tax losses arising in Hong Kong of US$1,515,000 (equivalent to RMB9,772,000) (2020: US$973,000 (equivalent to RMB6,711,000)) that have no limitation for offsetting against future taxable profits.

The Group has tax losses arising in Israel of US$140,044,000 (equivalent to RMB903,496,000) (2020: US$93,454,000 (equivalent to RMB644,611,000)) that have no limitation for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDEND

No dividend has been paid or declared by the Company during the year (2020: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 438,577,016 (2020: 409,265,072) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

The calculation of basic loss per share is based on:

	2021 RMB'000	2020 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent	**(373,636)**	(181,989)

	Number of shares	
	2021	2020
Shares		
Weighted average number of shares in issue during the year	**438,577,016**	409,265,072

13. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in process RMB'000	Total RMB'000
31 December 2021						
At 1 January 2021:						
Cost	37,968	13,197	2,538	19,097	22,980	95,780
Accumulated depreciation	(10,672)	(2,410)	(1,478)	(11,925)	–	(26,485)
Net carrying amount	27,296	10,787	1,060	7,172	22,980	69,295
At 1 January 2021, net of accumulated depreciation	27,296	10,787	1,060	7,172	22,980	69,295
Additions	13,987	8,319	1,269	1,999	60,841	86,415
Acquisition of a subsidiary (note 33)	940	28	–	263	–	1,231
Disposals	(31)	(31)	–	–	–	(62)
Depreciation provided during the year (note 6)	(5,797)	(3,892)	(197)	(4,958)	–	(14,844)
Transfers	5,719	186	–	23,028	(28,933)	–
Exchange realignment	(23)	(105)	431	(101)	–	202
At 31 December 2021, net of accumulated depreciation	42,091	15,292	2,563	27,403	54,888	142,237
At 31 December 2021:						
Cost	58,341	21,498	3,807	44,259	54,888	182,793
Accumulated depreciation	(16,250)	(6,206)	(1,244)	(16,856)	–	(40,556)
Net carrying amount	42,091	15,292	2,563	27,403	54,888	142,237

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in process RMB'000	Total RMB'000
31 December 2020						
At 1 January 2020:						
Cost	28,813	7,366	1,456	13,961	842	52,438
Accumulated depreciation	(6,306)	(1,425)	(398)	(8,762)	–	(16,891)
Net carrying amount	22,507	5,941	1,058	5,199	842	35,547
At 1 January 2020, net of accumulated depreciation	22,507	5,941	1,058	5,199	842	35,547
Additions	2,563	5,951	175	4,958	31,661	45,308
Disposals	(532)	(20)	(40)	–	–	(592)
Depreciation provided during the year (note 6)	(4,701)	(1,042)	(1,083)	(3,807)	–	(10,633)
Transfers	7,523	124	950	926	(9,523)	–
Exchange realignment	(64)	(167)	–	(104)	–	(335)
At 31 December 2020, net of accumulated depreciation	27,296	10,787	1,060	7,172	22,980	69,295
At 31 December 2020:						
Cost	37,968	13,197	2,538	19,097	22,980	95,780
Accumulated depreciation	(10,672)	(2,410)	(1,478)	(11,925)	–	(26,485)
Net carrying amount	27,296	10,787	1,060	7,172	22,980	69,295

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises generally have lease terms between 2 and 5 years, while motor vehicles generally have lease terms of 3 years. Other office premises generally have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Office premises RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2020	–	24,234	600	24,834
Additions	–	16,017	803	16,820
Depreciation charge (note 6)	–	(9,864)	(421)	(10,285)
Reductions as a result of termination of leases	–	(426)	–	(426)
Exchange realignment	–	(216)	(17)	(233)
As at 31 December 2020 and 1 January 2021	**–**	**29,745**	**965**	**30,710**
Additions	**43,389**	**49,247**	**332**	**92,968**
Depreciation charge (note 6)	**(103)**	**(14,222)**	**–**	**(14,325)**
Reductions as a result of termination of leases	**–**	**–**	**(516)**	**(516)**
Exchange realignment	**–**	**(305)**	**(22)**	**(327)**
As at 31 December 2021	**43,286**	**64,465**	**759**	**108,510**

14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount as at 1 January	**32,763**	26,304
New leases	**49,579**	16,820
Reductions as a result of termination of leases	**(516)**	(409)
Accretion of interest recognised during the year	**1,835**	1,654
Exchange realignment	**(399)**	(385)
Payment	**(17,387)**	(11,221)
Carrying amount as at 31 December	**65,875**	32,763
Analysed into:		
Current portion	**17,727**	11,092
Non-current portion	**48,148**	21,671

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

14. LEASES (Continued)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	**1,835**	1,654
Depreciation charge of right-of-use assets	**14,325**	10,285
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses) (note 6)	**1,932**	942
Total amount recognised in profit or loss	**18,092**	12,881

(d) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

15. GOODWILL

	RMB'000
Cost as at 1 January 2020	479,626
Acquisition of a subsidiary	42,322
Exchange realignment	(34,631)
Net carrying amount as at 31 December 2020	487,317
At 31 December 2020:	
Cost	487,317
Accumulated impairment	–
Net carrying amount	487,317
Cost as at 1 January 2021	**487,317**
Acquisition of a subsidiary (note 33)	**231,262**
Impairment during the year (note 6)	**(189,957)**
Exchange realignment	**(8,911)**
Net carrying amount as at 31 December 2021	**519,711**
At 31 December 2021:	
Cost	**707,436**
Accumulated impairment	**(187,725)**
Net carrying amount	**519,711**

15. GOODWILL (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Keystone cash-generating unit;
- 510 Kardiac cash-generating unit; and
- Nuocheng cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

As at 31 December 2021

	Keystone RMB'000	510 Kardiac RMB'000	Nuocheng RMB'000	Total RMB'000
Carrying amount of goodwill	**250,617**	**37,832**	**231,262**	**519,711**

As at 31 December 2020

	Keystone RMB'000	510 Kardiac RMB'000	Total RMB'000
Carrying amount of goodwill	448,598	38,719	487,317

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Keystone cash-generating unit

The recoverable amount of the Keystone unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a 10-year period approved by senior management. Management considers that cash-generating unit's value in use is higher than its fair value less costs of disposal based on the current available information. Moreover, management also considers that using a 10-year forecast period for a financial budget in the goodwill impairment test is appropriate because the useful life of Keystone's relevant intellectual property is longer than ten years, and it generally takes longer for a medical device company to reach a perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the market of such product is at an early stage of development with substantial growth potential. Hence, financial budgets covering a 10-year period were used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

Key assumptions used in the calculation are as follows:

	2021	2020
Revenue (% compound growth rate)	**45.92%**	48.64%
Gross margin (% of revenue)	**65.00% – 74.00%**	65.00% – 74.00%
Terminal growth rate	**0%**	0%
Pre-tax discount rate	**14.20%**	14.70%

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Keystone cash-generating unit (Continued)

Assumptions were used in the value-in-use calculation of the cash-generating unit as at 31 December 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch Keystone's product and also expectation of the future market. Keystone's product candidate, TriGUARD3 cerebral embolic protection device ("Keystone Product"), obtained the CE marking in March 2020. Management expected to file for the Food and Drug Administration (the "FDA") 510 (k) clearance in the USA in the third quarter of 2021 as at 31 December 2020. Management filed for clearance in March 2021. However, marketing application filed with the FDA has been suspended in September 2021. The National Medical Products Administration of China (the "NMPA") has accepted the marketing application of Keystone Product submitted by the Company in October 2021. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch Keystone Product, increased for expected efficiency improvements and expected market development.

The values assigned to the key assumptions on market development of related products and the pre-tax discount rate are consistent with external information sources.

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Keystone cash-generating unit (Continued)

Due to the aforementioned suspension in application for the FDA 510(k) clearance in the USA for Keystone Product, the revenue and gross margin from the USA market decreased substantially and management recognised an impairment charge following a reduction in projected cash flows. Based on the impairment assessment, an impairment loss of goodwill of approximately RMB189,957,000 (2020: Nil) was recognised in profit or loss for the year ended 31 December 2021. The recoverable amount of Keystone cash-generating unit at the end of the reporting period was RMB369,791,000 (2020: RMB756,888,000).

510 Kardiac cash-generating unit

The recoverable amount of the 510 Kardiac unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a 10-year period approved by senior management. Management considers that using a 10-year forecast period for a financial budget in the goodwill impairment test is appropriate because the useful life of 510 Kardiac's relevant intellectual property is longer than ten years, and it generally takes longer for a medical device company to reach a perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the market of such product is at an early stage of development with substantial growth potential. Hence, financial budgets covering a 10-year period were used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

510 Kardiac cash-generating unit (Continued)

Key assumptions used in the calculation are as follows:

	2021	2020
Revenue (% compound growth rate)	**39.26%**	39.26%
Gross margin (% of revenue)	**58.99% – 75.07%**	58.99% – 75.07%
Terminal growth rate	**2.50%**	2.50%
Pre-tax discount rate	**29.14%**	33.94%

Assumptions were used in the value in use calculation of the cash-generating unit as at 31 December 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch 510 Kardiac's product and also expectation of the future market. Management has filed for FDA 510 (k) clearance in the USA for 510 Kardiac's product in December 2020 and the FDA 510 (k) clearance was obtained in December 2020. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch 510 Kardiac's product increased for expected efficiency improvements and expected market development.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

510 Kardiac cash-generating unit (Continued)

If the pre-tax discount rate rose to 29.96%, the gross margin decreased to the range from 58.34% to 74.42%, the terminal growth rate decreased to 0.00% or the compound growth rate of revenue decreased to 38.61% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of goodwill. Except for these, any reasonable possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment as at 31 December 2021.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amount of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary.

The values assigned to the key assumptions on market development of related products and the after-tax discount rate are consistent with external information sources.

Nuocheng cash-generating unit

The recoverable amount of the Nuocheng unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a 10-year period approved by senior management. Management considers that using a 10-year forecast period for a financial budget in the goodwill impairment test is appropriate because the useful life of Nuocheng's relevant intellectual property is longer than ten years, and it generally takes longer for a medical device company to reach a perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the commercialisation of such product has not been commenced while the market of such products has substantial growth potential. Hence, financial budgets covering a 10-year period were used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Nuocheng cash-generating unit (Continued)

Key assumptions used in the calculation are as follows:

	2021
Revenue (% compound growth rate)	**80.14%**
Gross margin (% of revenue)	**76.56% – 84.91%**
Terminal growth rate	**0%**
Pre-tax discount rate	**17.50%**

Assumptions were used in the value in use calculation of the cash-generating unit as at 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch Nuocheng's product and also expectation of the future market. Nuocheng's product candidate, Liwen RF ablation system ("Nuocheng Product"), is at clinical trial stage. Management expects to submit a filing application to NMPA for review and approval in the fourth quarter of 2023. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch Nuocheng Product, increased for expected efficiency improvements and expected market development.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Nuocheng cash-generating unit (Continued)

If the pre-tax discount rate rose to 20.93%, the gross margin decreased to the range from 70.59% to 79.94%, the terminal growth rate decreased to 0.00% or the compound growth rate of revenue decreased to 81.35% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of goodwill. Except for these, any reasonable possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment as at 31 December 2021.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amount of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary.

The values assigned to the key assumptions on market development of related products and the after-tax discount rate are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Intellectual property RMB'000	Software RMB'000	Total RMB'000
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	**213,254**	**19,750**	**233,004**
Additions	**16,988**	**16,232**	**33,220**
Acquisition of a subsidiary (note 33)	**111,000**	**–**	**111,000**
Impairment during the year (note 6)	**(46,189)**	**–**	**(46,189)**
Amortisation provided during the year (note 6)	**(19,586)**	**(2,866)**	**(22,452)**
Exchange realignment	**(3,839)**	**–**	**(3,839)**
At 31 December 2021	**271,628**	**33,116**	**304,744**
At 31 December 2021:			
Cost	**368,525**	**39,083**	**407,608**
Accumulated amortisation and impairment	**(96,897)**	**(5,967)**	**(102,864)**
Net carrying amount	**271,628**	**33,116**	**304,744**
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	180,157	4,988	185,145
Additions	47,193	16,464	63,657
Acquisition of a subsidiary	14,748	–	14,748
Amortisation provided during the year (note 6)	(15,092)	(1,702)	(16,794)
Exchange realignment	(13,752)	–	(13,752)
At 31 December 2020	213,254	19,750	233,004
At 31 December 2020:			
Cost	245,695	22,851	268,546
Accumulated amortisation	(32,441)	(3,101)	(35,542)
Net carrying amount	213,254	19,750	233,004

16. OTHER INTANGIBLE ASSETS (Continued)

During the year, the directors considered that certain items of intellectual property of the Group were subject to impairment loss because of decreasing production outputs and the under-performing cash-generating units to which the intellectual properties belong.

The recoverable amounts of the intellectual property have been determined based on value-in-use calculations which were approved by management using cash flow projections based on financial budgets covering the remaining useful lives of the items of intellectual property. Independent valuers were engaged to assist to determine the recoverable amounts of the intellectual property. The discount rates used for the value-in-use calculations as at 31 December 2021 were between 13.66% and 23.00%.

An impairment provision of RMB46,189,000 (2020: Nil) was recognised in profit or loss during the year.

17. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	**76,184**	37,995

The Group's shareholdings in these associates comprise equity shares held through a wholly-owned subsidiary of the Company. The Group's investments in associates are accounted for under the equity method of accounting because the Group has significant influence over these entities by way of representation on the board of directors or equivalent governing body of the investee and participation in the policy-making process, despite the fact that the Group's direct equity interest in these entities was lower than 20% for the years ended 31 December 2021 and 2020.

17. INVESTMENTS IN ASSOCIATES (Continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' (loss)/profit for the year	**(11,711)**	570
Share of the associates' total comprehensive (loss)/income	**(11,711)**	570
Aggregate carrying amount of the Group's investments in the associates	**76,184**	37,995

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 RMB'000	2020 RMB'000
Unlisted equity investments, at fair value		
Colibri Heart Valve LLC	**–**	–
Opus Medical Therapies, LLC ("Opus")	**16,194**	6,525
	16,194	6,525

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

The fair value adjustment on the unlisted equity investment measured at fair value through other comprehensive income for the year was in an amount of gain of RMB3,158,000 (2020: amounts of losses of RMB30,346,000).

The fair value of the unlisted equity investments which are not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

19. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**37,918**	30,667
Work in progress	**13,399**	8,616
Finished goods	**41,591**	24,444
	92,908	63,727
Provision for impairment of inventories	**(2,389)**	(3,823)
	90,519	59,904

The movements in provision for impairment of inventories are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**3,823**	1,311
Provision, net (note 6)	**(1,434)**	2,512
At end of year	**2,389**	3,823

20. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**308,639**	234,698
Impairment	**(6,543)**	(3,667)
	302,096	231,031

The Group's trading terms with its customers are mainly on credit. The credit period is generally six months to one year. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2021 RMB'000	2020 RMB'000
Within 6 months	**184,308**	180,606
7 to 12 months	**92,884**	39,658
1 to 2 years	**24,664**	10,301
Over 2 years	**240**	466
	302,096	231,031

20. TRADE RECEIVABLES (Continued)

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

	2021 RMB'000	2020 RMB'000
At beginning of year	**3,667**	3,802
Impairment losses, net (note 6)	**3,067**	(76)
Amount written off as uncollectible	**(191)**	(59)
At end of year	**6,543**	3,667

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The expected credit loss rate was reviewed, and adjusted if appropriate, as at the end of the reporting period. The provision matrix is initially based on the historical observed default rates from listed companies in the same sector. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Less than 1 year	1 to 2 years	2 to 3 years	Total
As at 31 December 2021				
Expected credit loss rate	**1.30%**	**10.14%**	**32.96%**	**2.12%**
Gross carrying amount (RMB'000)	**280,834**	**27,447**	**358**	**308,639**
Expected credit losses (RMB'000)	**3,642**	**2,783**	**118**	**6,543**
As at 31 December 2020				
Expected credit loss rate	0.99%	9.34%	45.93%	1.56%
Gross carrying amount (RMB'000)	222,475	11,363	860	234,698
Expected credit losses (RMB'000)	2,211	1,061	395	3,667

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 RMB'000	2020 RMB'000
Non-current:		
Prepayments for purchase of items of other intangible assets	**1,851**	15,367
Long-term deposits	**4,280**	2,346
Prepayments for purchase of items of property, plant and equipment	**10,799**	9,606
	16,930	27,319
Current:		
Other receivables	**38,563**	11,893
Prepayments	**34,416**	12,154
Value-added tax recoverable	**15,248**	10,194
Prepaid rental expenses	**1,021**	778
	89,248	35,019
Impairment of other receivables	**(16)**	(35)
	89,232	34,984

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.

The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. For rental deposits included in other receivables, the balances were settled within 12 months and had no historical default. Except for the above balances, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2021 and 2020, the Group estimated that the loss allowance for other receivables was minimal.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The movements in provision for impairment of other receivables are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**35**	9
Impairment losses, net (note 6)	**(19)**	26
At end of year	**16**	35

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Non-current:		
Unlisted debt investments, at fair value		
Cardiovalve Ltd.	**219,962**	–
Valgen Holding Corporation	**95,635**	–
Pi-Cardia Ltd.	**84,178**	29,630
Opus	**62,667**	34,843
Healium Medical Ltd.	**9,803**	–
Atom Semiconductor Ltd.	**4,910**	–
	477,155	64,473
Current:		
Derivative financial instrument, at fair value	**–**	44,128
	477,155	108,601

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The above unlisted debt investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The Group entered into a forward currency contract in order to manage the Group's foreign currency exposure in relation to HK$ against RMB. The forward currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. For the year ended 31 December 2021, a gain on the forward currency contract of RMB10,014,000 (2020: RMB44,128,000) is included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income.

23. CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	**2,604,591**	2,423,054
Time deposits	**353,184**	544,832
	2,957,775	2,967,886
Less: Pledged deposits	**(2,563)**	(259,716)
Cash and cash equivalents	**2,955,212**	2,708,170
Denominated in:		
RMB	**1,816,049**	1,288,479
US$	**447,994**	548,381
HK$	**693,732**	1,130,566
Great Britain Pound ("GBP")	**–**	460
Total cash and bank balances, including pledged deposits	**2,957,775**	2,967,886

23. CASH AND CASH EQUIVALENTS (Continued)

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The Group entered into an agreement of a deposit for a guarantee of a loan facility with a financial institution based on the request in the acquisition agreement of Keystone. As at 31 December 2020, the Group's pledged deposits of RMB257,217,000 were pledged for this guarantee. The guarantee was terminated in 2021 and there were no such pledged deposits as at 31 December 2021.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for periods of between six and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

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

	2021 RMB'000	2020 RMB'000
Within 3 months	**7,812**	4,034
3 to 6 months	**685**	375
6 to 12 months	**172**	815
Over 12 months	**82**	71
	8,751	5,295

Trade payables are non-interest-bearing and are normally settled on 30-day terms.

25. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Non-current:		
Contingent consideration payables	**167,480**	–
Current:		
Contingent consideration payables (note (a))	**–**	246,260
Other payables	**103,022**	74,732
Payroll payable	**41,710**	37,495
	144,732	358,487
	312,212	358,487

Other payables are non-interest-bearing and repayable on demand.

As part of the purchase agreements, portions of the consideration were determined to be contingent. The movement of the fair value of contingent consideration payables is as follows:

	RMB'000
At 1 January 2020, 31 December 2020 and 1 January 2021	**246,260**
Arising from acquisition of Nuocheng (note 33)	**163,038**
Fair value changes	**(239,048)**
Exchange realignment	**(2,770)**
At 31 December 2021	**167,480**

25. OTHER PAYABLES AND ACCRUALS (Continued)

The fair values of the contingent consideration payables were determined using the discounted cash flow method and are within Level 3 fair value measurement. Significant unobservable valuation inputs for the fair value measurement of the contingent considerations are as follows:

	2021	2020
Discount rate	**0%-17.5%**	0%
Discount for own non-performance risk	**20%-100%**	0%

Note:

(a) The balance represents the contingent payment of considerations related to the acquisition of Keystone. As part of the share purchase agreement, contingent consideration is payable, which is dependent on the occurrence of milestone events, with respect to Keystone Product, authorisation and clearance by the FDA to market and sell Keystone Product in the USA. Management filed for FDA 510 (k) clearance in the USA for Keystone Product in March 2021. However, marketing application filed with the FDA has been suspended in September 2021. As at 31 December 2021, in the opinion of the directors, due to the suspension of filing for FDA 510 (k) clearance in the USA for Keystone Product, the contingent consideration was no longer payable according to the share purchase agreement. Thus, the fair value of the contingent consideration was assessed to be zero.

26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2021 RMB'000	2020 RMB'000
Current				
Bank loans – unsecured	LPR plus 2.15%	2022	**500**	–
Current portion of long-term bank loan – secured (note (a))	LPR plus 0.60%	2022	**4,400**	–
			4,900	–
Analysed into:				
Bank loans repayable within one year			**4,900**	–

Note:

(a) The bank loan of RMB4,400,000 is secured by the previous controlling shareholder of Nuocheng.

27. GOVERNMENT GRANTS

	2021 RMB'000	2020 RMB'000
Government grants		
Current	**14,993**	14,046
Non-current	**–**	1,062
	14,993	15,108

27. GOVERNMENT GRANTS (Continued)

The movements in government grants during the year are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**15,108**	24,046
Grants received	**600**	2,112
Recognised as income	**(715)**	(11,050)
At end of year	**14,993**	15,108
Analysed into:		
Current portion	**14,993**	14,046
Non-current portion	**–**	1,062

The grants are related to the subsidies received from the local government for the purpose of compensation for expenses arising from research activities and clinical trials, and awards for new valve product development and capital expenditure incurred on certain projects.

28. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities:

	2021 RMB'000	2020 RMB'000
Short-term advances received from customers		
Sale of products	**2,845**	2,442

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. Revenue of RMB61,000 (2020: Nil) was recognised related to contract liabilities which were carried forward.

29. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

2021

Deferred tax liabilities

	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2021	–	35,832	5,855	41,687
Deferred tax charged/(credited) to profit or loss during the year (note 10)	–	(10,041)	6,205	(3,836)
Deferred tax charged to other comprehensive income during the year	568	–	–	568
Acquisition of a subsidiary (note 33)	–	27,750	–	27,750
Exchange realignment	–	(707)	(77)	(784)
Gross deferred tax liabilities at 31 December 2021	568	52,834	11,983	65,385

29. DEFERRED TAX (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

2021 (Continued)

Deferred tax assets

	Accrued expenses RMB'000	Lease liabilities RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2021	2,901	6,213	787	9,901
Deferred tax credited to profit or loss during the year (note 10)	(2,080)	5,798	–	3,718
Acquisition of a subsidiary (note 33)	–	–	7,402	7,402
Exchange realignment	(821)	(78)	(18)	(917)
Gross deferred tax assets at 31 December 2021	–	11,933	8,171	20,104

29. DEFERRED TAX (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

2020

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2020	37,292	4,182	41,474
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(2,238)	1,898	(340)
Acquisition of a subsidiary	3,355	–	3,355
Exchange realignment	(2,577)	(225)	(2,802)
Gross deferred tax liabilities at 31 December 2020	35,832	5,855	41,687

Deferred tax assets

	Accrued expenses RMB'000	Lease liabilities RMB'000	Loss available for offsetting against future taxable profits RMB'000	Total RMB'000
At 1 January 2020	2,581	4,401	–	6,982
Deferred tax credited to profit or loss during the year (note 10)	528	2,046	–	2,574
Acquisition of a subsidiary	–	–	860	860
Exchange realignment	(208)	(234)	(73)	(515)
Gross deferred tax liabilities at 31 December 2020	2,901	6,213	787	9,901

29. DEFERRED TAX (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2021 RMB'000	2020 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**8,170**	1,156
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(53,451)**	(32,942)
Net deferred tax liabilities	**(45,281)**	(31,786)

30. SHARE CAPITAL

Shares

	2021 RMB'000	2020 RMB'000
Issued and fully paid: 441,011,443 (2020: 422,968,943) ordinary shares of RMB1.00 each	**441,012**	422,969

30. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Numbers of ordinary shares	Share capital RMB'000
At 1 January 2020		404,468,943	404,469
Issue of shares upon placement of shares	(a)	18,500,000	18,500
At 31 December 2020 and 1 January 2021		422,968,943	422,969
Issue of shares upon placement of shares	(b)	18,042,500	18,043
As at 31 December 2021		**441,011,443**	**441,012**

Notes:

(a) On 10 September 2020, the Company placed, through the placing agent, 18,500,000 shares at a price of HK$64.19 per placing share for a total cash consideration, before expenses, of approximately HK$1,187,515,000 (equivalent to RMB1,046,949,000). The share issue expense was approximately HK$14,341,000 (equivalent to RMB12,644,000).

(b) On 29 January 2021, the Company placed, through the placing agent, 18,042,500 shares at a price of HK$80.08 per placing share for a total cash consideration, before expenses, of approximately HK$1,444,843,000 (equivalent to RMB1,205,896,000). The share issue expense was approximately HK$17,449,000 (equivalent to RMB14,564,000).

(c) The Company purchased 3,114,000 of its shares on the Stock Exchange for a total cash consideration of HK$88,688,000 (equivalent to RMB72,548,000), none of which was cancelled as at 31 December 2021.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the Group.

a) Share premium

The share premium of the Group represents the share premium contributed by the shareholders of the Company after its conversion into a joint stock company in November 2018.

b) Other reserves

Other reserves of the Group represent the share premium contributed by the shareholders of the Company before its conversion into a joint stock company in November 2018, and also the share-based compensation reserve due to equity-settled share awards.

c) Fair value reserve

The fair value reserve represents the fair value of equity investments at fair value through other comprehensive income.

d) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

32. SHARE AWARD

The Company granted share award to certain personnel in order to recognise and reward the contribution of certain specialists to the growth and development of the Group, and to retain certain eligible employees for the continual operation and development of the Group through an award of the Company's shares in prior years. During the year, the Company did not grant any new share award.

During the year ended 31 December 2020, share award expense of RMB9,000,000, which was for a specialist, was charged to profit or loss. During the year ended 31 December 2021, there was no share award expense.

33. BUSINESS COMBINATIONS

On 4 November 2021, the Group acquired a 100% equity interest in Nuocheng, which is a private company incorporated in the PRC engaged in the design, development, and commercialisation of medical devices, at a consideration of RMB310,863,000. The acquisition was made as part of the Group's strategy to further improve the Group's research and development business and expand the business of the Group's medical services.

The acquisition was completed on 4 November 2021 when the Group obtained control of the operating and financial activities of Nuocheng.

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

	Notes	Fair value recognised on acquisition RMB'000
Cash and bank balances		1,583
Prepayments		276
Other receivables		11
Other current assets		1,070
Property, plant and equipment	13	1,231
Other intangible assets	16	111,000
Deferred tax assets	29	7,402
Other payables and accruals		(5,621)
Interest-bearing bank borrowings		(9,600)
Deferred tax liabilities	29	(27,750)
Total identifiable net assets at fair value		79,602
Goodwill on acquisition	15	231,262
		310,864
Satisfied by:		
Cash consideration paid during the year ended 31 December 2021		126,175
Cash consideration payable as at 31 December 2021		21,651
Contingent consideration payables as at 4 November 2021		163,038
		310,864

33. BUSINESS COMBINATIONS (Continued)

The fair value of the other receivables as at the date of acquisition amounted to RMB11,000 and the gross contractual amount of the other receivables was RMB11,000.

The Group incurred transaction costs of RMB314,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The goodwill of RMB231,262,000 recognised above is due to the new markets entered into by the Group to achieve product and business diversification. The above factor is neither separable nor contractual and therefore it does not meet the criteria for recognition as intangible assets under IAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the share purchase agreement, contingent consideration is payable, which is dependent on the occurrence of milestone events, including the achievement of the NMPA approval and medical device registration of Nuocheng Product ("Milestone 1"), and the achievement of a sales target from the sales of Nuocheng Product ("Milestone 2"). The initial amount recognised was RMB163,038,000 which was determined using the discounted cash flow model and is within Level 3 fair value measurement. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

33. BUSINESS COMBINATIONS (Continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(126,175)
Cash and bank balances acquired	1,583
Net outflow of cash and cash equivalents included in cash flows from investing activities	(124,592)
Transaction costs of the acquisition included in cash flows from operating activities	(314)
	(124,906)

Since the acquisition, Nuocheng has not contributed any revenue to the Group and has caused loss of RMB1,804,000 to the Group's consolidated loss for the year ended 31 December 2021.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been RMB415,862,000 and RMB389,342,000, respectively.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB49,579,000 (2020: RMB16,820,000) and RMB49,579,000 (2020: RMB16,820,000, respectively, in respect of lease arrangements for office premises and motor vehicles.

(b) Changes in liabilities/assets arising from financing activities

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

	Interest payable RMB'000	Lease liabilities RMB'000	Interest-bearing bank borrowings RMB'000
At 1 January 2021	–	**32,763**	–
Changes from financing cash flows			
– Repayment of bank loans	–	–	**(4,700)**
– Interest paid	**(127)**	–	–
– Principal portion of lease payments	–	**(15,552)**	–
– Interest portion of lease payments	–	**(1,835)**	–
Interest on bank loans	**70**	–	–
Interest on lease liabilities	–	**1,835**	–
New leases	–	**49,579**	–
Exchange differences, net	–	**(399)**	–
Reductions as a result of termination of leases	–	**(516)**	–
Acquisition of a subsidiary	**57**	–	**9,600**
At 31 December 2021	–	**65,875**	**4,900**

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities/assets arising from financing activities (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2020

	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Deposit for a guarantee of a loan facility RMB'000
At 1 January 2020	120,000	166	26,304	270,277
Changes from financing cash flows				
– Repayment of bank loans	(120,000)	–	–	–
– Interest paid	–	(671)	–	–
– Principal portion of lease payments	–	–	(9,567)	–
– Interest portion of lease payments	–	–	(1,654)	–
– Repayment of a deposit	–	–	–	(274,074)
Interest on bank loans	–	505	–	–
Interest on lease liabilities	–	–	1,654	–
New leases	–	–	16,820	–
Exchange differences, net	–	–	(385)	3,797
Reductions as a result of termination of leases	–	–	(409)	–
At 31 December 2020	–	–	32,763	–

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	**1,932**	942
Within financing activities	**17,387**	11,221
	19,319	12,163

35. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	**112,434**	11
Purchases of other intangible assets	**2,343**	2,790
Capital consideration to purchase a subsidiary	**121,138**	–
Capital contribution payable to purchase limited partnership interests	**63,757**	–
	299,672	2,801

36. RELATED PARTY TRANSACTIONS

Name	Relationship with the Company
ACM (HK) 02 Limited ("ACM")	An entity which owns the non-controlling interests of a subsidiary
Reactor Two (HK) Limited ("Reactor")	An entity which owns the non-controlling interests of a subsidiary

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had no other transactions with related parties during the year.

(b) Other transactions with related parties:

On 14 October 2020, the Group entered into an agreement with third parties for setting up a partly-owned subsidiary, Haoyue, in which the Group has a 60% equity interest, and the Group paid the corresponding consideration of RMB30,000,000. On 4 November 2020, the Group entered into an agreement to sell 38.33% and 6.67% of equity interests in Haoyue to ACM and Reactor with considerations of RMB19,167,000 and RMB3,333,000, respectively. Since Haoyue has not formally commenced operation before December 2020, the Group sold the equity interests at the original price. The total consideration of RMB22,500,000 was fully settled in 2021. Meanwhile, the Group entered into a contractual arrangement with ACM and Reactor, which entitled the delegation of ACM's and Reactor's corresponding voting rights in Haoyue to the Group. Under this contractual arrangement, the Group has 60% of voting rights in Haoyue and therefore, the Group accounted for Haoyue as a subsidiary.

36. RELATED PARTY TRANSACTIONS (Continued)

(c) The Group had following outstanding balances with related parties:

	2021 RMB'000	2020 RMB'000
Due from related parties*:		
ACM	–	19,167
Reactor	–	3,333
	–	22,500

The balances with related parties are unsecured, interest-free and repayable on demand.

* The balances are non-trade in nature.

(d) Compensation of key management personnel of the Group:

	2021 RMB'000	2020 RMB'000
Salaries, bonuses, allowances and benefits in kind	**9,142**	10,843
Pension scheme contributions	**139**	9
Total compensation paid to key management personnel	**9,281**	10,852

Further details of directors', supervisors' and the chief executive's emoluments are included in note 8 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss: Mandatorily classified as such RMB'000	Financial assets at fair value through other comprehensive income: Equity instruments RMB'000	Total RMB'000
Equity investments designated at fair value through comprehensive income	–	–	16,194	16,194
Financial assets at fair value through profit or loss	–	477,155	–	477,155
Trade receivables	302,096	–	–	302,096
Financial assets included in prepayments, other receivables and other assets	42,330	–	–	42,330
Pledged deposits	2,563	–	–	2,563
Cash and cash equivalents	2,955,212	–	–	2,955,212
	3,302,201	477,155	16,194	3,795,550

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2021 (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	8,751	8,751
Financial liabilities included in other payables and accruals	–	103,022	103,022
Interest-bearing bank borrowings	–	4,900	4,900
Contingent consideration payables	167,480	–	167,480
	167,480	116,673	284,153

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2020

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss: Mandatorily classified as such RMB'000	Financial assets at fair value through other comprehensive income: Equity instruments RMB'000	Total RMB'000
Equity investments designated at fair value through comprehensive income	–	–	6,525	6,525
Financial assets at fair value through profit or loss	–	108,601	–	108,601
Trade receivables	231,031	–	–	231,031
Financial assets included in prepayments, other receivables and other assets	14,204	–	–	14,204
Due from related parties	22,500	–	–	22,500
Pledged deposits	259,716	–	–	259,716
Cash and cash equivalents	2,708,170	–	–	2,708,170
	3,235,621	108,601	6,525	3,350,747

37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2020 (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	5,295
Financial liabilities included in other payables and accruals	320,992
	326,287

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All the carrying amounts of the Group's financial instruments approximate to their fair values. Management has assessed that the fair values of cash and cash equivalents, pledged deposits, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, trade receivables, interest-bearing bank borrowings, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The financial department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance controller. The valuation process and results are discussed with the directors twice a year for interim and annual financial reporting.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all required significant inputs to fair value of an instrument are observable, the instruments are included in Level 2. If one or more of the significant inputs are not based on observable market data, the instruments are included in Level 3.

The Group enters into a derivative financial instrument with a counterparty, a financial institution with a AAA credit rating. The derivative financial instrument, being a forward currency contract, is measured using valuation techniques similar to forward pricing. The models incorporate various market observable inputs including the forward exchange rate and discount rate. The carrying amount of the forward currency contract is the same as its fair value. The Group has also invested in unlisted debt investments which fair value is determined on a recent transaction valuation. The Group classifies the fair value of these investments as Level 2.

For Level 3 financial assets, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include the discounted cash flow method for unlisted debt investments measured as financial assets at fair value through profit or loss, and an unlisted equity investment measured as a financial asset at fair value through other comprehensive income. The fair value measurement of these financial instruments may involve unobservable inputs such as the risk-free rate and discount rate. The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial assets in Level 3.

The fair values of the contingent consideration payables were determined using the discounted cash flow method and are within Level 3 fair value measurement.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

2021

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Discounted cash flow method	Risk-free rate	1.17%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/ increase in fair value by RMB (2,181,000)/RMB2,294,000
		Discount rate	12.59%	5% increase/(decrease) in the discount rate would result in a (decrease)/ increase in fair value by RMB (4,873,000)/RMB6,122,000
Financial assets at fair value through profit or loss	Discounted cash flow method	Risk-free rate	0.97%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/ increase in fair value by RMB (1,016,000)/RMB1,057,000
		Discount rate	13.85%	5% increase/(decrease) in the discount rate would result in a (decrease)/ increase in fair value by RMB (3,450,000)/RMB4,114,000
Contingent consideration payables	Discounted cash flow method	Discount rate	17.50%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/ increase in fair value by RMB (4,520,000)/RMB4,692,000
		Discount for own performance risk for Milestone 1	90.00%	5% increase/(decrease) in multiple would result in a increase/ (decrease) in fair value by RMB9,304,000/RMB (9,304,000)
		Discount for own performance risk for Milestone 2	80.00%	5% increase/(decrease) in multiple would result in a increase/ (decrease) in fair value by RMB1,676,000/RMB (1,676,000)

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020: (Continued)

2020

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Discounted cash flow method	Risk-free rate	1.36%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/ increase in fair value by RMB (1,109,000)/RMB1,174,000
		Discount rate	12.00%	5% increase/(decrease) in the discount rate would result in a (decrease)/ increase in fair value by RMB (1,905,000)/RMB2,453,000
Financial assets at fair value through profit or loss	Discounted cash flow method	Risk-free rate	0.27%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/ increase in fair value by RMB (731,000)/RMB770,000
		Discount rate	13.10%	5% increase/(decrease) in the discount rate would result in a (decrease)/ increase in fair value by RMB (1,716,000)/RMB2,147,000
Contingent consideration payables	Discounted cash flow method	Discount for own performance risk	100%	5% decrease in the multiple would result in a decrease in fair value by RMB12,313,000

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	16,194	–	16,194
Financial assets at fair value through profit or loss				
Unlisted debt investments	–	330,310	146,845	477,155
	–	346,504	146,845	493,349

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments: (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	6,525	–	6,525
Financial assets at fair value through profit or loss				
Unlisted debt investments	–	–	64,473	64,473
Derivative financial instrument	–	44,128	–	44,128
	–	50,653	64,473	115,126

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2021 RMB'000	2020 RMB'000
Equity investment at fair value through other comprehensive income		
As at 1 January	–	29,740
Total gains recognised in other comprehensive income	–	(29,740)
As at 31 December	–	–
Financial assets at fair value through profit or loss		
As at 1 January	**64,473**	–
Purchases	**81,041**	63,163
Total gains recognised in profit or loss included in other income	**1,331**	1,310
As at 31 December	**146,845**	64,473

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Contingent consideration payables	–	–	**167,480**	**167,480**

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Contingent consideration payables	–	–	246,260	246,260

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from investing and financing activities of the Company and purchasing activities of operating entities in currencies other than the entities' functional currencies. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax and the Group's equity. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in loss before tax RMB'000	Increase/ (decrease) in equity RMB'000
2021			
If the RMB weakens against the US$	**5**	**10,820**	**10,820**
If the RMB strengthens against the US$	**(5)**	**(10,820)**	**(10,820)**
If the RMB weakens against the HK$	**5**	**38,001**	**38,001**
If the RMB strengthens against the HK$	**(5)**	**(38,001)**	**(38,001)**
2020			
If the RMB weakens against the US$	5	17,313	17,313
If the RMB strengthens against the US$	(5)	(17,313)	(17,313)
If the RMB weakens against the HK$	5	56,482	56,482
If the RMB strengthens against the HK$	(5)	(56,482)	(56,482)

Credit risk

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	308,639	308,639
Financial assets included in prepayments, other receivables and other assets					
– Normal**	42,345	–	–	–	42,345
Pledged deposits					
– Not yet past due	2,563	–	–	–	2,563
Cash and cash equivalents					
– Not yet past due	2,955,212	–	–	–	2,955,212
	3,000,120	–	–	308,639	3,308,759

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	234,698	234,698
Financial assets included in prepayments, other receivables and other assets					
– Normal**	14,239	–	–	–	14,239
Pledged deposits					
– Not yet past due	259,716	–	–	–	259,716
Cash and cash equivalents					
– Not yet past due	2,708,170	–	–	–	2,708,170
	2,982,125	–	–	234,698	3,216,823

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

Since the Group trades mainly with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	939	7,812	–	–	–	8,751
Financial liabilities included in other payables and accruals	103,022	–	–	–	–	103,022
Lease liabilities	–	5,927	14,231	41,438	6,791	68,387
Contingent consideration payables	–	–	–	344,926	–	344,926
Interest-bearing bank borrowings	–	–	4,900	–	–	4,900
	103,961	13,739	19,131	386,364	6,791	529,986

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows (Continued):

	As at 31 December 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	1,261	4,034	–	–	–	5,295
Financial liabilities included in other payables and accruals	320,992	–	–	–	–	320,992
Lease liabilities	–	3,315	8,778	23,082	1,440	36,615
Contingent consideration payables	–	–	246,260	–	–	246,260
	322,253	7,349	255,038	23,082	1,440	609,162

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure, which includes equity attributable to owners of the parent, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

	2021 RMB'000	2020 RMB'000
Interest-bearing bank borrowings	**4,900**	–
Lease liabilities	**65,875**	32,763
Total debt	**70,775**	32,763
Total equity	**4,631,844**	3,857,035
Gearing ratio	**2%**	1%

40. EVENTS AFTER THE REPORTING PERIOD

On 4 August 2021, Venus Medtech (Hong Kong) Limited, a wholly-owned subsidiary of the Group, entered into a subscription agreement to purchase limited partnership interests in Unicorn Holding Partners LP with a capital commitment of US$10,000,000. The subscription was accepted in whole and the payment was made on 20 January 2022.

On 7 December 2021, the Company entered into a share purchase agreement in relation to the acquisition of 100% equity interests in Cardiovalve Ltd., a pioneering transcatheter mitral and tricuspid valve treatment company, by way of acquisition of equity interests in its parent company, Mitraltech Holdings Ltd., and subscription of a convertible loan (the "Acquisition"). The completion of the Acquisition has taken place on 25 January 2022 and Cardiovalve Ltd. has now become an indirect wholly-owned subsidiary of the Company.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**202,436**	73,748
Other intangible assets	**52,586**	33,696
Deferred tax assets	**–**	230
Investments in subsidiaries	**1,302,618**	1,372,009
Financial assets at fair value through profit or loss	**146,845**	64,473
Prepayments, other receivables and other assets	**13,458**	18,437
Total non-current assets	**1,717,943**	1,562,593
CURRENT ASSETS		
Inventories	**80,316**	51,415
Trade receivables	**301,330**	229,569
Prepayments, other receivables and other assets	**71,199**	30,024
Due from related parties	**–**	22,500
Due from subsidiaries	**726,770**	251,282
Financial assets at fair value through profit or loss	**–**	44,128
Pledged deposits	**–**	257,217
Cash and cash equivalents	**2,165,754**	2,083,502
Total current assets	**3,345,369**	2,969,637
CURRENT LIABILITIES		
Trade payables	**5,486**	4,432
Lease liabilities	**13,052**	7,464
Other payables and accruals	**103,367**	83,543
Government grants, current	**14,993**	14,046
Contract liabilities	**2,845**	2,442
Refund liabilities	**14,106**	14,155
Due to subsidiaries	**303,895**	198,894
Total current liabilities	**457,744**	324,976
NET CURRENT ASSETS	**2,887,625**	2,644,661
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,605,568**	4,207,254

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (Continued)

	2021 RMB'000	2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,605,568**	4,207,254
NON-CURRENT LIABILITIES		
Lease liabilities	**26,909**	8,552
Deferred tax liabilities	**49**	–
Government grants	**–**	1,062
Total non-current liabilities	**26,958**	9,614
Net assets	**4,578,610**	4,197,640
EQUITY		
Share capital	**441,011**	422,969
Reserves (note)	**4,137,599**	3,774,671
Total equity	**4,578,610**	4,197,640

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the reporting period is as follows: (Continued)

Note:

A summary of the Company's reserves is as follows:

	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	–	2,923,182	259,195	(387,651)	2,794,726
Total comprehensive loss for the year	–	–	–	(44,860)	(44,860)
Issue of placing shares	–	1,028,449	–	–	1,028,449
Share issue expenses	–	(12,644)	–	–	(12,644)
Equity-settled share award expense	–	–	9,000	–	9,000
At 31 December 2020 and 1 January 2021	–	3,938,987	268,195	(432,511)	3,774,671
Total comprehensive loss for the year	–	–	–	(737,813)	(737,813)
Issue of placing shares	–	1,187,853	–	–	1,187,853
Share issue expenses	–	(14,564)	–	–	(14,564)
Shares repurchased	(72,548)	–	–	–	(72,548)
At 31 December 2021	(72,548)	5,112,276	268,195	(1,170,324)	4,137,599

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.

Definitions

"510 Kardiac"	510 Kardiac Devices, Inc.
"AGM"	annual general meeting of the Company to be held on Monday, May 30, 2022
"AS"	Aortic Stenosis
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"CE Marking"	a certification mark that indicates conformity with health, safety, and environmental protection standards for products sold within the European Economic Area
"CEP"	cerebral embolic protection, the function of the devices designed to capture or deflect emboli traveling to the brain during TAVR procedures in order to protect the supra-aortic vessels from embolic debris
"China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan
"Company", "our Company" or "Venus Medtech"	Venus Medtech (Hangzhou) Inc. (杭州啓明醫療器械股份有限公司), a limited liability company incorporated in the PRC on July 3, 2009 and converted into a joint stock limited liability company incorporated in the PRC on November 29, 2018, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 2500)
"COO"	Chief Operating Officer
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules

"COVID-19"	an infectious disease caused by a newly discovered coronavirus, the outbreak of which began in December 2019
"CSRC"	the China Securities Regulatory Commission
"CTO"	Chief Technology Officer
"Directors"	the director(s) of the Company
"Domestic Share(s)"	the issued ordinary share(s) of the Company with a par value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"Employee Incentive Scheme"	the employee incentive scheme of our Company approved and adopted by our Board on March 10, 2017, a summary of the principal terms of which is set forth in "Appendix VI – Statutory and General Information – Further information about our Directors, management and substantial shareholders – 5. Employee Incentive Scheme" of the Prospectus
"EU"	the European Union
"ESG Report"	environmental, social and governance report
"ESG Reporting Guide"	the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"FDA"	U.S. Food and Drug Administration
"FDA 510(k)"	section 510(k) of the Food, Drug and Cosmetic Act, which requires device manufacturers who must register, to notify the FDA of their intent to market a medical device at least 90 days in advance
"FIM"	First-In-Man

"GMP"	good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification
"Group", "We" or "us"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require)
"Haoyue"	Jilin Venus Haoyue Medtech Limited
"HCM"	hypertrophic cardiomyopathy
"H Share(s)"	the overseas listed foreign shares with a nominal value of RMB1.0 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in Hong Kong dollars
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IDE"	Investigational Device Exemption
"Independent Third Party(ies)"	person(s) who, to the best knowledge of the Directors having made all reasonable enquiries, are not connected person(s) (as defined under the Listing Rules) of the Company
"JVH"	JVH of America
"Keystone"	Keystone Heart and its subsidiaries
"KOLs"	Acronym for Key Opinion Leaders who are doctors that influence their peers' medical practice, including but not limited to prescribing behavior

"KPIs"	key performance indicators
"Liwen RF"	Liwen RF ablation system, one of our product candidates
"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange on December 10, 2019
"Listing Date"	December 10, 2019, being the date on which the shares were listed on the Main Board
"Listing Rules"	the Rules governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"LVOT"	left ventricular outflow tract. the anatomic structure through which the left ventricular stroke volume passes towards the aorta
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the Nomination Committee of the Board
"Nuocheng"	Hangzhou Nuocheng Medical Technology Co., Ltd.
"Offshore Employee Entities"	Blue Summit Management Limited, Mercury Holding Limited and Jupiter Holding Limited, which are limited liability companies incorporated in the Cayman Islands and the beneficial interests of which are offered to certain key employees of our Company pursuant to the Employee Incentive Scheme

"PI"	principle investigator
"Prospectus"	the prospectus published by the Company on November 28, 2019 in relation to its Hong Kong public offering
"PRC Employee Entities"	Hangzhou Qichu Investment Partnership (Limited Partnership) (杭州啓初投資合夥企業(有限合夥)), Hangzhou Mingnuo Investment Partnership (Limited Partnership) (杭州明諾投資合夥企業(有限合夥)), Hangzhou Qifei Investment Partnership (Limited Partnership) (杭州啓非投資合夥企業(有限合夥)), Hangzhou Qihe Investment Partnership (Limited Partnership) (杭州啓和投資合夥企業(有限合夥)), Hangzhou Qilai Investment Partnership (Limited Partnership) (杭州啓來投資合夥企業(有限合夥)), Hangzhou Qili Investment Partnership (Limited Partnership) (杭州啓立投資合夥企業(有限合夥)), Hangzhou Qinuo Investment Partnership (Limited Partnership) (杭州啓諾投資合夥企業(有限合夥)), Hangzhou Qisheng Investment Partnership (Limited Partnership) (杭州啓勝投資合夥企業(有限合夥)) and Hangzhou Qixin Investment Partnership (Limited Partnership) (杭州啓心投資合夥企業(有限合夥)), the beneficial interests of which are offered to certain key employees of the Company pursuant to the Employee Incentive Scheme
"R&D"	research and development
"RDN"	renal artery denervation
"Reporting Period"	the one-year period from January 1, 2021 to December 31, 2021
"Remuneration and Assessment Committee"	the Remuneration and Assessment Committee of the Board
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of China

"RVOT"	right ventricular outflow tract, an infundibular extension of the ventricular cavity which connects to the pulmonary artery
"RVOTD"	the dysfunction of RVOT
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holders of shares of the Company
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Supervisor(s)"	member(s) of the supervisory committee of the Company
"TAP treatment"	Transannular patching, a type of treatment for ToF that involves closing the ventricular septal defect and placing atransannular patch (a patch across the pulmonary valve connective tissue to enlarge the pulmonary annulus), which helps blood flow from the pulmonary valve
"TAV8"	TAV8 Balloon Aortic Valvuloplasty Catheter, one of our balloon transluminal aortic valvuloplasty catheter system products
"TAVR"	transcatheter aortic heart valve replacement, a catheter-based technique to implant a new aortic valve in a minimally invasive procedure that does not involve openchest surgery to correct severe aortic stenosis
"TMVR"	transcatheter mitral valve replacement, catheter-based technique to implant a new mitral valve in a minimally invasive procedure that does not involve open-chest surgery

"ToF"	tetralogy of fallot, a congenital abnormality of the heart characterized by pulmonary stenosis, an opening in the interventricular septum, malposition of the aorta over both ventricles, and hypertrophy of the right ventricle
"TPVR"	transcatheter pulmonary valve replacement, a catheter-based technique to implant a new pulmonary valve in a minimally invasive procedure that does not involve open-chest surgery
"TriGUARD3"	TriGUARD3 Cerebral Embolic Protection Device, our CEP product
"TTVR"	transcatheter tricuspid valve replacement, a catheter-based technique to implant a new tricuspid valve in a minimally invasive procedure that does not involve open-chest surgery
"Unlisted Foreign Share(s)"	the issued ordinary share(s) of the Company with a par value of RMB1.00 issued to overseas investors, which are subscribed for and paid up in currencies other than Renminbi and not listed on any stock exchange
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"US$"	United States dollars, the lawful currency of the United States of America
"V8"	V8, one of our balloon transluminal aortic valvuloplasty catheter system products
"Venus HK"	Venus Medtech (Hong Kong) Limited

"Venus-Neo"	Venus-Neo Valve, one of our surgical aortic valve replacement product candidates
"Venus-PowerX"	Venus-PowerX Valve, one of our TAVR product candidates
"Venus-Vitae"	Venus-Vitae Valve, one of our TAVR product candidates
"VenusA-Pilot"	VenusA-Pilot System, one of our TAVR product candidates
"VenusA-Plus"	VenusA-Plus System, one of our TAVR products
"VenusA-Pro Valve"	VenusA-Pro Valve, one of our TAVR product candidates
"VenusA-Valve"	VenusA-Valve System, one of our TAVR products
"VenusP-Valve"	VenusP-Valve System, our TPVR product candidate

In this report, the terms "associate", "connected transaction", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.