



MicroTech Medical (Hangzhou) Co., Ltd. 微泰醫療器械(杭州)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2235)

Annual Report 2021



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)
Dr. Yu Fei
Dr. Shi Yonghui
Ms. Liu Xiu

Non-executive Directors

Mr. Hu Xubo
Ms. Gao Yun

Independent Non-executive Directors

Dr. Li Lihua
Ms. Gao Jian
Ms. Wang Chunfeng
Mr. Ho Kin Cheong Kelvin

SUPERVISORS

Mr. Li Zhenhua
Mr. Lyu Cheng
Mr. Zhao Zhiheng

JOINT COMPANY SECRETARIES

Mr. Duo Bo
Mr. Zhang Mengchi (*associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators)*)

AUTHORIZED REPRESENTATIVES

Dr. Zheng Pan
Mr. Zhang Mengchi

AUDIT COMMITTEE

Ms. Gao Jian (*Chairperson*)
Ms. Gao Yun
Mr. Ho Kin Cheong Kelvin

REMUNERATION AND ASSESSMENT COMMITTEE

Ms. Wang Chunfeng (*Chairperson*)
Dr. Shi Yonghui
Mr. Ho Kin Cheong Kelvin

NOMINATION COMMITTEE

Dr. Li Lihua (*Chairperson*)
Dr. Zheng Pan
Ms. Gao Jian

STRATEGY COMMITTEE

Dr. Zheng Pan (*Chairperson*)
Mr. Hu Xubo
Dr. Li Lihua

REGISTERED OFFICE

No. 108 Liuze Street
Cangqian Street
Yuhang District, Hangzhou
Zhejiang, China

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 108 Liuze Street
Cangqian Street
Yuhang District, Hangzhou
Zhejiang, China

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai, Hong Kong

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG LEGAL ADVISER

Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

COMPLIANCE ADVISER

Orient Capital (Hong Kong) Limited
28/F-29/F, 100 Queen's Road Central
Central
Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China
Hangzhou Yuhang Branch
No. 998 Wenyi West Road
Yuhang District
Hangzhou, China

Agricultural Bank of China
Hangzhou Xixi Branch
No. 1500 Wenyi West Road
Yuhang District
Hangzhou, China

Bank of China
Hangzhou Chengxi Kechuang Branch
Block 4, No. 998 Wenyi West Road
Wuchang Street
Yuhang District
Hangzhou, China

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

STOCK CODE

2235

COMPANY'S WEBSITE

www.microtechmd.com

Chairman's Statement

Dear Shareholders,

In the past year (2021), the COVID-19 pandemic, international relations and capital markets have brought complex and volatile factors to the industry. Against such adversity, the MicroTech team worked conscientiously and, through great perseverance, achieved satisfactory growth performance. By targeting growth through innovation, research and development, commercialization, and internationalization, we continue to move forward in line with our Company's goals. On behalf of the board of Directors and MicroTech staff, I would like to extend my heartfelt appreciation to customers, shareholders and investors for their continued support of MicroTech Medical.

In 2021, we made significant progress in many businesses. The first calibration-free CGMS in China was approved by the NMPA for sales and marketing, and Equil patch insulin pump has been included in the China's clinical therapy guidelines. In addition, the Company was successfully listed on the Hong Kong Stock Exchange on 19 October. As the English saying goes, "April showers bring May flowers" – persistence through adversity is the key to future success. Since its establishment in 2011, every step of MicroTech's journey forward has been powered by the unwavering trust and support of customers, shareholders and partners.

Looking forward to 2022, our MicroTech team will expand sales through hospital, retail, e-commerce, and foreign trade channels by introducing products with obvious health benefits and broad applicability to the millions of people with diabetes. The continued introduction of cost effective products with superior performance into international markets will allow MicroTech to easily sustain growth. We have made expected progress in new product research and development, especially with the next generation patch insulin pump, CGMS and closed-loop artificial pancreas. I am confident that MicroTech Medical will continue to lead technologically in diabetes management, make innovative contributions to help diabetic patients around the world, and enable them all to have a healthier and better life.

Currently, the arduous task of preventing and controlling the COVID-19 pandemic in China continues, and the country's macroeconomic recovery from the damage will take time. Our operations and production in the PRC will face new challenges under stringent pandemic prevention and control measures. Over the years, the international sales presence and internationally competitive product portfolio for diabetes monitoring and treatment have gradually become our new growth points. We will also continue to upgrade and improve our internal production and quality systems in 2022. We will increase production capacity by accelerating the expansion of new production sites and deploying automated production lines to meet growing domestic and international market demands. Meanwhile, we are also exploring a commercial-ready digital management model for diabetes inside and outside hospitals based on the Company's advanced hardware.

In addition, we, MicroTech Medical, will continue to recruit outstanding talent and improve management efficiency and effectiveness to empower our rapid development. We believe that MicroTech's focus and innovation in diabetes management systems, world class R&D team, and international commercialization group have laid a solid foundation for maintaining rapid sales growth and will achieve significant profits on a large scale in the future. MicroTech Medical will provide high-quality medical products in China and around the world to better serve every patient with diabetes and bring satisfactory long-term returns to our shareholders.

Dr. Zheng Pan

Chairman and Chief Executive Officer

Financial Highlights

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

| | For the year ended December 31, | | |
|---|---------------------------------|------------------------|------------------------|
| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
| Revenue | 151,404 | 75,277 | 51,863 |
| Gross profit | 70,883 | 36,544 | 24,083 |
| Net loss | (48,153) | (121,250) | (78,614) |
| Loss attributable to owners of the parent | (48,153) | (121,009) | (78,614) |
| Loss per share attributable to ordinary equity holders of the parent | | | |
| Basic and diluted | RMB (0.13) | RMB (0.39) | RMB (0.28) |
| | | | |
| | As at December 31, | | |
| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> | 2019 <i>RMB'000</i> |
| Total assets | 2,329,139 | 777,274 | 264,743 |
| Total liabilities | 82,478 | 48,757 | 47,953 |
| Net assets | 2,246,661 | 728,517 | 216,790 |
| Total Equity | 2,246,661 | 728,517 | 216,790 |

* The H Shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on October 19, 2021.

Management Discussion and Analysis

BUSINESS OVERVIEW

Overview

Our mission is to help diabetic patients lead healthier and better lives in China and across the globe. The Group has focused on diabetes management, providing both diabetes treatment and diabetes monitoring medical devices to improve diabetes management domestically and globally.

The Group's strategic goals are to leverage our strengths in patch insulin pump system and CGMS, to continue further expansion of our marketing network, to develop and launch our closed-loop solutions, to enhance brand awareness of our Core Product and to expand our business into international markets. In the long term, we also plan to build a cloud-based diabetes management platform to bring more clinical benefits to diabetes patients all over the world and reduce their financial burdens.

Products and Product Pipeline

As of December 31, 2021, we had four major categories of products and pipeline candidates. Our products have obtained 14 medical device registration certificates in the PRC. In addition, six of our products have obtained CE marking in the EU. We also have one product which has obtained 510(k) approval from FDA. We have eight product candidates which are undergoing various stages of development. The following chart summarizes the development status of our products and product candidates as of the date of this report:

| Product Line | Product | Major Markets | Competent Authorities/ Notified Body | Preclinical | Clinical | Registration | Commercialization | |
|--|---|-----------------|--------------------------------------|---------------|------------|--------------|-------------------|------------|
| Patch Insulin Pump System | Equil * | (for adult use) | China | NMPA | ██████████ | ██████████ | ██████████ | ██████████ |
| | | | EU | TÜV Rheinland | ██████████ | ██████████ | ██████████ | ██████████ |
| | | | US | FDA | ██████████ | ██████████ | ██████████ | |
| | (for child and adolescent use) | China | NMPA | ██████████ | ██████████ | | | |
| | Second-Generation Patch Insulin Pump System | China | NMPA | ██████████ | | | | |
| CGMS | AiDEX G7 | (for adult use) | China | NMPA | ██████████ | ██████████ | ██████████ | ██████████ |
| | | | EU | TÜV Rheinland | ██████████ | ██████████ | ██████████ | ██████████ |
| | | | US | FDA | ██████████ | ██████████ | ██████████ | |
| | (for child and adolescent use) | China | NMPA | ██████████ | ██████████ | | | |
| | AiDEX X | China, EU | NMPA, TÜV Rheinland | ██████████ | | | | |
| Closed-loop Artificial Pancreas System | PanCares Artificial Pancreas | China, EU | NMPA, TÜV Rheinland | ██████████ | | | | |
| | Cloud-based AI-powered Artificial Pancreas | China, EU | NMPA, TÜV Rheinland | ██████████ | | | | |
| IVD | BGMS Products | China, EU, US | NMPA, FDA, TÜV Rheinland | ██████████ | ██████████ | ██████████ | ██████████ | |
| | Exactive Pro Glucose, Ketone, Uric Acid Monitoring System | China | NMPA | ██████████ | ██████████ | | | |
| | Ivocare Multifunctional POCT | China | NMPA | ██████████ | ██████████ | ██████████ | ██████████ | |

* Core Product

Management Discussion and Analysis

Equil Patch Insulin Pump System—Our Core Product

Equil Patch Insulin Pump System (“Equil”), our Core Product, is a semi-disposable patch insulin pump. Compared to traditional tubed pumps, Equil features a tubeless and lightweight design, enabling users to manage diabetes discreetly and safely. In September 2017, Equil received the marketing approval for adult use from the NMPA in China. Equil also received CE marking in the EU in the same year. We have successfully marketed Equil in over 20 countries across Asia Pacific, Europe, the Middle East, Africa, and Latin America. We have submitted FDA 510(k) Registration application for Equil in 2021 and we are expecting to receive FDA’s approval by the end of 2022.

We have been engaged in the R&D for the expansion of the use of Equil to children and adolescents (aged 3 to 18) since the second quarter of 2019. We are preparing for a pivotal clinical trial in China for the purpose of registering Equil for children’s and adolescents’ use. We expect to complete the registrational clinical trial in China and submit the registration application to the NMPA in 2022.

For the year ended December 31, 2021, the sales revenue of our Equil was RMB73.1 million, representing an increase of 110.7% as compared to RMB34.7 million for the year ended December 31, 2020.

We may not be able to ultimately develop and market Equil, including the expansion of the indication of Equil for children and adolescents’ use successfully.

Second-generation Patch Insulin Pump

We are also developing our second-generation patch insulin pump system, featuring smaller size, improved waterproof performance, better adaptability to insulin reservoirs in different sizes, and augmented user-friendliness. The insulin pump, as a continuous insulin delivery device, is also an essential component of the closed-loop artificial pancreas system. We expect to equip our second-generation patch insulin pump system with internal control algorithms, which, together with our CGMS, is expected to form the bedrock of our closed-loop artificial pancreas system. This product candidate has been submitted for type testing in December 2021.

We may not be able to ultimately develop and market the second-generation patch insulin pump successfully.

Management Discussion and Analysis

CGMS

AiDEX G7, our CGMS, is the second commercialized calibration-free real-time CGMS in the world. Since its launch, AiDEX G7 has demonstrated various advantages over traditional BGMS products, featuring real-time monitoring, lowering the patients' risk of hyper/hypoglycemia, and increasing their compliance to treatment regimen without taking routine finger prick blood glucose measurements. AiDEX G7 received CE marking in the EU in September 2020 and obtained the marketing approval for adult use from the NMPA in China. It is the first marketed calibration-free, real-time CGMS product in China. We initiated a clinical trial to expand the use of AiDEX G7 to children and adolescents with diabetes in the second half of 2021, which has passed the ethics committee review and obtained ethics review approval from the leader unit of the clinical trial. We expect to complete the clinical trial in China and submit the registration application to the NMPA in 2022.

In addition to AiDEX G7, we are leveraging our proprietary technologies to develop a new generation of calibration-free CGMS – AiDEX X to further expand the market and the scope of the suitable crowd. As evidence of our efforts, AiDEX X has been submitted for type testing in December 2021.

By synergistically addressing different target populations, AiDEX G7 and AiDEX X will complement each other and thus allow us to deploy a portfolio approach, enabling rapid market penetration and wide user coverage. Our CGMS products will also constitute an essential component of our closed-loop artificial pancreas system.

We may not be able to ultimately develop and/or market AiDEX G7, including the expansion of the indication of AiDEX G7 for children and adolescents' use and AiDEX X successfully.

Closed-loop Artificial Pancreas System

The closed-loop artificial pancreas system, featuring the intelligent functions in diabetes treatment and monitoring, comprises a closed-loop control algorithm to simulate the feedback regulation mechanism of the human pancreas, so as to realize the automation of treatment and monitoring functions and keep the patients' blood glucose fluctuation rates within a normal or near-normal range.

The system consists of three major components: insulin delivery system (i.e. the patch insulin pump), CGMS and closed-loop control algorithm. We are the only company in China possessing both patch insulin pumps and CGMS, which constitute the essential foundation for the successful development of a closed-loop artificial pancreas system. We have submitted the system for type testing at the end of 2021 and expect to commence clinical trial in the second half of 2022.

Management Discussion and Analysis

Our patch insulin pump system and CGMS have paved the way for us to internally develop the closed-loop artificial pancreas system. These two systems accordingly form the essential foundation for the successful development of a closed-loop artificial pancreas system.

We plan to develop and commercialize our artificial pancreas system indicated for the use of adult patients, and further extend such indication to children and adolescents at a later stage.

We may not be able to ultimately develop and market the closed-loop artificial pancreas system successfully.

IVD Devices

BGMS Products

Since the establishment of the Company, we have developed and commercialized 15 types of blood glucose meters and seven types of test strips in China. In addition, our BGMS products have received marketing approvals in major overseas markets, including FDA and CE marking of the EU. So far, we have developed and commercialized 12 types of blood glucose meters and six types of test strips abroad.

Exactive Pro—Glucose, Ketone, Uric Acid Monitory System

Exactive Pro is capable of measuring three parameters at the same time—blood glucose, ketone and uric acid. As of the date of this report, the registration of blood glucose and uric acid test strips for the hospital-based market have been completed, and the enrollment of registrational clinical trial subjects for ketone and uric acid self-testing products has been substantially completed. With approval, Exactive Pro is expected to be the first all-in-one automatically code-free product in China with all of these three parameters.

We may not be able to ultimately develop and market Exactive Pro successfully.

IVocare Multifunctional POCT

Currently, IVocare is capable of detecting HbA1C, MAU and hs CRP+CRP. In August 2021, we obtained the Class II medical device registration certificate from the ZJMPA for the POCT analyzer. In November 2021, we obtained the Class II medical device registration certificates from the ZJMPA for these IVD assays.

We may not be able to ultimately market the IVocare multifunctional POCT successfully.

Management Discussion and Analysis

Our Platform

We have established a strong platform of R&D, manufacturing and commercialization capabilities in the field of diabetes monitoring and treatment devices.

R&D

Our R&D team includes scientists, as well as elite engineers and seasoned experts who graduated from world-renowned universities and served top international medical device companies. Our R&D team has outstanding interdisciplinary capabilities in the relevant fields, such as mechanical engineering, electrical engineering, software engineering, communication engineering and signal processing, electrochemistry, biomedical engineering and mathematics (algorithm) and artificial intelligence. Our key R&D staff have, on average, over 14 years of relevant R&D experience.

Externally, we have built long-standing relationships with industry KOLs, including well-known medical professionals and clinical experts. We leverage their meaningful insights and recommendations to steer our R&D process towards the unmet clinical needs.

With strong independent innovation and R&D capabilities, we were designated as the Key Diabetes Research Center in Zhejiang Province, China, and were also selected as a “SPECIALIZED AND NEW” enterprise in Zhejiang Province. In particular, our Core Product, Equil was designated as an Innovative Medical Device Product by the PRC Ministry of Science and Technology, and our AiDEX G7 has been certified and approved by the NMPA to be applicable to the Special Procedures for Examination and Approval of Innovative Medical Devices issued by the NMPA. Our team, focusing on the R&D of an intelligent cognitive computed based closed-loop artificial pancreas system and was also awarded as “Leading Innovative Team” by the Science and Technology Department of Zhejiang Province. The establishment and application of our artificial intelligence cloud-based management platform for children and adolescents with diabetes was selected as a National Major Scientific Research Program under the 13th Five-Year Plan.

Manufacturing

The Company owns a manufacturing facility with an aggregate area of approximately 15,000 sq.m. in Hangzhou, China, for the manufacture of our products and product candidates. Our manufacturing facility complies with GMP regulations in the U.S., the EU and China and adheres to strict production and quality control standards to ensure high product quality and safety. We conduct all the key manufacturing procedures in-house. Over the years, we have accumulated a wealth of expertise and skills in the production of diabetes monitoring medical devices, providing us with a solid foundation for rapid growth.

Management Discussion and Analysis

Commercialization

The Company uses a combination of our in-house sales and marketing team and a network of independent distributors to sell our products in China and globally. Our marketing strategy focuses on building awareness for the benefits of our products and generating demand and acceptance for our products among healthcare professionals and patients through our user-centric and clinical-data-driven promotion. Our highly trained sales and marketing team focuses on interacting with physicians and patients to educate them about, and train them in the use of, our products. We also regularly organize and attend educational symposia, conferences, seminars, and other activities at national, regional and local levels, so as to increase awareness and penetration of our products.

FINANCIAL REVIEW

Overview

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

Revenue

During the Reporting Period, we generated all of our revenue from sales of medical devices, including Equil, BGMS and CGMS and others.

For the year ended December 31, 2021, the Group's revenue was RMB151.40 million, representing an increase of 101.1% from RMB75.28 million for the year ended December 31, 2020. The increase was mainly due to the continuous expansion of the market share and the sales scale of the Company's existing products and the commencement of commercialization of CGMS.

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

| | For the year ended December 31, | | | |
|--------------|---------------------------------|-------------|----------------|------------|
| | 2021 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Equil | 73,137 | 48.3 | 34,742 | 46.2 |
| BGMS | 70,965 | 46.9 | 39,290 | 52.2 |
| CGMS | 3,940 | 2.6 | — | — |
| Others | 3,362 | 2.2 | 1,245 | 1.6 |
| Total | 151,404 | 100 | 75,277 | 100 |

Management Discussion and Analysis

Cost of Sales

Our cost of sales primarily consists of material costs, staff costs and others.

For the year ended December 31, 2021, the Group's cost of sales was RMB80.52 million, representing an increase of 107.9% from RMB38.73 million for the year ended December 31, 2020. The above increase was mainly due to the increase in staff costs and raw material costs as a result of an increase in sales volume of the Company.

Gross Profit and Gross Margin

As a result of the factors described above, the gross profit of the Group increased by 94.0% from RMB36.54 million for the year ended December 31, 2020 to RMB70.88 million for the year ended December 31, 2021. Gross margin is calculated at gross profit divided by revenue. Due to an increase in the price of printed circuit boards, being the major raw materials for our products, as well as an increase in international freights and other factors, the Group's overall gross margin decreased from 48.5% for the year ended December 31, 2020 to 46.8% for the year ended December 31, 2021. The gross margin of the Core Product remained stable despite rising raw material prices in 2021.

Since the sales scale of CGMS, being another product commercialized by the Company, was small in 2021, it has yet to have any impact on improvement of the Company's overall gross profit margin.

Other Income and Gains

Our other income and gains increased by 5.1% from RMB27.66 million for the year ended December 31, 2020 to RMB29.06 million for the year ended December 31, 2021, mainly due to an increase in interest income, which represented interest on demand deposits, negotiated deposits and term deposits generated from the Group's bank deposits.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 5.1% from RMB55.06 million for the year ended December 31, 2020 to RMB52.26 million for the year ended December 31, 2021, mainly due to an increase in staff costs and marketing costs of RMB17 million and a decrease in equity-settled share award expense of RMB20 million.

Management Discussion and Analysis

Administrative Expenses

Our administrative expenses decreased by 9.4% from RMB45.76 million for the year ended December 31, 2020 to RMB41.48 million for the year ended December 31, 2021, mainly due to a decrease in equity-settled share award expense of RMB21.1 million and in increase in staff costs, office expense and professional services fee of RMB12.7 million.

Research and Development Expenses

Our research and development expenses decreased by 56.0% from RMB82.01 million for the year ended December 31, 2020 to RMB36.08 million for the year ended December 31, 2021, primarily due to an increase in staff costs of RMB5 million and a decrease in equity-settled share award expense of RMB57 million.

The following table sets forth a breakdown of our research and development expenses:

| | For the year ended December 31, | | | |
|--------------------------------------|---------------------------------|-------------------|----------------------|-------------------|
| | 2021 | | 2020 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Equity-settled share award expense | – | – | 57,253 | 69.8 |
| Staff costs | 16,991 | 47.1 | 11,800 | 14.4 |
| Depreciation and amortization | 3,738 | 10.3 | 3,304 | 4.0 |
| Service fees | 7,325 | 20.3 | 4,049 | 4.9 |
| Raw material costs | 4,468 | 12.4 | 2,218 | 2.7 |
| Travelling and entertainment expense | 535 | 1.5 | 637 | 0.8 |
| Others | 3,026 | 8.4 | 2,748 | 3.4 |
| Total | <u>36,083</u> | <u>100</u> | <u>82,009</u> | <u>100</u> |

Other Expenses

Our other expenses increased by 695.8% from RMB2.14 million for the year ended December 31, 2020 to RMB17.03 million for the year ended December 31, 2021, primarily due to foreign exchange losses arising from the continued depreciation of Hong Kong dollar and U.S. dollar against RMB.

Management Discussion and Analysis

Impairment Losses on Assets, Net

Our impairment losses on assets, net increased by 547.4% from RMB0.19 million for the year ended December 31, 2020 to RMB1.23 million for the year ended December 31, 2021, primarily due to increased impairment of trade receivables.

Finance Costs

Our finance costs decreased from RMB0.31 million for the year ended December 31, 2020 to RMB0.02 million for the year ended December 31, 2021, primarily due to the absence of bank borrowings and bank interest in 2021.

Income Tax Expense

Our income tax expense was nil for the year ended December 31, 2020 and the year ended December 31, 2021.

Loss for the Year

As a result of the foregoing, we incurred losses of RMB121.3 million and RMB48.2 million for the year ended December 31, 2020 and the year ended December 31, 2021, respectively.

Net Current Assets

Our net current assets increased from RMB639.5 million for the year ended December 31, 2020 to RMB2,150.9 million for the year ended December 31, 2021, primarily due to the proceeds raised from the Global Offering on the Stock Exchange.

We have issued 65,742,600 new H Shares at HK\$30.5 per H Share through the Global Offering on the Stock Exchange (including the exercise of the over-allotment option), raising net proceeds of approximately HK\$1,876 million (equivalent to RMB1,533 million) after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and the exercise of the over-allotment option.

Loans and Gearing Ratio

As of December 31, 2021, the Group had no interest-bearing bank and other borrowings. The gearing ratio is calculated at the Group's debts divided by assets. As of December 31, 2021, the Group's gearing ratio was 3.5%.

Management Discussion and Analysis

Significant Investment held

The Group had no significant investment held during the year ended December 31, 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group had no material acquisition or disposal of subsidiaries, associates and joint venture during the year ended December 31, 2021.

Capital Expenditure

For the year ended December 31, 2021, the total capital expenditure of the Group amounted to approximately RMB13.44 million, primarily for upgrading our existing product lines and purchasing new machinery.

Contingent Liabilities

As at December 31, 2021, we had no contingent liabilities.

Charge of Assets

As at 31 December 2021, the Company did not charge any fixed assets as securities for borrowings.

Foreign Exchange Risks

We are exposed to foreign exchange rate risks. Certain of our bank balances, trade receivables and other payables are denominated in foreign currencies and are thus exposed to foreign exchange risks.

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.

Employees and Remuneration

We had 523 employees as of December 31, 2021, compared to 327 employees as of December 31, 2020, primarily due to an increase in marketing and production headcount.

To maintain the quality, knowledge and skill levels of our workforce, the Group provides continuing education and training programs, including internal and external training, for our employees to improve their technical, professional or management skills. The Group also provides trainings programs to our employees from time to time to ensure their awareness and compliance with our policies and procedures in various aspects.

Management Discussion and Analysis

We provide various incentives and benefits to our employees. We offer competitive salaries, bonuses and share-based compensation to our employees, especially key employees. We have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees in accordance with applicable PRC laws.

FUTURE AND OUTLOOK

We operate in a large and fast-growing diabetes monitoring, treatment and management market in China and globally with significant unmet clinical needs. The Company has been committed to innovating and integrating diabetes monitoring and treatment methods to enhance and improve diabetes management solutions in China and around the world. We will continue to adhere to the vision of becoming the world's leading medical device company for diabetes monitoring, treatment and management. We plan to implement the following strategies to achieve our vision and strategic goals.

Continue to improve the local market share and brand reputation of Equil in China

According to data from CIC, out of 130 million people living with diabetes in China, there are still millions of people with diabetes in China who are suitable for insulin pump therapy but have not received or are not aware of intensive insulin therapy, and accordingly the market potential is huge. We expect the market size of China's insulin pump market to grow significantly due to factors such as the increasing recognition of insulin pumps for their clinical efficacy and the wider adoption of intensive insulin therapy.

Since the commercialization of Equil in China, our products have been used in more than 800 hospitals. The Company has established a sales network consisting of more than 300 distributors and more than 140 sales and marketing personnel, covering the sales of Equil in 30 provinces, municipalities and autonomous regions in mainland China. This provides a sound foundation for our sales growth going forward. In 2021, patch insulin pump was included in the "Guidelines for insulin pump therapy in China". As the first and only patch insulin pump product approved in China, we believe the Equil brand will continue to benefit from the public's improved awareness of active management and treatment of diabetes and patients' demands for more portable and more affordable products. In 2022, the Company will further expand its sales, marketing and customer service teams to promote our products and services in the hospital-based and individual user markets. We will make full use of the internal marketing team and the distributor network to reach the patient end-users, continue to provide product on-site display and training courses to popularize intensive insulin therapy, and regularly participate in seminars with top KOLs and medical experts to enhance the acceptance of insulin pump therapy in diabetic patient group, continuing to expand the accessibility and popularity of Equil brand products.

Management Discussion and Analysis

Rapidly commercialize AiDEX G7 CGMS in the PRC market

On November 4, 2021, the NMPA officially approved the registration application of the Company's innovative product "CGMS" (AiDEX G7). As the first marketed calibration-free, real-time CGMS in China, it adopts a number of core technologies pioneered in China with a clinical advantage that no fingertip blood calibration is required for the maximum usage of 14 days. The results of the multi-center clinical study of the product have been published in internationally renowned journals previously. The product's mean absolute relative difference (MARD) is 9.08% as compared with the venous blood reference value, which is at the international leading level.

In 2022, the Company will expand the production capacity of the Hangzhou factory to meet the growing market demand. We will enlarge our training, service and sales teams, focus on promoting AiDEX G7 brand products in the hospital professional market, retail channels, e-commerce and health management platforms, and continue to provide high-quality blood glucose management services to various types of diabetics. The Company will also cooperate with diabetes professional societies and medical institutions to advocate internationally accepted diabetes management standards (namely, to manage blood sugar levels within the "time in target range" which is known as "Time-in-Range"), to remind Chinese diabetics to pay attention to daily blood glucose management and control the progression of the disease. With the increase in public awareness of the importance of chronic disease management, we believe that with the performance advantages and excellent clinical performance of AiDEX G7 products, combined with the Company's professional accumulation and channel advantage in the field of diabetes over the years (it has built commercialization teams for insulin pumps and BGMS and successfully commercialized "Exactive EQ (倍穩)" brand blood glucose meter, Equil brand patch insulin pump and other products), the Company will be able to rapidly increase the market share of AiDEX G7 products in China's blood glucose monitoring product market. AiDEX G7 products will also become the main catalyst for the Company's performance growth.

Continue to increase its market share in Europe and the emerging markets, and become an international leading brand in the field of diabetes devices

The Company's long-term strategic goals include becoming the leading brand of diabetes treatment and monitoring devices in the international market, with expansion into developed markets (Europe, North America, and the emerging developed countries) as a strategic focus. The advantages of our products, combined with the Company's market expansion capabilities, will benefit from the higher level of medical expenses and insurance coverage in the above-mentioned regions, as well as the higher acceptance of intensive diabetes treatment and continuous monitoring and management therapy by local physicians and patients.

Management Discussion and Analysis

Currently, the Company has successfully expanded market access and product sales in more than ten countries in Europe, as well as in the Middle East, North Africa and other countries. Our Equil brand has been sold and used in Italy, the Netherlands and other countries, and has been well received by local physicians and patients. We have submitted a FDA 510(k) Registration application for Equil in 2021 and we are expecting to receive FDA's approval by the end of 2022. The Company's AiDEX G7 continuous glucose monitoring product has now entered the core European markets such as the United Kingdom and Italy. In 2022, we expect that AiDEX G7 products will continue to be marketed and promoted in more European countries, with access to local medical insurance/commercial insurance, and are expected to be approved by the FDA by the end of 2023. A number of the Company's blood glucose meter products have also been sold in Europe, Latin America, Asia Pacific and other countries, and have maintained continuous growth.

In order to implement the Company's global growth strategy, our international business team will also continue to participate in international diabetes and endocrinology professional conferences and academic activities, increase overseas local post-market clinical trials, and continue to build a localized international sales team. The purpose is to improve the reputation and utilization rate of the Company's series of brand products among overseas physician-patient audiences, thereby further increasing the international market share.

Continue to promote the research and development of pipeline products in the field of diabetes treatment and monitoring

The Company will continue to invest in technological innovation and product research and development to enhance the Company's long-term competitive advantage in the diabetes and chronic disease management industry. In 2022, we will continue to promote the development and clinical registration of existing product candidates under development, complete the expansion of indications for children and adolescents with Equil and CGMS, and promote the development and clinical work of more advanced second-generation patch insulin pumps and AiDEX X continuous glucose management systems. Besides, the Company will continue to invest in the development and optimization of artificial pancreas products and digital management platform, and will be dedicated to providing medical professionals and diabetic patients with products and disease management tools with better clinical outcomes, easier use, and more affordable costs.

Management Discussion and Analysis

Impact of COVID-19 Outbreak

As of December 31, 2021, the COVID-19 pandemic had not been contained in Europe and thus our access to local markets and sales and marketing activities there were limited, which negatively impacted our market expansion and sales growth. Certain cities in China have been impacted by the resurgences of COVID-19 which had reduced our on-site education activities in hospitals. We have mobilized, and will continue to mobilize our internal and external resources and leveraged our operating capabilities to minimize the adverse effect on our business caused by the COVID-19 outbreak.

However, the extent to which the COVID-19 outbreak impacts our business, results of operations and financial condition will depend on numerous factors beyond our control, including the extent of resurgences of the disease and its variants, vaccine distribution and other actions in response to the virus or to contain its impact. It is uncertain when and whether COVID-19 could be contained globally. We are closely monitoring the impact of COVID-19 outbreak on us and plan to continue implementing measures necessary to ease the impact of the outbreak on our operations. While we continue to assess the impact of the COVID-19 outbreak, we are unable to accurately predict the overall impact of COVID-19. We cannot assure you that the COVID-19 pandemic will not further escalate or have a material adverse effect on our results of operations, financial condition or prospects. Our operations may also be adversely affected if any of our employees or employees of our distributors, suppliers and other business partners were suspected of contracting or contracted COVID-19. In addition, the commencement of new clinical trials for product candidates in our development pipeline was also delayed or prevented by any delay or failure in subject recruitment or enrollment.

Events after the Reporting Period

The Company has been recognized as a provincial level “Specialized and New” SMEs of Zhejiang Province in 2021. The successful selection of the Company as a provincial level “Specialized and New” SMEs is a recognition and affirmation of the Company’s long-term focus on development and continuous innovation in the area of diabetes monitoring, treatment and management by the community. For details, please refer to the announcement of the Company dated January 7, 2022 and published on the websites of the Stock Exchange and the Company.

Other than disclosed above, no events that had a significant impact on the Group have occurred since the end of the Reporting Period and up to the Latest Practicable Date.

Directors, Supervisors and Senior Management

BOARD OF DIRECTORS

Our Board of Directors comprises ten Directors, including four executive Directors, two non-executive Directors and four independent non-executive Directors. Our Directors serve a term of three years and may be re-elected for successive reappointments.

Executive Directors

Dr. Zheng Pan (鄭攀), aged 51, is the chairman of our Board, an executive Director and the Chief Executive Officer of our Company. Dr. Zheng founded our Company in January 2011 and has been the chairman of the Board since March 2016 and the Chief Executive Officer of our Company since January 2011, respectively. He was re-designated as an executive Director of our Company in April 2021. He is primarily responsible for the overall strategic planning, business direction and operational management of our Company.

Dr. Zheng has nearly 20 years of experience in the healthcare industry. Prior to founding our Company, he successively served as a research assistant and a postdoc in Florida State University from 1999 to September 2004 in the United States. In 2005, Dr. Zheng also served as a senior mechanical engineer at Centurion Wireless Technologies. He also served as a manager at Flextronics San Jose Medical Products Center (美國偉創力聖荷西醫療產品中心), a medical solution provider company from April 2006 to July 2010.

Dr. Zheng obtained the qualification of professorate senior engineer (教授級高級工程師) from Zhejiang Provincial Department of Human Resources and Social Security (浙江省人力資源和社會保障廳) in July 2012. Dr. Zheng was selected into the first batch of “521” Talents for Global Talents Introduction (杭州市第一批全球引才“521”人才) by Municipal Party Committee Organization Department (Talent Office) (杭州市委人才工作領導小組辦公室) in August 2011, and he won the Innovation Achievement Award of Overseas Returnee Contributions Awards (中國僑界貢獻獎(創新成果)) from All-China Federation of Returned Overseas Chinese in September 2014.

Dr. Zheng received a bachelor’s degree from Zhejiang Institute of Technology (浙江工學院) in the PRC with a major in Machine Design and Production Engineering in July 1993, a master’s degree from Zhejiang University (浙江大學) in the PRC with a major in Mechanics in March 1996 and a Ph.D. degree with a major in Mechanical Engineering from Florida State University in the United States in August 2004.

Directors, Supervisors and Senior Management

Dr. Yu Fei (于非), aged 40, is an executive Director and the director of R&D Department of our Company. Dr. Yu joined our Group in July 2016 and was re-designated as our executive Director in April 2021. He is primarily responsible for the formulation of product development plans and management of R&D matters in respect of technology, project management and intellectual properties.

Prior to joining our Group, Dr. Yu served as a senior biomedical engineer in the Diabetes Division of Medtronic PLC. (美國美敦力公司), a medical technology company, from May 2013 to July 2016, where he was responsible for researching, developing, deploying and validating new electrochemical biosensor system. He has been serving as the R&D director and a director of our Company since August 2016 and October 2020, respectively.

Dr. Yu received a bachelor's degree in Bioengineering from National University of Singapore in Singapore on June 30, 2007 and a Ph.D. degree in biomedical engineering from University of Southern California in the United States in May 2013.

Dr. Shi Yonghui (施永輝), aged 42, is an executive Director, the chief strategy & development officer and the senior vice president of our Group. Mr. Shi joined our Group in May 2021 and was appointed as our executive Director in June 2021. He is primarily responsible for the strategy, new business and corporate development matters of the Group.

Prior to joining our Group, Dr. Shi successively served as the research scientist from July 2007 to October 2008 and New Business Development Manager from November 2008 to June 2011 at Procter & Gamble Technology (Beijing) Co., Ltd. (北京寶潔技術有限公司), where he was responsible for various R&D and business development initiatives. From July 2013 to May 2021, he successively served as the senior manager and the senior director of Medtronic (Shanghai) Management Co., Ltd. (美敦力(上海)管理有限公司), head of corporate development, venture capital and innovation incubation department of Medtronic Greater China, and member of Medtronic Greater China Management Board, during which time he also served as an investment committee member of Medtronic China Venture Capital Fund, which focuses on the investment in high-growth startups with innovative medical technologies or service models, the chairman and general manager of Suzhou Meizhong Venture Capital Management Co., Ltd. (蘇州美眾創業投資管理有限公司), the director of Suzhou Medtronic Sequoia Venture Capital Management Co., Ltd. (蘇州美敦力紅杉創業投資管理有限公司), and the general manager of Shanghai Meiji Entrepreneurship Incubator Management Co., Ltd (上海美濟創業孵化器管理有限公司). He has been serving as an executive Director and the chief strategy & development officer of our Company since June and May, 2021 respectively.

Directors, Supervisors and Senior Management

Dr. Shi received a bachelor's degree with a major in biochemistry and molecular biology and a Ph.D. degree with a major in biochemistry and molecular biology from Peking University in the PRC in July 2002 and July 2007, respectively. He also obtained a master's degree in business administration (in finance and healthcare management) from the Wharton School of the University of Pennsylvania in the United States in 2013. Dr. Shi was the co-recipient of the first prize of Natural Science of the Ministry of Education (教育部自然科學一等獎) granted by Ministry of Education, PRC in 2009, and he was also recognized as the co-recipient of the second prize of National Natural Science (國家自然科學二等獎) granted by the State Council, PRC in 2011.

Ms. Liu Xiu (劉秀), aged 42, is an executive Director, the financial controller and secretary to the Board of our Group. Ms. Liu joined our Group in August 2020 and was re-designated as our executive Director in April 2021. She is primarily responsible for the financial matters management, information disclosure of the Company, and organizing Board and Shareholders' meetings.

Prior to joining our Group, Ms. Liu served in multiple companies and has over 17 years of experience in financial and investment areas. From July 2003 to September 2012, Ms. Liu served various positions in Pan-China Certified Public Accountants LLP (天健會計師事務所), including, among others, senior project manager and manager. She then served as the financial director in Zhejiang University Dajing Venture Capital Co., Ltd. (浙江浙大大晶創業投資有限公司), formerly known as Zhejiang University Venture Capital Co., Ltd. (浙江大學創業投資有限公司) from September 2012 to June 2017. During June 2017 to April 2020, she served successively as the risk control director of Investment Department of Wanma United Holding Group Co., Ltd. (浙江萬馬智能科技集團有限公司) and the partner of Hangzhou Silicon Valley True Stone Asset Management Co., Ltd. (杭州矽谷真石資產管理有限公司). Ms. Liu has been serving as an independent director of Ningbo Jiangfeng Electronic Materials Co., Ltd. (寧波江豐電子材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300666), since December 2020. She has been serving as the financial controller, the secretary to the Board and a director of our Company since August 2020, October 2020 and October 2020, respectively.

Ms. Liu received a bachelor's degree in economics from Central China Normal University (華中師範大學) in the PRC in June 2003 and a graduation certificate in Economics from Zhejiang University (浙江大學) in the PRC in October 2012. She was qualified as a certified public accountant in April 2003 by Ministry of Finance of the People's Republic of China, an internal auditor in November 2004 by Institute of Internal Auditors, the senior accountant in April 2015 by Zhejiang Provincial Department of Human Resources and Social Security with authorization from the Provincial Senior Accountant Qualification Review Committee.

Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Hu Xubo (胡旭波), aged 47, is a non-executive Director of our Company. Mr. Hu joined our Group in November 2016 and was re-designated as our non-executive Director in April 2021. He is primarily responsible for overseeing Board affairs and giving strategic advice and guidance on the business operation of the Group.

Mr. Hu has over 15 years of experience in investment management, strategic consulting and operations management in the medical health industry. He joined Qiming Weichuang Venture Capital Management (Shanghai) Co. Ltd (啟明維創創業投資管理(上海)有限公司) in October 2006 and is currently a managing partner of the firm. Mr. Hu is also a director of Shanghai Sanyou Medical Co. Ltd (上海三友醫療器械股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688085), APT Medical Inc. (深圳惠泰醫療器械股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688617) and Shanghai Aohua endoscope Co., Ltd. (上海澳華內鏡股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688212). From October 2014 to April 2018, Mr. Hu also served as a non-executive director of BBI Life Sciences Corporation (BBI生命科學有限公司) (previously listed on the Stock Exchange (stock code: 1035.HK), delisted in June 2020). Mr. Hu was a non-executive director of Antengene Corporation Limited (德琪醫藥有限公司), a company listed on the Stock Exchange (stock code: 06996) from November 2018 to March 2021. Mr. Hu has been serving as a director of our Company since November 1, 2016.

Mr. Hu received a bachelor's degree in preventive medicine from Shanghai Medical College of Fudan University (formerly known as Shanghai Medical University (上海醫科大學)) in the PRC in July 1998. He also obtained a master's degree in business administration from Ecole Nationale des Ponts et Chaussees (Tongji campus) in the PRC in October 2004.

Ms. Gao Yun (高韻), aged 35, has been a Director of our Company since May 2020. Ms. Gao joined our Group in May 2020 and was re-designated as our non-executive Director in April 2021. She is primarily responsible for overseeing Board affairs and giving strategic advice and guidance on the business operation of the Group.

Between August 2011 and January 2014, Ms. Gao served successively as an analyst and then senior analyst in IMS Health. In February 2014, she joined the Medtronic PLC. (美國美敦力公司), a medical technology company, as the specialist in the Strategy and Business Development Department for a certain period of time. After that, Ms. Gao also worked at SBCVC (HK) Ltd. (軟銀中國資本有限公司) as the investment manager. She has been successively serving as the investment manager, the senior investment manager, the vice president and executive director at Lilly Asia Ventures (禮來亞洲基金), an investment fund.

Directors, Supervisors and Senior Management

Ms. Gao received a bachelor's degree in medicine from Fudan University in the PRC in June 2011 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in the PRC in December 2016.

Independent Non-executive Directors

Dr. Li Lihua (厲力華), aged 57, was appointed as an independent Director of the Company in October 2020 and transferred as an independent non-executive Director in April 2021. His main responsibility is to participate in the decision making of major events of the Company and to provide advice on corporate governance, audit and remuneration and evaluation of Directors, Supervisors and senior management.

Dr. Li served as an assistant professor and associate professor at the University of South Florida School of Medicine from 1994 to 2006. Since June 2006, He has served as the director of The Institute of Biomedical Engineering and Instrument, the Dean of the School of Life Information and Instrument Engineering, and the Dean of the Institute of Intelligent Health of Hangzhou Dianzi University (杭州電子科技大學).

Dr. Li is well-known in the field of science. In December 2006, he was selected as the first level of "The New Century 151 Talent Project" (新世紀151人才工程) of Zhejiang Province. In August 2006, he was appointed as "Qianjiang Scholar" Distinguished Professor of Zhejiang Higher Education Institution (浙江省高等學校"錢江學者"特聘教授). In September 2007, he was awarded the National Science Fund for Outstanding Young Scholars by the National Natural Science Foundation of China (國家自然科學基金委員會). In 2009, he was selected as the national talent of "New Century Millions of Talents Project". Dr. Li has served as associate editor of Medical Physics, a prestigious international journal, Cancer Information editorial board member, National Institutes of Health and Department of Defense project reviewer, and was included in the Marquis Who's Who in the World. Dr. Li is currently a member of the Science and Technology Development Advisory Committee of Zhejiang Province (浙江省科技發展諮詢委員會委員), a member of the Academic Advisory Committee of Zhijiang Laboratory (之江實驗室學術諮詢委員會), vice chairman (chairman designate) of the Image Information and Control Professional Committee of the Chinese Society of Biomedical Engineering (中國生物醫學工程學會圖像信息與控制專業委員會), and vice chairman of the Medical Imaging Professional Committee of the Chinese Society of Image and Graphics (中國圖象圖形學會醫學影像專業委員會). Dr. Li was awarded the Third Prize of Science and Technology Progress Award by the State Education Commission (國家教委科技進步三等獎) in 1991 and the Overseas Chinese Contribution Award—Innovative Talent Award (僑界貢獻獎創新人才獎) by All-China Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會) in August 2012.

Dr. Li received his ph.D. degree in Signal and Information Processing from Southeast University (東南大學) in China in November 1990.

Directors, Supervisors and Senior Management

Ms. Gao Jian (高健), aged 48, was appointed as an independent director of our Company in October 2020 and re-designated as an independent non-executive Director in April 2021. She 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.

Ms. Gao has extensive experience in accounting and financial areas. Prior to joining our Group, she successively served as the vice general manager and the secretary to the board of Eastern Shenghong Co., Ltd. (江蘇東方盛虹股份有限公司) (formerly known as Jiangsu Wujiang China Eastern Silk Market Co., Ltd. (江蘇吳江中國東方絲綢市場股份有限公司)), whose shares are listed on the Shenzhen Stock Exchange (stock code: 000301) from November 2010 to June 2011; the independent non-executive director of Kuaijishan Shaoxing Rice Wine Company Limited. (會稽山紹興酒股份有限公司), whose shares are listed on the Shanghai Stock Exchange (stock code: 601579) since September 2019. Since June 2021, Ms. Gao has been a director of Suzhou Datong new materials Co., Ltd. (蘇州達同新材料有限公司).

Ms. Gao received a bachelor's degree in accounting from Zhejiang University of Finance and Economics (浙江財經大學) in the PRC in 1995. Ms. Gao is also a certified practising accountant since June 1998, a senior accountant, a certified public valuer, a tax advisor and a qualified practising lawyer since August 1998. She obtained the permission of practising securities and futures related businesses from Ministry of Finance (財政部) and CSRC as a certified practising accountant since November 2002.

Ms. Wang Chunfeng (王春鳳), aged 40, was appointed as an independent director of our Company in October 2020 and re-designated as an independent non-executive Director in April 2021. She 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.

Ms. Wang served successively as the supervisor and securities affairs representative of Enjoyor Co., Ltd. (銀江股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 300020) from September 2007 to July 2010. She has been serving successively as the chief executive officer and the vice chairperson of Yinjiang Incubator Co., Ltd. (銀江孵化器股份有限公司) from June 2018 to January 2021 and since February 2021 respectively.

Directors, Supervisors and Senior Management

Ms. Wang received a master's degree in business administration from Lanzhou University of Technology (蘭州理工大學) in the PRC in December 2015. She was granted the third prize of Hangzhou Science and Technology Progress Award (杭州市科技進步三等獎) by Hangzhou Science and Technology Bureau (杭州市科學技術局) in October 2011.

Mr. Ho Kin Cheong Kelvin (何建昌), aged 55, was appointed as an independent non-executive Director on April 21, 2021. He 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. Ho has over 20 years of experience in finance and accounting, company secretary, initial public offering and debt restructuring areas. Mr. Ho worked at Grand Orient Holdings Limited (偉東集團有限公司) (stock code: 0106.HK) from June 1999 to October 2000, serving as the company secretary and chief financial officer. From December 2000 to November 2003, he worked for Hanny Magnetics Limited, a subsidiary of Hanny Holdings Limited (錦興集團有限公司) (currently known as Master Glory Group Limited) (stock code: 0275.HK) at which his last position was financial analyst. From January 2004 to September 2005, he worked for Friedmann Pacific Greater China Investments Limited (富泰大中華投資有限公司) (stock code: 1226.HK) as the company secretary and chief financial officer. From August 2006 to August 2008, he worked for Anhui Tianda Oil Pipes Company Limited (安徽天大石油管材有限公司) (stock code: 0839.HK) as company secretary and chief financial officer. From August 2008 to January 2010, he worked for FU JI Food and Catering Services Holdings Limited (福記食品服務控股有限公司) (currently known as Fresh Express Delivery Holdings Group Co., Limited) (stock code: 1175.HK) as company secretary and chief financial officer. From April 2010 to March 2012 and from May 2012 to December 2014, he worked for Greens Holdings Limited (格菱控股有限公司) (stock code: 1318.HK) at which his last position was company secretary and chief financial officer. From January 2016 to December 2017, he worked for Sand River Golf Club Limited (沙河高爾夫球會有限公司) as the company secretary and chief financial officer. From March 2019 to May 2020, he worked for Richly Field China Development Limited (裕田中國發展有限公司) (stock code: 0313.HK) as the company secretary and chief financial officer. From August 2020 to January 2022, Mr. Ho has been the company secretary and chief financial officer of China Wood International Holding Co., Limited (中木國際控股有限公司) (stock code: 1822.HK).

Directors, Supervisors and Senior Management

Mr. Ho was an independent non-executive director of Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) (祥泰行集團有限公司) (stock code: 0199.HK) from October 2001 to May 2003 and a non-executive director of HongDa Financial Holding Limited (currently known as China Wood International Holding Co., Limited) (stock code: 1822.HK) (弘達金融控股有限公司) from April 2016 to April 2017. From August 2018 to February 2022, Mr. Ho has been an independent non-executive director of CECEP COSTIN New Materials Group Limited (In Provisional Liquidation) (中國節能海東青新材料集團有限公司) (“CECEP COSTIN”) (stock code: 2228.HK). Based on published information, CECEP COSTIN received a winding up petition and a summons for the appointment of joint provisional liquidators dated October 2017. Mr. Ho’s appointment was made subsequent to the winding up petition against CECEP COSTIN and he was appointed by the joint provisional liquidators to meet the relevant requirements under the Listing Rules. In February 2022, The listing status of CECEP COSTIN was cancelled by the Stock Exchange. Since July 2020, Mr. Ho has been an independent non-executive director of Rosan Resources Holdings Limited (融信資源控股有限公司) (stock code: 0578.HK). Since August 2020, he has been an independent non-executive director of Green Leader Holdings Group Limited (綠領控股集團有限公司) (stock code: 0061.HK). Since October 2020, he has been an independent non-executive director of Yadong Group Holdings Limited (亞東集團控股有限公司) (stock code: 1795.HK) and JW (Cayman) Therapeutics Company., Limited (藥明巨諾(開曼)有限公司) (stock code: 2126.HK). Notwithstanding the above appointments as independent non-executive director, Mr. Ho confirmed that he will devote sufficient time to act as an independent non-executive Director. In addition, Mr. Ho acting as independent non-executive director is neither a full-time member of the above-mentioned listed companies nor involved in day-to-day operations or management of the above-mentioned listed companies, and as such he has no executive or management responsibility.

Mr. Ho was admitted as an associate member of the Hong Kong Society of Accountants (currently known as The Hong Kong Institute of Certified Public Accountants) in June 1997 and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom in April 2002. He has passed the Securities Broker Examination of the Stock Exchange in March 2000.

Mr. Ho obtained a bachelor degree of business administration from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in Hong Kong in November 1990.

Directors, Supervisors and Senior Management

SUPERVISORY COMMITTEE

The Supervisory Committee currently consists of three Supervisors as of the date of this report. The Supervisors include two shareholder Supervisors and one employee Supervisor. The shareholder Supervisors and the employee Supervisor are elected at the Shareholders' meetings and the staff representative assembly, respectively, for a term of three years, subject to re-election upon their retirement or resignation.

Supervisors

Mr. Li Zhenhua (李振華), aged 34, is the chairman of our Supervisory Committee and an employee Supervisor. Mr. Li joined our Group in September 2012 as the senior production manager of production department and was appointed as the Supervisor of our Company in October 2020. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Prior to joining the Group, Mr. Li worked in Hangzhou Tingyi Food Co., Ltd. (杭州頂益食品有限公司) from July 2009 to September 2012. He has been serving as the senior production manager of production department of our Company since September 2012.

Mr. Li graduated from Quzhou University (衢州學院) (formerly known as Zhejiang University of Technology, West Zhejiang Branch (浙江工業大學浙西分校)) in the PRC in June 2009 with a major in mechanical manufacturing and automation. He obtained his bachelor's degree in mechanical manufacturing and automation from China University of Petroleum (中國石油大學) in the PRC in January 2018.

Mr. Lyu Cheng (呂承), aged 34, is a shareholders' representative Supervisor. Mr. Lyu joined our Group in October 2020 as a Supervisor. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Mr. Lyu has been successively serving as the investment manager and investment director of LYZZ Capital (上海醴澤投資管理有限公司), an investment company, since February 2017, where he was responsible for investment matters.

Mr. Lyu received a bachelor's degree in business administration from Glion Institute of Higher Education in Switzerland in May 2012 and a master's degree in tourism administration from George Washington University in the United States in May 2015.

Directors, Supervisors and Senior Management

Mr. Zhao Zhiheng (趙志恆), aged 39, is a shareholders' representative Supervisor. Mr. Zhao joined our Group in August 2013 as the manager of purchasing department. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Prior to joining our Group, he was the sole proprietor of Hangzhou Shangcheng District Xiuyushanju Handicraft Shop (杭州市上城區秀玉山居工藝品店) from January 2010 to December 2012.

Mr. Zhao graduated from Zhejiang University City College (浙江大學城市學院) in the PRC with a major in financial analysis in February 2007. He obtained his bachelor's degree in logistics management from Huazhong University of Science and Technology (華中科技大學) in the PRC in July 2019.

Senior Management

Dr. Zheng Pan (鄭攀), aged 51, is the chairman of our Board, an executive Director and the Chief Executive Officer of our Company. For details of his biography, see "Directors, Supervisors and Senior Management—Executive Directors" of this report.

Mr. Dore Chin Mark, aged 53, is the vice president of the engineering department of our Company. Mr. Mark joined our Group in March 2011. He is primarily responsible for international business/product/technical development in our Company, international and domestic technology partnerships, and assisting in the management of the R&D team and international registration matters.

Prior to joining our Group in 2011, Mr. Mark worked at Mizuho OSI, an orthopedic surgery company, as a Senior Manager for New Product Development from May 2010. Before working at Mizuho OSI, he served as a Senior Manager in Flex Ltd. (previously known as Flextronics International Ltd.) (stock code: FLEX (NASDAQ)), a multinational contract manufacturer, from October 2006 to December 2009, where he was responsible for mechanical engineering. Between 1999 to 2006, Mr. Mark served as a Senior Mechanical Engineer at Gecko Design Inc., a design company acquired by Google LLC.

Mr. Mark received a master's degree in mechanical engineering from the University of California, Irvine, in the USA in 1993 and a bachelor's degree in mechanical engineering from the University of California, Los Angeles in the USA in 1992. He also received Project Management Professional (PMP) certification granted by the Project Management Institute in 2010.

Directors, Supervisors and Senior Management

Mr. Lan Yi (蘭毅), aged 51, is the vice president of marketing of our Company. Mr. Lan joined our Group in July 2016. He is primarily responsible for the management of domestic sales and customer service and assisting the Chief Executive Officer to manage the work of the marketing department.

Mr. Lan has more than 20 years of experience in the pharmaceutical and medical device industries. Prior to joining our Group, Mr. Lan served as the regional manager of the Diabetes Division of United States Eli Lilly (Asia) Co., Ltd. (美國禮來(亞洲)有限公司) from September 1996 to February 2004. He then joined the Medtronic (Shanghai) Management Co., Ltd. (美敦力(上海)管理有限公司), serving as the national sales manager of the Diabetes Division from March 2004 to June 2013. He served as the national sales manager of Luye Pharma Group Ltd. (綠葉製藥集團有限公司) from July 2013 to June 2016.

Mr. Lan received a bachelor's degree in science and technology English from West China University of Medical Sciences (華西醫科大學) in the PRC in July 1994 and a master's degree in business administration from Washington University (St. Louis) in the United States in December 2009.

Dr. Shi Yonghui (施永輝), aged 42, is an executive Director, the chief strategy & development officer and the senior vice president of our Group. For details of his biography, see "Directors, Supervisors and Senior Management—Executive Directors." of this report.

Ms. Liu Xiu (劉秀), aged 42, is an executive Director, the financial controller and secretary to the Board of our Company. For details of her biography, see "Directors, Supervisors and Senior Management—Executive Directors." of this report.

Ms. Xu Fangling (徐方玲), aged 38, is the vice president and the head of Administration Department of our Company. Ms. Xu joined our Group in December 2013 and was appointed as the vice president of our Company in June 2021. She is primarily responsible for the management of public relations, investor relations, investment and financing matters and administrative commerce matters.

Prior to joining our Group, Ms. Xu served as the financial supervisor of Hangzhou Shidai Zhifeng Technology Co., Ltd. (杭州時代之峰科技有限公司), from March 2007 to December 2013. She has been serving as the vice president and the head of the Administrative Department of our Company since June 2021 and December 2013, respectively.

Ms. Xu graduated from Henan Vocational College of Information and Statistics (河南信息統計職業學院) (previously known as Henan Planning and Statistics School (河南省計劃統計學校)) in the PRC in July 2003 with a major in Accounting Statistics. Ms. Xu graduated from Zhejiang University of Technology (浙江工業大學) with the specialist qualifications in the PRC in June 2015 with a major in accounting. She received a bachelor's degree in Zhejiang University of Technology in the PRC in June 2021.

Directors, Supervisors and Senior Management

JOINT COMPANY SECRETARIES

Mr. Duo Bo (朵波), aged 30, was appointed as a joint company secretary in April 2021. Mr. Duo served as an investment bank business assistant at Xinjiang Westeast Economic Research Institute (新疆東西部經濟研究院) from August 2015 to February 2016. He then worked at Bode Century Enterprise Management Consulting Co., Ltd. (深圳博得世紀企業管理顧問股份有限公司), serving as investment and financing manager and the head of information disclosure from March 2016 to January 2019. After that, Mr. Duo joined Shenzhen Ruijie Engineering Consulting Co., Ltd. (深圳瑞捷工程諮詢股份有限公司), serving as the securities commissioner from March 2019 to May 2020. Since January 2021, he has been serving as the securities commissioner and legal affairs officer of our Company.

Mr. Duo received a bachelor's degree in Accounting from Jiujiang University (九江學院) in the PRC on July 10, 2016. Mr. Duo obtained the Securities Qualification Certificate from China Securities Industry Association in March 2015 and was qualified as the secretary of the board of directors by National Equities Exchange and Quotations Co., Ltd. and SSE STAR MARKET (上海證券交易所科創板) in December 2017 and September 2021 respectively. He obtained the legal professional qualification certificate granted by the Ministry of Justice of the PRC in April 2021.

Mr. Zhang Mengchi (張夢弛), aged 35, was appointed as the other joint company secretary of our Company in April 2021, effective upon listing. Mr. Zhang is an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited.

Mr. Zhang received a master's degree in Professional Accounting and Corporate Governance from the City University of Hong Kong on July 14, 2017, and is an associate member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators).

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles as set out in the CG code.

In the opinion of the Directors, throughout the period from the Listing Date to the date of this report, the Company has complied with all the code provisions as set out in the CG Code apart from the deviations below.

Pursuant to code provision C.5.1 (i.e. former code provision A.1.1) of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. As the Company was only listed on the Listing Date, no Board meeting was held during the period from the Listing Date to December 31, 2021. During the same period, the Chairman held one meeting with the Independent Non-executive Directors without the presence of other Directors.

Code provision C.2.1 (i.e. former code provision A.2.1) of the CG Code provides that the roles of the chairman of the Board and chief executive officer should be separated and should not be performed by the same individual. As at the date of this report, the roles of the Chairman and the CEO of the Company were held by Dr. Zheng. Details in relation to the roles of the Chairman and CEO are set out on page 34 under the section headed "Board of Directors – Chairman and CEO" of this Corporate Governance Report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules. Having made specific enquiry by the Company, all Directors and Supervisors have confirmed that they have complied with the required standard set out in the Model Code during the period from the Listing Date to the date of this report. The Company will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company during the Reporting Period.

Corporate Governance Report

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and makes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing such responsibilities.

Board Composition

As at the date of this report, the Board currently comprises ten Directors, consisting of four Executive Directors, two Non-executive Directors and four Independent Non-executive Directors as set out below:

Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)

Dr. Yu Fei

Dr. Shi Yonghui

Ms. Liu Xiu

Non-executive Directors

Mr. Hu Xubo

Ms. Gao Yun

Independent Non-executive Directors

Dr. Li Lihua

Ms. Gao Jian

Ms. Wang Chunfeng

Mr. Ho Kin Cheong Kelvin

The biographical information of the Directors is set out in the section headed "Directors, Supervisors and Senior Management" on pages 20 to 31 of this report.

Save as disclosed in the section headed "Directors, Supervisors and Senior Management", to the best knowledge of the Company, there has been no other financial, business, family or other material/relevant relationships among members of the Board.

Corporate Governance Report

Board Meetings and Directors' Attendance Records

Code provision C.5.1 (i.e. former code provision A.1.1) of the CG Code stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals involving active participation, either in person or through electronic means of communication, of a majority of directors.

As the Company was only listed on the Listing Date, no Board meeting was held during the period from the Listing Date to December 31, 2021. The Company expects to convene at least four regular Board meetings in each financial year at approximately quarterly intervals in accordance with code provision C.5.1. (i.e. former code provision A.1.1) of the CG Code.

Chairman and CEO

Code provision C.2.1 (i.e. former code provision A.2.1) of the CG Code provides that the roles of the Chairman and the CEO should be separated and should not be performed by the same individual. As at the date of this report, the roles of the Chairman and the CEO of the Company are held by Dr. Zheng.

The Board believes that, in view of his experience, personal profile and his roles in our Company, Dr. Zheng is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as the CEO. The Board also believes that vesting the roles of both the chairman and the CEO in the same person has the benefit of (i) ensuring consistent leadership within the Group, (ii) enabling more effective and efficient overall strategic planning and execution of strategic initiatives of the Board, and (iii) facilitating the flow of information between the management and the Board for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and effectively.

Further, the decisions to be made by the Board require approval by at least a majority of our Directors and that the Board comprises two Non-executive Directors and four Independent Non-executive Directors, which the Company believes that there are sufficient checks and balances in the Board. Dr. Zheng and other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they shall act for the benefit and in the best interest of the Company and will make decisions for the Group accordingly.

The Board will continue to review and consider splitting the roles of the Chairman and the CEO at the time when it is appropriate by taking into account the circumstances of the Group as a whole.

Corporate Governance Report

Independent Non-executive Directors

From the Listing Date to the date of this report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing at least one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Accordingly, the Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the Directors has entered into service contract with the Company. 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. The Directors may be re-appointed subject to Shareholders' approval. The service contracts can be renewed pursuant to our Articles of Association and applicable rules.

Each of the Supervisors has entered into a contract with the Company. 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, the Company has not entered, and do not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose any changes, the number and nature of offices held in public companies or organisations and other significant commitments held by them, including the identity of any such public companies or organisations and an indication of the time involved.

The Board reserves for its decisions on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal action taken against them arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

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. Management shall obtain approval from the Board before any significant transaction is entered into.

Corporate Governance Report

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by regular meetings with senior management of the Company to understand the Group's businesses, governance policies and regulatory environment.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The training records of the Directors during the year ended December 31, 2021 and up to the date of this report are summarized as follows:

| Directors | Participated in continuous professional development <small>Note</small> |
|--|--|
| Executive Directors | |
| Dr. Zheng | ✓ |
| Dr. Yu Fei | ✓ |
| Dr. Shi Yonghui | ✓ |
| Ms. Liu Xiu | ✓ |
| Non-executive Directors | |
| Mr. Hu Xubo | ✓ |
| Ms. Gao Yun | ✓ |
| Independent Non-executive Directors | |
| Dr. Li Lihua | ✓ |
| Ms. Gao Jian | ✓ |
| Ms. Wang Chunfeng | ✓ |
| Mr. Ho Kin Cheong Kelvin | ✓ |

Note: Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials.

Corporate Governance Report

BOARD COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Remuneration and Assessment Committee, Nomination Committee and the Strategy Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, the Remuneration and Assessment Committee, Nomination Committee and the Strategy Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under the section headed "Corporate Information" on page 2 of this report.

Audit Committee

The Audit Committee consists of three members, including one Non-executive Directors, namely Ms. Gao Yun and two Independent Non-executive Directors, namely Mr. Ho Kin Cheong Kelvin and Ms. Gao Jian. Ms. Gao Jian, being the Chairperson of the Audit Committee, holds the appropriate professional qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

The Audit Committee has reviewed the financial results and report for the Reporting Period and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors, engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The risk management and internal control systems are reviewed on an annual basis by the Audit Committee.

The attendance records of the Audit Committee are set out under "Attendance Record of Directors".

Corporate Governance Report

Remuneration and Assessment Committee

The Remuneration and Assessment Committee consists of three members, including one executive Director, namely, Dr. Shi Yonghui, and two independent non-executive Directors, namely, Ms. Wang Chunfeng and Mr. Ho Kin Cheong Kelvin. Ms. Wang Chunfeng is the Chairperson of the Remuneration and Assessment Committee.

The terms of reference of the Remuneration and Assessment Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration and Assessment Committee include, without limitation, (i) making recommendations to the Board on the overall remuneration policies and structures for the directors and senior management of the Company and the proper and transparent procedures for the formulation of remuneration policies; (ii) reviewing and approving the management's proposal on remuneration based on the corporate goals and objectives set by the Board; (iii) making recommendations to the Board on remuneration package of individual executive directors and senior management members; and (iv) making recommendations to the Board on remuneration package of individual executive directors and senior management members.

The attendance records of the Remuneration and Assessment Committee are set out under "Attendance Records of Directors".

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

| | 2021 |
|------------------------------|--------------------------------|
| | Number of Individual(s) |
| HKD1,000,000 and below | 1 |
| HKD1,000,001 to HKD1,500,000 | 2 |
| | <u>3</u> |

Further details of the remuneration payable to the Directors and the five highest paid individuals for the year ended December 31, 2021 are set out in note 8 and note 9, respectively, to the Consolidated Financial Statements in this report.

Corporate Governance Report

Nomination Committee

The Nomination Committee consists of three members, including one Executive Director namely Dr. Zheng, and two Independent Non-executive Directors, namely Dr. Li Lihua and Ms. Gao Jian. Dr. Li Lihua is the Chairman of Nomination Committee.

The terms of reference of Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of Nomination Committee include, without limitation, (i) reviewing the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, and length of service) of the Board at least annually according to the Company's business activities, asset size and equity structure, and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors; (iii) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships; and (iv) assessing the independence of independent non-executive directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company's board diversity policy (the "Board Diversity Policy"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy (the "Director Nomination Policy") that are necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board.

The structure, size and composition of the Board and the independence of the Independent Non-executive Directors have been reviewed by the Board and the Board considered that an appropriate balance of diversity perspectives of the Board was maintained for 2021.

The attendance records of the Nomination Committee are set out under "Attendance Record of Directors"

Corporate Governance Report

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance the effectiveness of the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Directors have a balanced mix of knowledge and skills, including overall management and strategic development, quality assurance and control, finance and accounting and corporate governance in addition to industry experience in healthcare and biotechnology. They obtained degrees in various majors including science, engineering and finance. We have four independent non-executive Directors with different industry backgrounds, representing more than one third of the members of our Board. Furthermore, our Board has a diverse age and gender representation. Taking into account the Company's existing business model and specific needs as well as the different background of the Directors, the composition of the Board satisfies the Company's board diversity policy.

The Company is also committed to adopting a similar approach to promote diversity within management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

The Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the CG Code. The Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any measurable objective.

Corporate Governance Report

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to Nomination Committee.

The Company has a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Reputation for integrity
- Commitment in respect of available time and relevant interest
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

- (a) identify individuals who are suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the Board Diversity Policy, the requirements in the Company's constitution, the Listing Rules and applicable laws and regulations, and the relevant candidates' contributions to the Board in terms of qualifications, skills, experiences, independence and gender diversity;
- (b) assess the independence of independent non-executive Directors to determine their eligibility with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by Nomination Committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, to assess his/her ability to devote sufficient time to the Board matters; and

Corporate Governance Report

- (c) develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship, including but not limited to evaluating the balance of skills, knowledge and experience on the Board, and in the light of this evaluation prepared a description of the role and capabilities required for a particular appointment.

Nomination Committee will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

Strategy Committee

The Strategy Committee consists of three members, including one Executive Director, namely Dr. Zheng, one Non-executive Director, namely Mr. Hu Xubo and one Independent Non-executive Director, namely Dr. Li Lihua.

The primary duties of the Strategy Committee include, but not limited to, the following:

- researching and making recommendations on the Company's long-term development strategy plan;
- researching and making recommendations on the major investment and financing plans, and major capital operation and asset management projects required by the Articles of Association to be approved by our Board or the general meeting of the Company;
- making recommendations on other major issues that shall affect the Company's development, and examining relevant matters accordingly;
- inspecting the implementation of the above matters approved by the Board or the general meeting of the Company; and
- dealing with other matters that are authorized by the Board.

The attendance records of the Strategy Committee are set out under "Attendance Record of Directors".

Corporate Governance Report

Corporate Governance Functions

The Board is responsible for performing the functions set out in code provision A.2.1 (i.e. former code provision D.3.1) of the CG Code.

From the Listing Date to the date of this report, the Board together with the Nomination Committee had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

ATTENDANCE RECORDS OF DIRECTORS

Code provision C.5.1 of the CG Code prescribes that regular Board meetings should be held at least four times a year at approximately quarterly intervals involving active participation, either in person or through electronic means of communication, of a majority of Directors.

As the Company was only listed on the Listing Date, no Board meeting was held during the period from the Listing Date to December 31, 2021, because the Board did not have any matters to discuss during such period. During the same period, the Chairman held one meeting with all the Independent Non-executive Directors without the presence of other Directors. The Company expects to continue to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision C.5.1 (i.e. former code provision A.1.1) of the CG Code. The Company will also arrange for the Chairman to have meetings with the Independent Non-executive Directors so as to comply with the requirement of code provision C.2.7 (i.e. former code provision A.2.7) of the CG Code.

Corporate Governance Report

There has been no AGM convened since the Listing Date and up to the Latest Practicable Date and therefore there was no attendance record of the Directors at the AGM. The attendance record of each Director at the Board and Board committee meetings, as applicable, of the Company held during the period from the Listing Date to December 31, 2021 is set out in the table below:

| Name of Directors | Attendance/Number of Meetings | | | | |
|--|-------------------------------|---------------------|-------------------------|-------------------------|-----------------------|
| | Board | Remuneration and | | Nomination Committee | Strategy Committee |
| | | Audit Committee | Assessment Committee | | |
| Executive Directors | | | | | |
| Dr. Zheng | N/A | N/A | N/A | N/A | 1/1 |
| Dr. Yu Fei | N/A | N/A | N/A | N/A | N/A |
| Dr. Shi Yonghui | N/A | N/A | N/A | N/A | N/A |
| Ms. Liu Xiu | N/A | N/A | N/A | N/A | N/A |
| Non-executive Directors | | | | | |
| Mr. Hu Xubo | N/A | N/A | N/A | N/A | 1/1 |
| Ms. Gao Yun | N/A | 1/1 | N/A | N/A | N/A |
| Independent Non-executive Directors | | | | | |
| Dr. Li Lihua | N/A | N/A | N/A | N/A | 1/1 |
| Ms. Gao Jian | N/A | 1/1 | N/A | N/A | N/A |
| Ms. Wang Chunfeng | N/A | N/A | N/A | N/A | N/A |
| Mr. Ho Kin Cheong Kelvin | N/A | 1/1 | N/A | N/A | N/A |

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

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

The Company has 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 on-going basis. The Audit Committee and ultimately the Board supervise the implementation of the Company's risk management policies. Risks identified by the management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by the Group and reported to the Directors.

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

The senior management of the Company oversees and manages the overall risks associated with our business operations, including (i) reviewing and approving the Group's risk management policy to ensure that it is consistent with its corporate objectives; (ii) monitoring the most significant risks associated with the Group's business operations and the management's handling of such risks; and (iii) ensuring the appropriate application of the risk management framework across the Group.

The legal and internal audit personnel are responsible for developing and implementing our risk management policy and carrying out our day-to-day risk management practice, such as assessing risks on key business operations, advising risk responses and optimizing risk management policies. In order to formalize risk management across the Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operation or function; (iv) implement appropriate risk responses where necessary; and (v) develop and maintain an appropriate mechanism to facilitate the application of the risk management framework. The Board considers that the Directors and members of the Company's senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Corporate Governance Report

Internal Control

The Board is responsible for establishing the Group's internal control system and reviewing its effectiveness. Below is a summary of the internal control policies, measures and procedures which have been implemented:

- The Group has adopted various measures and procedures regarding each aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. The Group provides periodic training on these measures and procedures to its employees as part of its employee training program. The Group also regularly monitors the implementation of those measures and procedures through its on-site internal audit team for each stage of the produce development process.
- The Group maintains strict anti-corruption policies among its sales personnel and distributors in its sales and marketing activities. In particular, the Group requires its distributors to provide written commitments to the Group which stipulates the Group's requirements for various aspects of distributors' operations, such as prohibiting distributors from providing any form of improper benefits and require distributors to enter into distributorship agreements with any sub-distributors they engage to have such sub-distributors abide by the Group's policies. The Group also monitors its sales and marketing personnel to ensure their compliance with applicable promotion and advertising requirements, which include restrictions on promoting the Group's products for unapproved uses or patient populations, also known as off-label use, and limitations on industry-sponsored scientific and educational activities. In particular, each of sales and marketing personnel is required to undertake to us in writing that they will restrain themselves from any bribery and/or any other improper business practices.
- The Directors (who are responsible for monitoring the corporate governance of the Group), with help from the Company's legal advisors, also periodically review its compliance status with all relevant laws and regulations. The Audit Committee (i) makes recommendations to the Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures of the Group.
- The Company has engaged Orient Capital (Hong Kong) Limited as its compliance advisor to provide advice to the Directors and management team until the end of the first full financial year commencing after the Listing Date regarding matters relating to the Listing Rules. The Company's compliance advisor is expected to provide support and advice regarding requirements of relevant regulatory authorities in a timely fashion.

Corporate Governance Report

- The Group maintains a comprehensive treasury policy, detailing specific functions and internal control measures for capital use. These functions and measures include but are not limited to procedures of capital management, separation of capital management responsibilities, liquidity management and follow-up and analysis of the implementation of capital plan.
- The Company has established internal audit function and risk management and internal control systems with relevant policies and procedures that we believe are appropriate for our business operations.
- The Group has adopted internal protocols governing both the confidentiality and privacy for patient sample and data. There is written operation procedures in place for sample/data collection, test procedures, data storage as well as data access. Such data access is on an as-needed basis for internal employees, and external access is not allowed and requires written approvals from the head of the quality control/ compliance department.

Policy on the Disclosure of Inside Information

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management, and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

During the Reporting Period, the Company has regularly reviewed and enhanced its risk management, internal control systems and inside information disclosure policy. We believe that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. The Board has conducted a review of the effectiveness of the risk management and internal control systems and considers these systems effective and adequate.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2021.

The management has provided sufficient explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 112 to 113 of this report.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2021 is set out below:

| Service Category | Fees Paid/ Payable |
|---|-------------------------------|
| | RMB' 000 |
| Audit services | 1,680 |
| Services in connection with the Listing | 3,680 |
| Non-audit services | |
| – Internal control assessment for the Listing | 450 |
| Total | 5,810 |

JOINT COMPANY SECRETARIES

Mr. Duo Bo, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board's policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Mr. Zhang Mengchi as the other joint company secretary of the Company to assist Mr. Duo Bo to discharge his duties as company secretary of the Company. Mr. Zhang Mengchi currently serves as an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited. He is mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange. Mr. Duo Bo is the primary contact person at the Company.

In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Mr. Zhang contacts Mr. Duo, and Mr. Duo is responsible for reporting to the Board and/or the chairperson of the Board. The relevant professional trainings that Mr. Zhang participated in during the Reporting Period has reached 15 hours, which is in compliance with the requirements of Rule 3.29 of the Listing Rules. As the Company was listed on 19 October 2021, Mr. Duo has committed to undertaking at least 15 hours of training in 2022 and in every subsequent years in line with Rule 3.29 of the Listing Rules to update his knowledge and skills.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

The Company engages with the Shareholders through various communication channels. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to all Shareholders;
- Publication of announcements on the annual and interim results and issue of other announcements and Shareholders' circulars on the websites of the Stock Exchange and the Company in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and the Shareholders.

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening Shareholders' General Meetings

A shareholders' annual general meeting is required to be held once every year within six months after the end of the previous fiscal year.

Pursuant to Article 129 of the Articles of Association, Independent Non-executive Directors have the right to propose to the Board to convene an extraordinary general meeting of Shareholders. Independent Non-executive Directors shall obtain at least half of all Independent Non-executive Directors' consent when exercising the above-mentioned powers.

Corporate Governance Report

For Independent Non-executive Directors' proposal to convene an extraordinary general meeting, the Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, propose to agree or disagree to convene an extraordinary general meeting within 10 days after receiving the proposal.

If the Board agrees to convene an extraordinary general meeting, it shall issue a notice of convening the general meeting within 5 days after the resolution of the Board is made; if the Board does not agree, it shall explain the reasons and make an announcement.

Pursuant to Article 64 of the Articles of Association, the board of Supervisors has the right to propose in writing to the Board to convene an extraordinary general meeting of Shareholders. The Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, provide written feedback on whether or not it agrees to convene an extraordinary general meeting within 10 days after receiving the proposal.

If the Board agrees to convene an extraordinary general meeting of Shareholders, a notice of convening the general meeting of Shareholders shall be issued within 5 days after the resolution of the Board is made. Any changes to the original proposal in the notice shall be approved by the Board.

If the Board does not agree, or fails to provide feedback within 10 days after receiving the proposal, it is deemed that the Board cannot perform or fails to perform its duties of convening the general meeting of Shareholders, and the board of Supervisors may convene and preside over it by itself.

Corporate Governance Report

Pursuant to Article 60 of the Articles of Association, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting have the right to request in writing the Board to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting, in which they should also list the topic of the meeting. The Board shall, in accordance with the laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of this Articles of Association, convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting within two months after receiving the written request.

If the Board does not issue a notice of convening within 30 days after receiving the original request, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting shall have the right to propose to the board of Supervisors, in writing, to convene an extraordinary general meeting of Shareholders or a class Shareholders' meeting within 4 months after the Board receives the written request.

Putting Forward Proposals at General Meetings

When the Company convenes a general meeting of shareholders, the Board, Supervisors and Shareholders who individually or collectively hold more than 3% of the Company's Shares have the right to make proposals to the Company.

Shareholders who individually or collectively hold more than 3% of the Company's Shares may submit an interim proposal 10 days before the general meeting of Shareholders to the convener in writing. The convener shall issue a supplementary notice of the general meeting of Shareholders within 2 days after receiving the proposal to announce the content of the temporary proposal. The content of the interim proposal should fall within the scope of the Shareholders' general meeting, and have clear topics and specific resolutions.

Except for the circumstances specified in the preceding paragraph, the convener may not modify the proposals listed in the notice of the Shareholders meeting or add new proposals after issuing the notice of the Shareholders meeting.

For proposals that are not listed in the notice of the general meeting of Shareholders or that do not meet the requirements of Article 71 of these Articles of Association, the general meeting of Shareholders shall not vote and make resolutions.

Corporate Governance Report

Putting Forward Enquiries to the Board

For putting forward any enquiry to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

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

Address: No. 108 Liuze Street
Cangqian Street
Yuhang District, Hangzhou
Zhejiang, China

Email: ir@microtechmd.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website (www.microtechmd.com), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meetings, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Since the Listing Date and up to the date of this report, the Company has not held any general meeting.

The forthcoming annual general meeting will be held on June 22, 2022. The notice of the annual general meeting will be published and dispatched in due course in the manner as required by the Listing Rules.

Corporate Governance Report

Constitutional Documents

The Company's existing Articles of Association were passed at the 2021 First Extraordinary General Meeting of the Company on April 21, 2021 and amended at the Sixth Meeting of the First Session of the Board of the Company held on September 27, 2021 under the authorization granted by the 2021 First Extraordinary General Meeting. The Articles of Association is available on the Company's website and the Stock Exchange's website. From the Listing Date to the date of this report, the said Articles of Association did not have any change.

Communication Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy has been regularly reviewed during the Reporting Period to ensure its effectiveness.

Dividend Policy

The Company has adopted a dividend policy on payment of dividends. Under the dividend policy, we intend to provide our Shareholders with interim or annual dividends as appropriate. The Board is required to consider, among other things, the following factors when proposing dividends and determining the amount of dividends: (i) our actual and projected financial performance; (ii) our estimated working capital requirements, capital expenditure requirements and future business expansion plan; (iii) our present and future cash flow; (iv) other internal and external factors that may have an impact on our business operations or financial performance and position; and (v) other factors that our Board deem relevant.

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

MicroTech Medical (Hangzhou) Co., Ltd. (the “Company”) and its subsidiaries (the “Group” or “We”) are pleased to present our environmental, social and governance (“ESG”) report (the “Report”), which describes the policies, actions and performance relating to the ESG issues of the Group.

1.1 REPORTING STANDARD

The Report is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” (the “Guide”) under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Report is prepared on the basis of four reporting principles, namely: materiality, quantitative, balance and consistency, and it has complied with the “Comply or Explain” provisions in the Guide.

Materiality: We have carried out stakeholder engagement and material issue identification to ensure that the identified sustainability issues are relevant and material to business operations and stakeholders.

Quantitative: The Report contains all the key performance indicators required by the Guide, and has disclosed the corresponding calculation methods and adopted standards.

Balance: The Report shall provide an unbiased picture of the ESG performance of the Company during the reporting period. It should avoid selections, omissions, or presentation formats that may inappropriately influence the decision or judgment by the report readers.

Consistency: The Report is the first ESG report of the Group, and the statistical and key performance indicator disclosure methods used will serve as the basis for future reports.

Readers may refer to Appendix II of the Report: Index of the Hong Kong Stock Exchange’s Environmental, Social and Governance Reporting Guidelines for quick inquiries. This report should be read in conjunction with the “Corporate Governance Report” section of this annual report for a comprehensive understanding of the Group’s ESG performance.

1.2 REPORTING SCOPE

Unless otherwise specified, the Report focuses on the Group’s ESG performance from January 1, 2021 to December 31, 2021 (the “Year”). The disclosure scope of environmental key performance indicators (“KPIs”) covers the Group’s headquarters office in Hangzhou, and the social key performance indicators cover the Group in a whole.

Environmental, Social and Governance Report

1.3 REPORTING LANGUAGES

The Report is published in Chinese and English versions. In case of discrepancies, the Chinese version shall prevail.

1.4 APPROVAL AND CONFIRMATION

The Report was considered and confirmed by the Board after being confirmed by the management of the Company.

1.5 REPORT FEEDBACK

We highly value your views and suggestions on the Report. Please feel free to contact us via email (ir@microtechmd.com).

2. SUSTAINABILITY MANAGEMENT

The Group is deeply concerned about the coordination and unification of economic and social benefits. We integrate social responsibility into business development strategies and human resource management, to create useful value for society.

2.1 STATEMENT OF THE BOARD OF DIRECTORS

The Company understands that the leadership and engagement of the board of directors (the "Board") is essential to the implementation of the sustainable development strategy, therefore, the Board assumes full responsibility for the Group's ESG strategy and reporting, leads and supervises ESG work, and is responsible for leading and responding to the opportunities and risks brought about by sustainable development. The board of directors decides and supervises the ESG policies and strategies regularly, including approving and confirming the ESG-related target setting, reviewing the progress of the target, evaluation and priority ranking, etc. At the same time, the board of directors has approved the establishment of the ESG Supervisory Committee of the Company and authorized it to supervise and promote the implementation of various ESG matters, so as to further improve the effectiveness of sustainable development governance.

2.2 ESG Governance Structure

We have established the ESG Supervisory Committee, which is composed of the chief financial officer, the securities commissioner, the legal affairs officer and the head of Administration Department of the Company for the first term. The ESG Supervisory Committee is responsible for assessing and determining ESG-related risks at the governance level, ensuring the establishment of a suitable and effective ESG risk management and internal control system, and supervising the implementation performance of relevant measures at the executive level. Material ESG issues are being identified and prioritised in this year, The list of material ESG issues was reviewed and validated by the Board and incorporated into the Group's planning for business strategies and ESG initiatives. The members of the Supervisory Committee may be adjusted by the board of directors from time to time according to the business and management needs of the Company. The ESG-related goals can demonstrate the achievements from ESG management, and will improve the relevant measures according to the progress.

Environmental, Social and Governance Report

2.3 COMMUNICATION WITH STAKEHOLDERS

We deeply value the expectations and demands of our stakeholders, and maintain close contact with customers, shareholders/investors, employees, suppliers and business partners, retailers, regulators, media, communities/non-governmental organizations, and industry peers, to fully understand their concerns and expectations. The expectations and demands of stakeholders, communication channels and the responses of management are as follows:

| Major Stakeholders | Expectations and Demands | Main Communication and Response Methods |
|-------------------------------|---|---|
| Customers | Product quality and safety Information and privacy protection | Customer satisfaction surveys and opinion forms Customer service center Daily operation/communication Telephone Email WeChat |
| Shareholders/investors | Performance growth Steady operation Information disclosure | AGM and other general meetings Interim reports and annual reports Corporate correspondence (such as letters/circulars to shareholders and meeting notices) Regular announcements Company website Investor meeting Instant communication with some investors on WeChat |
| Employees | Protection of legitimate rights and interests Employee health and safety Employee compensation and benefits | Employee opinion survey Performance interviews and appraisals Face-to-face meetings Seminars/workshops/talks WeChat group, employee sports meeting, birthday party |

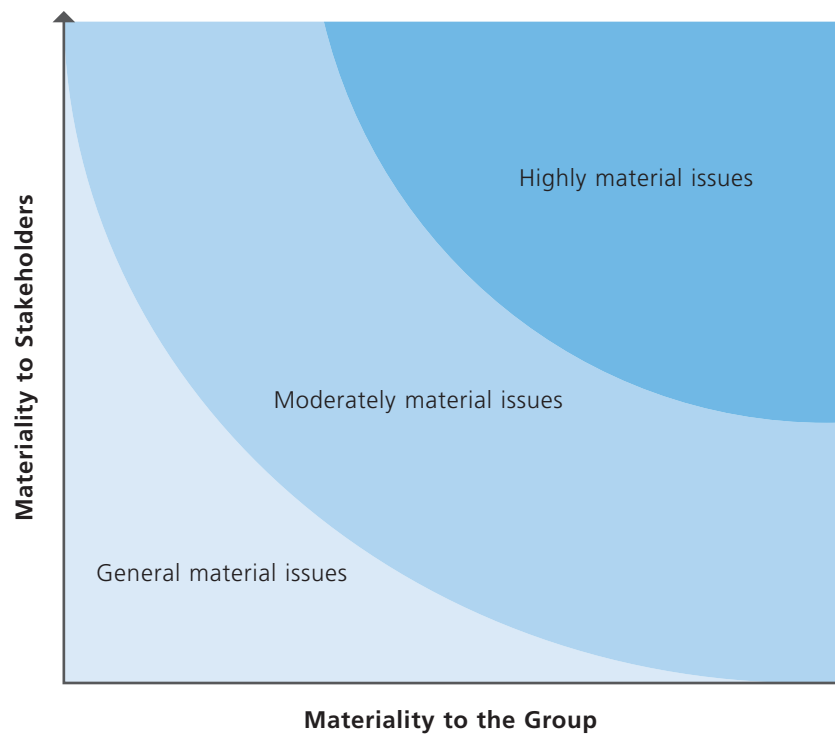
Environmental, Social and Governance Report

| Major Stakeholders | Expectations and Demands | Main Communication and Response Methods |
|--|---|--|
| Suppliers and business partners | Responsible supply chain Product quality | Suppliers management procedures Suppliers/contractors evaluation system On-site visits Communication of quality issues |
| Retailors | Responsible supply chain | Retailers management procedures Retailers evaluation system On-site visits Dealer training session Industry Exhibition |
| Regulators | Comply with laws and regulations Responsible marketing | Written responses to public consultation Meetings Visit and communicate the latest policy developments |
| Media | Contribution to society Promote industry progress | Press release conferences Press releases Interviews with senior management Attend academic conferences |
| Communities/ non-governmental organizations | Community environment protection Social welfare engagement | Public benefit activities Community activities Paired up to help |
| Peers | Fair competition | Strategic cooperation projects Industry conferences, forums or exchange activities |

Environmental, Social and Governance Report

2.4 MATERIAL ISSUES

The Group is committed to improving the performance of sustainable development in a targeted manner. Therefore, we conducted an assessment of material issues during the Year. Based on the Group's development strategy, we tracked the development trend of the industry, learned about the latest national regulations, and referred to international standards in accordance with the requirements of the Stock Exchange, thereby identifying 23 material issues. All material issues will be disclosed accordingly according to their materiality.



Highly material issues: Supply chain management, information security, product quality and safety, intellectual property protection, innovative research and development

Moderately material issues: Customer service, compliance employment, employee training and development, equality and diversity, remuneration and welfare, occupational safety and health, anti-corruption, wastewater discharge management, contribution to society

General material issues: Sales methods and product labels, labor standards, greenhouse gas emissions, exhaust gas emission management, energy management, water resources management, waste management, packaging materials management, and climate change response

Environmental, Social and Governance Report

3. COMPLIANCE OPERATION

3.1 ANTI-CORRUPTION

The Group strictly abides by relevant laws and regulations such as the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Supervision Law of the People's Republic of China (《中華人民共和國監察法》) and the Criminal Law of the People's Republic of China (《中華人民共和國刑法》). We resolutely resist any form of fraud, including but not limited to bribery, misappropriation of public funds, extortion, fraud, money laundering and so on. To this end, we have formulated the Anti-fraud, Anti-money laundering and Anti-bribery Management System (《反舞弊、反洗錢、反賄賂管理制度》), the Interest Conflict and Professional Ethics Management System (《利益衝突與職業道德管理制度》), the Mutual Supervision and Management Requirements (《相互監督管理要求》), the Internal Audit Work System (《內部審計工作制度》), the Misconduct Reporting Mechanism and Handling Measures (《不當行為舉報機制與處理辦法》) and other internal rules and regulations.

We set out various forms of fraud and money laundering in our internal rules and regulations. We require employees to make declarations and statements on relevant interests before accepting business. Only after confirming that there is no conflict of interest between the business partner and the employee or obtaining the written consent of the Company to grant exemption can the relevant business behavior be carried out by the employee. Key position personnel refer to the personnel in key positions in sales, those who can decide major purchase targets, and R&D technicians who can decide to purchase materials. They need to complete the regular declaration procedures for conflict of interest relationships and behaviors from December 1 to December 31 every year. In terms of customer selection, we only establish business relationships with customers with good reputation and legal business activities. Following the "Know Your Customer (KYC)" principle, we take corresponding measures for customers, business relationships or transactions with different money laundering or terrorist financing risk characteristics, and strictly implement the collection and verification of customer identity information, to understand the customer and its transaction purpose and nature, and the real source and purpose of the funds, and to understand and identify the natural persons who actually control the customer and the actual beneficiaries of the transaction. We will conduct a comprehensive money laundering risk assessment at least once a year.

Environmental, Social and Governance Report

In order to further implement the effective implementation of anti-fraud work, our Audit Committee, as the leading body of anti-fraud work, guides and supervises the anti-fraud work of the Group. Our internal audit department is responsible for the implementation of anti-fraud work. Our compliance department is responsible for organizing the implementation of the Company's anti-money laundering policies, formulating the Company's anti-money laundering systems and operating procedures, submitting large and suspicious transactions, supervising and inspecting the anti-money laundering work of subsidiaries, business departments and branches, organizing anti-money laundering training and publicity, cooperating with anti-money laundering supervision, etc. The compliance department has set up an anti-money laundering working group headed by the compliance director, which is responsible for the daily anti-money laundering affairs of the Company.

We continue to carry out anti-money laundering training and publicity work to enhance the anti-money laundering awareness and capability of all employees and customers. The content of anti-money laundering training should include the basic knowledge of anti-money laundering, anti-money laundering laws and regulations, the latest anti-money laundering regulatory policies and requirements, anti-money laundering internal control system and operating procedures, etc. The content of anti-money laundering publicity shall include anti-money laundering significance, basic concepts, basic knowledge, laws and regulations of anti-money laundering, etc. The basic knowledge of anti-money laundering and training on laws and regulations are also essential contents of induction training for new employees. In addition, the Directors also participated in online anti-corruption training during the Year.

In order to facilitate people in the know to report suspicious incidents to the internal audit department timely, we have opened various channels such as telephone calls, emails, letters, and interviews. After receiving and registering the report, the internal audit department will conduct an investigation in accordance with internal procedures. Once the suspicious incident is confirmed, we will deal with it in accordance with the various circumstances set out in the rules and regulations. In order to protect the whistleblower, we require the anti-fraud staff to take strict confidentiality measures on the whistleblower's identity information and reporting materials, so as to effectively protect the whistleblower's legitimate rights and interests. If the whistleblower is retaliated for reporting a fraud case, the whistleblower can complain to the internal audit department. After investigation and verification by the internal audit department, if there is retaliation, we will investigate the responsibilities of relevant personnel. Those who violate the law will be handed over to the judicial organ for handling. For all reported cases, whether they are filed or not, we will feed back the handling results to the real-name whistleblower.

During the Year, the Group did not receive any lawsuits related to corruption, bribery, extortion, fraud, money laundering and terrorist financing against the Group or its employees.

Environmental, Social and Governance Report

3.2 SUPPLY CHAIN MANAGEMENT

The Group complies with the Civil Code of the People's Republic of China (《中華人民共和國民法典》) and relevant laws and regulations. In order to standardize material supply procedures and strengthen supplier management, and ensure that suppliers can continuously provide products of qualified quality and reasonable prices, we have formulated the Supplier Evaluation and Control Procedures (《供應商評價控制程序》), the Raw Material Procurement Contract (《原料採購合同》), the Procurement Control Procedures (《採購控制程序》), the Procurement Contract Template (《採購合同模板》), the Product Protection and Delivery Control Procedures (《產品防護和交付控制程序》), the Contract Management System (《合同管理制度》) and other internal rules and regulations.

Our supplier selection and assessment are jointly carried out by our procurement department, quality department and process technology department / R&D department. The procurement department is responsible for selecting new suppliers, collecting supplier information and annual auditing of important suppliers. The quality department is responsible for evaluating the quality of the products and services of existing suppliers, while the process technology department / R&D department is responsible for the technical confirmation of the first sample, and technical evaluation and confirmation of materials purchased for the first time after the change of new suppliers or suppliers' key processes.

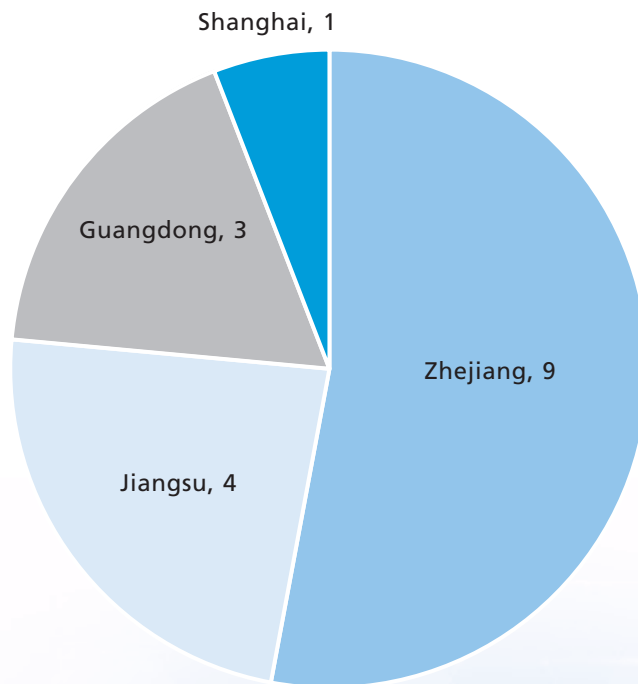
When selecting new suppliers, our procurement department will not only consider the supplier's business status, technology, quality, price and delivery capacity of products and services, but also whether the supplier will have a significant negative impact on the environment and provide a healthy and safe working environment for employees. Our procurement department will also conduct on-site inspection on suppliers or invite candidate suppliers to conduct self-evaluation. We will also give priority to suppliers providing green products and services. The Group will assess each supplier from time to time. We will terminate the cooperation with suppliers who fail to pass the assessment.

Environmental, Social and Governance Report

We require employees and suppliers responsible for procurement to strictly abide by our integrity provisions, not to engage in any form of commercial bribery, and strictly abide by 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》), the Criminal Law of the People’s Republic of China (《中華人民共和國刑法》) and other relevant provisions prohibiting commercial bribery. We require any employee or department not to solicit or accept money, items and gifts of any kind from suppliers in the name of Party A or non-Party A. Suppliers are also not allowed to directly or indirectly give gifts, items, securities or take other disguised means to provide illegitimate benefits to any employee of Party A in the name of Party B or personally. If the employees of the Group require the supplier to give them any form of illegitimate benefits, the informed person must complain in time and provide relevant evidence to Party A, which will be dealt with after our verification and kept confidential for the whistleblower. If the supplier violates the integrity provisions, we have the right to deal with the incident accordingly.

During the Year, the Group had 17 major suppliers, mainly providing us product accessories and raw materials, health and logistics services, which are distributed as below:

Supplier geographical distribution



Environmental, Social and Governance Report

3.3 INFORMATION SECURITY AND PRIVACY PROTECTION

The Group strictly complies with the Regulations on the Security Protection of Computer Information Systems of the People's Republic of China (《中華人民共和國計算機信息系統安全保護條例》), the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), the Provisions on Technical Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), the Security Protection of Computer Information Network International Networking Management Measures (《計算機信息網絡國際聯網安全保護管理辦法》) and other relevant laws and regulations. At the same time, we have also formulated internal rules and regulations such as the Confidentiality System (《保密制度》), the Subsidiary-Document Control Procedure (《子公司—文件控制程序》), the IT Password Management Regulations (《IT密碼管理規定》), the Management Measures for the Use of Computer Software (《計算機軟件使用管理辦法》), the Business Continuity Plan (《業務連續性計劃》) and the Computer Room Management System (《機房管理制度》).

We require employees, suppliers and partners to strictly abide by our "Confidentiality Policy". No one is allowed to distribute the Company's trade secrets intentionally or unintentionally in any form without authorization. The borrowing, circulation and photocopying of confidential documents and files shall be handled in accordance with the prescribed procedures and shall be properly registered and kept by special personnel. Confidential documents and files shall not be transmitted by fax machine, and confidential documents and materials shall not be copied without permission. When it is necessary to destroy confidential documents, the Company shall assign special personnel to supervise and destroy them all with a paper shredder. The invalid and retained confidential documents, information and files shall be kept uniformly after being stamped with the invalid seal. For the information of patients and subjects, we only collect the necessary information through legal channels, and ensure the security of their personal information in accordance with the Company's internal rules and regulations. The personal information of patients and subjects can only be accessed by relevant researchers, implementers of research projects, members of the medical ethics committee and relevant personnel of the national/local food and drug administration.

We require strong passwords on all types of office equipment. All kinds of computer office software are uniformly installed by our IT department. Employees are strictly prohibited from installing software that is not authorized and used by unauthorized companies without permission, and are strictly prohibited from uploading unchecked and verified file data in the system at will. When the computer shows signs of virus infection, the finder must immediately notify the IT department to deal with it. Our computer room is managed by special personnel, and non-computer room staff needs to register and enters the computer room accompanied by the administrator.

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3.4 PRODUCT QUALITY

We strictly abide by relevant laws and regulations such as the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), the Good Practice for Clinical Trials of Medical Devices (《醫療器械臨床試驗質量管理規範》), and the Regulations on the Quality of Clinical Trials of Medical Devices (《醫療器械臨床試驗質量法規》), and respect the systems and practices of R&D ethics such as the Declaration of Helsinki (such as animal experiment management). At the same time, we have also formulated the Quality Manual (《質量手冊》), the Quality Record Control Procedures (《質量記錄控制程序》), the Management Review Procedures (《管理評審程序》), the Internal Quality Audit Procedures (《內部質量審核程序》), the Inspection and Test Control Procedures (《檢驗和試驗控制程序》), the Nonconforming Product Control Procedures (《不合格品控制程序》), the Correction and Preventive Measures Control Procedures (《糾正和預防措施控制程序》) and other quality management related rules and regulations, the Working Environment Control Procedures (《工作環境控制程序》), Pest Control Management System (《防蟲鼠管理制度》), the Clean Area Cleaning and Disinfection Management System (《潔淨區域清潔消毒管理制度》), the Clean Area Dressing Room Management System (《潔淨區更衣室管理制度》), the Workwear Management System (《工作服管理制度》) and other related rules and regulations on health management, as well as the Training Management Procedures (《培訓管理程序》), the Facility, Equipment and Process Equipment Management and Control Procedures (《設施、設備及工藝裝備管理控制程序》), the Equipment Management Rules (《設備管理制度》) and other equipment and personnel management related rules and regulations.

Our quality management system mainly starts from the needs of customers, manages resources reasonably, measures, analyzes and improves products, and finally realizes the output of products. We will formulate the Annual Internal Quality Audit Plan (《年度內部質量審核計劃》) and hold regular internal quality audit meetings to systematically review our quality management system, learn new standards and regulations, and make necessary improvements.

In the whole quality management, we will firstly inspect and test the raw materials, then set up inspection and testing of key quality control points according to the characteristics of different products, and finally we will inspect the finished products. We make corresponding adjustments and improvements according to the results of inspections and tests in each link to ensure the quality of final products. For unqualified products in any link of the quality inspection process, we will identify them, understand the causes of unqualified products and make corrections in time. All corrective actions will be recorded in the Corrective and Preventive Report (《糾正預防報告單》) as a reference for future system improvement. In case of return, we will judge the quality. If the quality is unqualified, we will scrap it. To prevent product recalls, we take quality control, quality assurance and quality improvements to prevent the substandard products entering the market.

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Since we need to produce medical devices, it is particularly important to keep the work area hygienic in ensuring product quality. We will ensure the cleanliness and maintenance of the production workshop, technical laboratory and dressing room, arrange special personnel to maintain and repair the air conditioning and exhaust system, and regularly monitor the environment in the operation area. We also train and manage workers in maintaining an anti-static environment and occupational health and safety. In order to ensure that the equipment is always in normal operation, we will carry out necessary cleaning and lubrication, daily inspections, regular inspections, and regular replacement of parts. Outside the operation area, we regularly remove sludge in the ditch, clear the stagnant water around the factory, prune branches, weeds, and clean up fallen leaves and other accumulations. We will also entrust qualified companies to spray pesticides and insecticides on the green belts around the factory, put bait to trap rats, and put insecticidal and egg killing agents in inspection wells and drainage ditches.

During the Year, the Group had no products returned for health and safety reasons.

3.5 INTELLECTUAL PROPERTY PROTECTION

The Group is committed to protecting its own intellectual property rights and not infringing on the intellectual property rights of others by strictly abiding by the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Implementation Rules of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) and other laws and regulations.

We require our partners to guarantee that the products or technical solutions they provide to us shall not infringe the intellectual property rights of any third party during the use of the Group or our customers. The partners are required to provide us with the corresponding certificates of intellectual property rights of the products and related ancillary components, materials and information. Where any third-party intellectual property rights are involved, the partners must provide proof of legal authorization for use. For the products customized by the Group, the partners shall keep them strictly confidential and shall not produce or sell them for third parties, or carry out imitation or reverse engineering without the written authorization of the Group.

The Group strictly abides by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》). For any public information, we will conduct strict review before it can be disclosed to ensure the authenticity and accuracy of such public information.

During the Year, the Group added 11 issued patents and pending patent applications. As of December 31, 2021, the Group owned 82 issued patents and pending patent applications.

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3.6 CUSTOMER RIGHTS

Prior to each clinical trial, our investigators will submit the clinical trial protocol, informed consent form and other relevant documents to the medical ethics committee of the hospital where the unit responsible for the clinical trial is located, and will not commence until the medical ethics committee has approved the trial. We will also provide a full and complete written explanation of the purpose, procedures and possible risks of the research to each subject prior to acceptance into the clinical trial, and request the subject to sign an informed consent form. The subjects have the right to withdraw from the clinical trial at any time.

In order to better meet the expectations and demands of our customers and other stakeholders, we have established the Customer Complaint Handling Procedures (《顧客投訴處理程序》) and the Customer Service Control Procedures (《顧客服務控制程序》). Upon receipt of a complaint, we will keep a detailed record of the complaint and the relevant responsible person will analyze and develop a solution to the complaint. If the complaint involves adverse events or suspected adverse events, the complaint handler shall immediately forward the information to the adverse event monitoring specialist for processing. The adverse event monitoring specialist shall immediately implement the Adverse Event Monitoring and Re-evaluation Control Procedures (《不良事件監測和再評價控制程序》) or the Alert System Management System (《警戒系統管理制度》) according to the market which the product is involved in, report the information to the regulatory authorities and organize the investigation and handling as required in a timely manner. For the final outcome of customer complaint, the complaint response department shall record the final opinion of the customer; if the customer does not accept the handling opinion, it shall be recorded and further measures shall be taken to ensure the final satisfaction of the customer.

During the Year, the Group had a customer satisfaction rating of 100%, and received a total of 5 complaints, with the handling rate of 100%.

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4. CARING FOR EMPLOYEES

We strictly comply with the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Implementation Regulations of the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), the Regulations on the Prohibition of Child Labour (《禁止使用童工規定》) and other local laws and regulations governing our operations.

Employees are essential for the improvement of our competitiveness. We are committed to creating an equal, inclusive, healthy, safe and fair working environment without any form of discrimination on the grounds of age, gender, nationality, colour, physical disability, religion, etc. To this end, we have formulated the Employee Manual (《員工手冊》), which sets out our recruitment, resignation, vacation, working hours, overtime arrangements, remuneration and benefits, training systems, performance appraisals, rewards and punishments, and other implementation plans.

4.1 TALENT EMPLOYMENT

We have developed the Summary Sheet of the Staffing Plan for 2021 (《2021年度編製計劃匯總表》) based on the needs of the employment department. We give priority to internal promotion and all career opportunities are communicated to employees in the form of internal announcements so that all employees enjoy equal opportunities for career development. We will inspect the candidates' academic background, work experience and the extent to which they match the post requirements, and require the candidates to present valid identity certificates recognized by the People's Republic of China in order to screen suitable talents and eliminate child labour. In the event that an employee is found to have provided false information, forced labour or employed child labour, the employment relationship will be terminated immediately in accordance with the law. We will sign the legally effective Employment Contract (《勞動合同》) and the Trade Secret Protection Agreement (《商業秘密保護協議》) with all regular employees on an equal and consensual basis. For non-regular workers, including but not limited to retired employees, temporary workers and interns, we will sign special agreements with them.

We eliminate forced labour, promote efficient work and encourage employees to complete their work during working hours. For overtime required for work purposes, the Company implements a system of shift leave.

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Both the employees and the Group have the right to terminate the employment relationship. Employees who have resigned shall go through some resignation handover procedures. Our human resources department will also arrange exit interviews to understand the reasons for resignation, so as to improve the employment management system accordingly.

During the Year, the Group had no incidents of forced labour or employment of child labour. As at December 31, 2021, the Group had a total of 523 employees.

4.2 TALENT DEVELOPMENT

In order to strengthen the professional skills of our employees, we have established the Training Management Procedures (《培訓管理程序》) and formulated the Training Plan for 2021 (《2021年度培訓計劃》) based on our business needs and employee expectations.

We will engage experienced internal staff and external lecturers to conduct targeted training for employees. Our training categories are divided into management and supervisory personnel training, new employee induction training, on-board training, internal department training, qualification training, expatriate training and other trainings. For management and supervisory personnel, we require them to master the ISO13485, YY/T0287 series standards, GMP regulations and the Company's quality system documents. For new employees, in-service employees and expatriates, we require them to acquire professional knowledge and skills relevant to their positions, understand the Company's rules, regulations and products, and obtain the corresponding qualification certifications. We also provide training in relation to customers, markets, etc. An electronic "training profile" will be created for each employee to track his/her training performance.

In addition, we have also developed the Employee Performance Management System (《員工績效管理制度》) to enhance the motivation of our employees. Performance management includes targets, application of performance coaching and appraisal results.

We require our employees to set performance targets in accordance with the SMART principle. The supervisors are required to provide assistance and support to their subordinates in the process of achieving their targets, and adjust the targets in a timely manner according to the actual situation if necessary.

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In the performance appraisal, we will take work performance (including appraisal indicators, target values, appraisal criteria, data sources, appraisal weights, actual completion status, department head ratings, etc.), work ability and work attitude as indicators for appraisal. We strive to be fair, just, open and transparent in our appraisal process. Therefore, our human resources department will review the performance appraisal forms and performance improvement forms submitted by each department, and will strictly adopt the accountability mechanism in case of non-objective department scoring or inaccurate data sources. After the appraisal and assessment is completed, the department head or direct supervisor will conduct a performance interview with each employee, which includes feedback on the performance appraisal results, recognition of outstanding or improved behaviours and events of the employee, communication of areas for improvement, and setting and confirming the next targets. After the performance interview, we will pay a performance bonus based on the results of the performance appraisal.

4.3 TALENT BENEFITS

In order to motivate our employees and boost their morale, we provide them with paid annual leave, marriage leave, bereavement leave, maternity leave, sick leave and personal leave, in addition to the statutory five social insurances and one housing provident fund and holidays. Staff salaries are comprised of four components, namely wage, bonuses, allowances and benefits. Among them, the allowances include annual high temperature fee in summer, overtime meal allowance and overtime commuting expenses; the benefits include marriage allowance, newborn baby allowance, consolation money or gifts for illnesses, funeral condolences, employee activity funds, team building fees, birthday celebrations and traditional festival gifts. We prepare birthday gifts, birthday cards, birthday cakes and various activities for the birthday staff at our quarterly birthday parties.

We also held a 10th anniversary celebration during the Year, with the aim of strengthening our employees' confidence in the development of the Group and increasing the cohesion between each other.

4.4 HEALTH AND SAFETY

The Group strictly complies with the requirements of laws and regulations such as 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》), the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Regulations on Supervision and Administration of Occupational Health in the Workplace (《工作場所職業衛生監督管理規定》) and the Regulations on Industrial and Commercial Insurance (《工商保險條例》), and has implemented a series of safety measures.

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We provide safety-related orientation training for all employees, such as pre-post training for new employees, training for special operators, training for principal responsible persons, training for safety management personnel, training for changing job types, training for resumption of work, training for occupational hygiene, training for all employees and training for related parties. We also hold regular fire training and fire escape drills to enhance the escape and self-rescue abilities of our employees. In addition, we also purchase team business insurance for our salesmen and employees who travel frequently.

For the production workshops, we have also established a strict safety guarantee system, including the formulation of 28 rules and regulations as well as safety protection measures, such as the Safety Management System for Hazardous Operations (《危險作業安全管理制度》), the Accident Emergency Rescue System (《事故應急救援制度》), the Management System for Labour Protection Equipment (《勞動防護用品管理制度》), the Occupational Safety and Health Education System (《職業安全健康教育制度》), the Management System for Safety Protection Equipment (《安全防護設備管理制度》), the Target Management System for Safe Production (《安全生產目標管理制度》), the Hazardous Source Management System (《危險源管理制度》), the Hidden Danger Investigation and Management System (《隱患排查治理制度》), and the Management System for Changes in Personnel, Processes, Equipment and Environment (《人員、工藝、設備、環境變更管理制度》), and provided necessary protective equipment for employees. Our production department (safety office) is responsible for overseeing the safety of the production workshops, and formulating and supervising the implementation of the “five simultaneous” safety measures (namely planning, arranging, inspecting, summarizing and appraising safety work at the same time as planning, arranging, inspecting, summarizing and appraising production work) by the relevant departments. The production department (safety office) is also responsible for supervising, inspecting and assessing the investigation and management of various hidden accident hazards, and responsible for recommending rewards for those who have merited reporting and managing major hidden accident hazards. In accordance with the principle of “who is in charge, who is responsible”, each department and workshop shall carry out inspection of hidden dangers in their respective jurisdictions in accordance with the time, content and frequency stipulated in the Safety Inspection System (《安全檢查制度》) of the Company, collect, identify and report any hidden accident hazards found in a timely manner, and take active measures to rectify them. For major hidden accident hazards, the principal person in charge of the Company shall organize the formulation and implementation of management plans on hidden accident hazards. In the management process of hidden accident hazards, the hidden accident hazard department shall take appropriate safety precautions to prevent accidents from occurring. The production department (safety office) shall designate personnel to strengthen monitoring. We will classify and register all hidden accident hazards and establish the information files of hidden accident hazards.

During the Year, 162 days were lost due to work injury in the Group. The Group did not have any work-related fatalities in the past three years (including the Year).

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5. GREEN OFFICE

The Group strictly complies with the Law of the People's Republic of China on Environmental Protection (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), 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》), the Law of the People's Republic of China on Energy Conservation (《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 Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and other relevant laws and regulations. Although the Group's operations do not have a significant negative impact on the environment, we remain committed to enhancing our energy, water and emissions and waste reduction performance.

During the Year, the Group did not violate any laws and regulations relating to environmental protection or receive any notice of penalties and litigation.

As this is the first ESG Report of the Group, our business operations are continuously updated. Meanwhile, the past data has changed significantly due to the impact of the COVID-19 outbreak, making it difficult to determine the target base year of the Group. The management is reviewing the performance data of the Group and its peers, and plans to set relevant targets in the future.

5.1 ENERGY SAVING AND EMISSION REDUCTION

The Group's emissions are mainly generated from exhaust emissions from the Group's vehicles (including Scope 1 greenhouse gas ("GHG")) and Scope 2 GHG emissions from electricity consumption. To this end, we have established the Energy Saving and Emission Reduction Control Plan (《節約能源減少排放控制計劃》).

We require both offices and production workshops to switch off the electrical equipment in a timely manner; and innovate work methods and improve work processes to increase the utilization efficiency of machinery and equipment. We will reduce the number of lights in areas where brightness is higher than required and use energy efficient lights where possible. We encourage our employees to reduce the frequency of using corporate vehicles, and to take public transport as much as possible. We will also carry out necessary maintenance on our fleet. If our employees make reasonable suggestions for energy saving, we will offer appropriate financial incentives once adopted.

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During the Year, we conducted a GHG inventory in the scope of our Hangzhou headquarters office with reference to the Greenhouse Gas Protocol issued by the World Resources Institute and the World Business Council for Sustainable Development and the ISO14064-1 developed by the International Organization for Standardization, the performance of which is set out as follows:

| GHG emissions | Unit | in 2021 |
|---|---|----------------|
| Direct GHG emissions (Scope 1) | tonne CO ₂ equivalent (tCO ₂ e) | 0.77 |
| GHG emissions reduced by tree planting (Scope 1) | tCO ₂ e | 0.60 |
| Indirect GHG emissions (Scope 2) | tCO ₂ e | 1,106.20 |
| Total GHG emissions (Scope 1 and 2) | tCO ₂ e | 1,106.37 |
| GHG emissions per capita | tCO ₂ e/employee | 2.64 |
| GHG emissions per square meter | tCO ₂ e/m ² | 0.07 |

During the Year, the electricity consumption of the Group's Hangzhou headquarters office was 1,813,140.00 kWh, with the per capita consumption of 4,327.30 kWh.

5.2 WATER CONSERVATION

The water of the Group comes from municipal water supply, and there is no water intake problem. In our daily operations, we require employees to use the reclaimed water treated in the production workshop as much as possible for toilet flushing and production, so as to enhance water efficiency and reduce wastewater discharge. We post water conservation stickers in each washroom and require employees to promptly report any water leaks for timely repair. We have also installed a rainwater harvesting system for irrigating plants.

During the Year, the water consumption of the Group's Hangzhou headquarters office was 28,733.00 m³, with the per capita consumption of 68.58 m³.

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5.3 WASTE REDUCTION

We have formulated the Office Waste Management Measures (《辦公室廢棄物管理辦法》) and established an office waste disposal inspection team to supervise and inspect the classification, disposal and recycling of waste by all departments, and organize monthly supervision and inspection of the hygiene environment in the office area.

For hazardous wastes, such as medical wastes, discarded toner cartridges, broken and waste cartridge toner, and discarded electronic products, our administration department entrusts the local government to sign a recycling agreement with a qualified recycling unit designated by the environmental administration authorities in accordance with the relevant national laws and regulations, which will collect and dispose of the wastes and conduct operational monitoring. Employees of all departments shall consciously place hazardous wastes in the special hazardous waste bins in the office area. For general waste and recyclable waste, the designated recycling unit will collect them uniformly.

In order to reduce the generation of wastes, we require employees to use recyclable office supplies wherever possible, and organize paper reduction competitions, plastic bottle-free days and environmental design competitions to enhance their awareness of resource conservation. Our employees are also required to minimize paper usage and implement a paperless office.

During the Year, non-hazardous waste of the Group's Hangzhou headquarters office was 5,300.00 kg, with 12.65 kg per capita, of which 506 kg was recycled. No hazardous waste was generated.

5.4 CLIMATE CHANGE

The Group pays continuous attention to the impact of climate change on its business. During the Year, we identified climate change risks based on the nature of the Group's business, geographical location, development trends in the industry, the latest relevant national laws and regulations, and with reference to the recommendations of the Task Force on Climate-related Financial Disclosures. In particular, the acute risks in terms of physical risks (e.g. super typhoons, storms, extreme rainfall, etc.) and the market risks and policy and regulatory risks in terms of transformation risks were assessed as moderate risks; while the chronic risks in terms of physical risks (e.g. sea level rise, etc.) were assessed as low risks.

In order to address climate change risks, we will continue to track and integrate the latest national laws and regulations into our operational strategies. We will also consider developing contingency plans for extreme weather in the future, as well as exploring the transformation of sustainable products.

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6. CONTRIBUTION TO SOCIETY

We understand that while operating, we should shoulder the responsibility to society. We popularize knowledge about diabetes and insulin to the public through our official WeChat and Weibo platforms. In addition, we have established MicroTech Medical trade union to focus on environmental protection and poverty alleviation projects. We formed a pair of assistance with the children in distress in Hangzhou, and took the initiative to care about their living conditions and alleviate their material difficulties. We also organized our employees to participate in the environmental trailwalk, hoping to draw the public's attention to environmental protection. During the Year, the Group donated a total of RMB 550,000.00.

In the future, we will continue to give full play to our corporate advantages and devote ourselves to the construction and development of public welfare undertakings and communities.

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APPENDIX I: SUSTAINABILITY DATA STATEMENTS

The following is a summary of the environmental sustainability data for the Year:

| Environmental Area ¹ | Unit | In 2021 |
|--|-----------------------------------|--------------|
| Air emissions ^{2,3} | | |
| Nitrogen oxides (NO _x) | kg | 22.70 |
| Sulphur oxides (SO _x) | kg | 0.005 |
| Particulate matter (PM) | kg | 2.25 |
| GHG emissions | | |
| Direct GHG emissions (Scope 1) | tCO ₂ e | 0.77 |
| GHG emissions reduced by tree planting (Scope 1) | tCO ₂ e | 0.60 |
| Indirect GHG emissions (Scope 2) | tCO ₂ e | 1,106.20 |
| Total GHG emissions (Scope 1 & 2) | tCO ₂ e | 1,106.37 |
| GHG emissions per capita (Scope 1 & 2) | tCO ₂ e/employee | 2.64 |
| GHG emissions per square meter (Scope 1 & 2) | tCO ₂ e/m ² | 0.07 |
| Energy consumption | | |
| Total electricity consumption | kWh | 1,813,140.00 |
| Electricity consumption per capita | kWh/employee | 4,327.30 |
| Electricity consumption per square meter | kWh/m ² | 107.51 |
| Vehicle gasoline consumption | L | 5.00 |
| Vehicle diesel consumption | L | 288.00 |
| Water resources consumption | | |
| Total water consumption | m ³ | 28,733.00 |
| Water consumption intensity per capita | m ³ /employee | 68.58 |

¹ The disclosure scope of environmental key performance indicators (KPIs) is the Hangzhou headquarters office.

² Vehicle exhaust emissions of the Company.

³ We calculated the Group's air pollutant emissions with reference to "How to prepare an ESG report — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

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| Environmental Area¹ | Unit | In 2021 |
|---------------------------------------|-------------|----------------|
| Waste | | |
| Hazardous waste | kg | 0.00 |
| Hazardous waste generation per capita | kg/employee | 0.00 |
| Total non-hazardous waste | kg | 5,300.00 |
| Non-hazardous waste per capita | kg/employee | 12.65 |
| Paper consumption | | |
| Paper consumption | kg | 2,318.75 |
| Paper consumption per capita | kg/employee | 5.53 |
| Packaging materials | | |
| Cardboard box | piece | 120,000.00 |
| Plastics | kg | 50,000.00 |
| Paper | kg | 40,000.00 |

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The following is a summary of the social sustainability data of the Group for the Year:

| Social Area ⁴ | Unit | In 2021 |
|---|------|---------|
| Number of employees⁵ | | |
| Total number of employees | no. | 523 |
| Total number of employees (by gender) | | |
| Female | no. | 314 |
| Male | no. | 209 |
| Total number of employees (by employment category) | | |
| Short-term contract/part-time employees | no. | 91 |
| Full-time junior employees | no. | 412 |
| Full-time middle management | no. | 14 |
| Full-time senior management | no. | 6 |
| Total number of employees (by age group) | | |
| Below 30 | no. | 182 |
| 30 to 50 | no. | 327 |
| Above 50 | no. | 14 |
| Total number of employees (by geographical region) | | |
| Regions outside Hangzhou (China) | no. | 116 |
| Hangzhou region | no. | 406 |
| Other regions (including Hong Kong, Macau and Taiwan) | no. | 1 |
| Employee turnover rate^{6,7} | | |
| Total Employee turnover rate (production) | % | 17.87 |
| Total Employee turnover rate (non-production) | % | 16.76 |

⁴ The disclosure scope of social key performance indicators (KPIs) is the entire Group.

⁵ This is the number of employees as at December 31 for the Year.

⁶ Employee turnover rate = number of employees lost ÷ (number of employees lost + number of employees at the end of the year) × 100%

⁷ Excluding outsourced workers and interns

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| Social Area ⁴ | Unit | In 2021 |
|---|------|---------|
| Employee turnover rate (by gender) | | |
| Female | % | 22.16 |
| Male | % | 11.84 |
| Employee turnover rate (by age group) | | |
| Below 30 | % | 13.60 |
| 30 to 50 | % | 20.30 |
| Above 50 | % | 0.69 |
| Employee turnover rate (by geographical region) | | |
| Regions outside Hangzhou (Mainland China) | % | 9.43 |
| Hangzhou region | % | 23.94 |
| Other regions (including Hong Kong, Macau and Taiwan) | % | 0.00 |
| Occupational health and safety | | |
| Number of work-related fatalities (2019, 2020, and 2021) | no. | 0 |
| Lost days due to work injury | no. | 162 |
| Development and training ^{8,9} | | |
| Percentage of employees trained by gender | | |
| Female | % | 67.12 |
| Male | % | 32.88 |
| Percentage of employees trained by employee category | | |
| Short-term contract/part-time employees | % | 15.37 |
| Full-time junior employees | % | 75.29 |
| Full-time middle management | % | 8.75 |
| Full-time senior management | % | 0.58 |
| Average training hours of employees trained by gender | | |
| Female | hour | 17.00 |
| Male | hour | 22.00 |
| Average training hours of employees trained by employment category | | |
| Average training hours per short-term contract/ part-time employee | hour | 11.09 |
| Average training hours per full-time junior employee | hour | 16.20 |
| Average training hours per full-time middle level employee | hour | 26.32 |
| Average training hours per full-time senior employee | hour | 15.83 |

⁸ Percentage of employees trained in the relevant category = number of employees in such category ÷ employees trained × 100%

⁹ Average training hours of employees in the relevant category = total training hours of employees in such category ÷ total number of employees in such category

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APPENDIX II: INDEX OF THE ESG REPORTING GUIDE OF THE STOCK EXCHANGE

| Environmental Area | | Relevant Sections |
|--------------------|--------------------|---|
| A1: Emissions | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. |
| | A1.1 | The types of emissions and respective emissions information. |
| | A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and (if applicable), intensity (e.g. per unit of production, per facility). |
| | A1.3 | Total hazardous waste produced (in tonnes) and (if applicable) density (e.g. per unit of production, per facility). |
| | A1.4 | Total non-hazardous waste produced (in tonnes) and (if applicable) density (if calculated per unit of production, per facility). |
| | A1.5 | Description of emissions targets set and the steps taken to achieve them. |
| | A1.6 | Description of how hazardous and non-hazardous wastes are handled, and description of waste reduction goals set and the steps taken to achieve them. |

Environmental, Social and Governance Report

| Environmental Area | | Relevant Sections |
|----------------------------|-----------------------|---|
| A2: Use of Resources | General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. |
| | | 5.1 Energy Saving and Emission Reduction |
| | | 5.2 Water Conservation |
| A2.1 | | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (in thousands of kWh) and intensity (e.g. per unit of production, per facility). |
| | | 5.1 Energy saving and Emission Reduction |
| | | Appendix I: Sustainability Data Statements |
| A2.2 | | Water consumption in total and intensity (e.g. per unit of production, per facility). |
| | | 5.2 Water Conservation |
| | | Appendix I: Sustainability Data Statements |
| A2.3 | | Description of energy use efficiency goals set and the steps taken to achieve them. |
| | | 5. Green Office |
| | | 5.1 Energy Saving and Emission Reduction |
| A2.4 | | Description of whether there is any issue in sourcing water that is fit for purpose, as well as water efficiency targets set and steps taken to achieve them. |
| | | 5. Green Office |
| | | 5.2 Water Conservation |
| A2.5 | | Total packaging material used for finished products (in tonnes) and (if applicable) with reference to per unit produced. |
| | | Appendix I: Sustainability Data Statements |

Environmental, Social and Governance Report

| Environmental Area | | | Relevant Sections |
|---|--------------------|--|---|
| A3: The Environment and Natural Resources | General Disclosure | Policies on minimising the issuer’s significant impact on the environment and natural resources. | 5. Green Office |
| | A3.1 | Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 5. Green Office |
| A4: Climate Change | General Disclosure | Policies for identifying and responding to material climate-related matters that have and may have an impact on the issuer. | 5.4 Climate Change |
| | A4.1 | Description of material climate-related matters that have and may have an impact on the issuer, and actions to address them. | 5.4 Climate Change |
| B. Social | | | |
| B1: Employment | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | 4. Caring for Employees |
| | B1.1 | Total workforce by gender, employment type, age group and geographical region. | Appendix I:Sustainability Data Statements |
| | B1.2 | Employee turnover rate by gender, age group and geographical region. | Appendix I:Sustainability Data Statements |

Environmental, Social and Governance Report

| Social Area | | | Relevant Sections |
|------------------------------------|-----------------------|---|--|
| B2: Health and Safety | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | 4.4 Health and Safety |
| | B2.1 | Number and rate of work-related fatalities. | 4.4 Health and Safety; Appendix I: Sustainability Data Statements |
| | B2.2 | Lost days due to work injury. | 4.4 Health and Safety; Appendix I: Sustainability Data Statements |
| | B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 4.4 Health and Safety |
| B3: Development and Training | General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 4.2 Talent Development |
| | B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Appendix I: Sustainability Data Statements |
| | B3.2 | The average training hours completed per employee by gender and employee category. | Appendix I: Sustainability Data Statements |

Environmental, Social and Governance Report

| Social Area | | | Relevant Sections |
|-----------------------------------|-----------------------|--|-----------------------------|
| B4: Labour Standards | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | 4. Caring for Employees |
| | B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 4.1 Talent Employment |
| | B4.2 | Description of steps taken to eliminate such practices when discovered. | 4.1 Talent Employment |
| B5: Supply Chain Management | General Disclosure | Policies on managing environmental and social risks of the supply chain. | 3.2 Supply Chain Management |
| | B5.1 | Number of suppliers by geographical region. | 3.2 Supply Chain Management |
| | B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 3.2 Supply Chain Management |
| | B5.3 | Description of practices for identifying environmental and social risks at each stage of the supply chain, and how they are implemented and monitored. | 3.2 Supply Chain Management |
| | B5.4 | Description of practices that promote the use of environmentally friendly products and services when selecting suppliers, and how they are implemented and monitored. | 3.2 Supply Chain Management |

Environmental, Social and Governance Report

| Social Area | | | Relevant Sections |
|----------------------------------|-----------------------|---|--|
| B6: Product Responsibility | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 3.3 Information Security and Privacy Protection; 3.4 Product Quality; 3.5 Intellectual Property Protection |
| | B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 3.4 Product Quality |
| | B6.2 | Number of products and service related complaints received and how they are dealt with. | 3.6 Customer Rights |
| | B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 3.5 Intellectual Property Protection |
| | B6.4 | Description of quality assurance process and recall procedures. | 3.4 Product Quality |
| | B6.5 | Description of consumer information protection and privacy policies, how they are implemented and monitored. | 3.3 Information Security and Privacy Protection |
| B7: Anti-corruption | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | 3.1 Anti-corruption |
| | B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 3.1 Anti-corruption |
| | B7.2 | Description of preventive measures and whistleblowing procedures, how they are implemented and monitored. | 3.1 Anti-corruption |
| | B7.3 | Description of anti-corruption training provided to directors and employees. | 3.1 Anti-corruption |
| B8: Community Investment | General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | 6. Contribution to Society |
| | B8.1 | Focus areas of contribution. | 6. Contribution to Society |
| | B8.2 | Resources contributed to the focus area. | 6. Contribution to Society |

Report of Directors

PRINCIPAL ACTIVITIES

Founded in 2011, the Group has been focused on diabetes management, providing both diabetes treatment and diabetes monitoring medical devices to improve the diabetes management in China and globally. The Group operates in a large and fast-growing diabetes monitoring, treatment and management market in China and globally with significant unmet clinical needs.

The H shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on October 19, 2021.

There were no significant changes in the nature of the Group's principal activities from the period of the Listing Date to December 31, 2021. Please refer to note 5 to the Consolidated Financial Statements on pages 153 to 154 of this report for details of the principal activities of the principal subsidiaries of the Group.

RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the Consolidated Financial Statements of the Group on page 114 to 194 of this report.

FINAL DIVIDEND

No dividend has been declared and paid by the Group for the year ended December 31, 2021.

SHARE CAPITAL

Details of the issued shares of the Company for the year ended December 31, 2021 are set out in note 25 to the Consolidated Financial Statements.

RESERVES

Details of the movements in reserves of the Group for the year ended December 31, 2021 are set out in the Consolidated Statement of Changes in Equity on page 194 of this report.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company had no distributable reserves.

Report of Directors

BANK LOANS AND OTHER BORROWINGS

As at December 31, 2021, the Company had no bank loans or other borrowings.

FINANCIAL SUMMARY

The Company's Shares were listed on the Stock Exchange on October 19, 2021. A summary of the published results and of the assets, liabilities and equity of the Group for the previous financial years since the year ended December 31, 2019, being the date to which the earliest published results of the Group were made up, as extracted from the published audited financial information and financial statements, is set out on page 5 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year ended December 31, 2021 are set out in note 13 to the Consolidated Financial Statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, 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.

PRE-EMPTIVE RIGHTS

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on June 22, 2022. The notice of the annual general meeting will be published and dispatched in due course in the manner as required by the Listing Rules.

Report of Directors

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' eligibility to attend and vote at the annual general meeting, the register of members of the Company will be closed from May 23, 2022 to June 22, 2022, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting, all duly completed share transfer forms accompanied by the relevant share certificates, must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on May 20, 2022.

BUSINESS REVIEW

Overview and Performance of the Year

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. These discussions form part of this report. Events affecting the Company that have occurred since the end of the year ended December 31, 2021 is set out in the paragraph headed "Events After the End of the Reporting Period" in this report.

Key Relationship with Stakeholders

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

The details of an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company are set out in the "Environmental, Social and Governance Report" of the Company on page 55 to 85 of this report.

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to the community and achieving sustainable growth.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules, the "Environmental, Social and Governance Report" of the Company is on page 55 to 85 of this report.

Report of Directors

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 has complied with the laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Hong Kong Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period and up to the date of this 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 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 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. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2021.

Key Risks and Uncertainties

There are certain risks involved in our operations, many of which are beyond our control. Some of the major risks we face include:

- The diabetic market is well established with a variety of treatment options. Failure to achieve broad market acceptance or maintain good reputation necessary for our products and any future products would have a material adverse impact on the Group's results of operations and profitability. The degree of market acceptance of our products and product candidates, if approved for commercial sale, will depend on a number of factors. If any products that we commercialize fail to achieve market acceptance among physicians, patients, hospitals, or others in the industry or if we fail to maintain good relationships with them, we will not be able to generate significant revenue. Even if our products achieve market acceptance, we may not be able to maintain that market acceptance over time if new products or technologies are introduced that are more favorably received than our products, are more cost effective or render our products obsolete. The successful promotion of our brand will depend largely on our ability to continue to offer high-quality products and our research and development efforts. However, there is no assurance that our brand promotion activities and research and development efforts may be successful or contribute to our growth. In addition, even if these activities increase revenue, the revenue may not be enough to offset the increased expenses we incur.

Report of Directors

- The Group operates in a very competitive industry and if it fails to compete successfully against its existing or potential competitors, many of whom, such as Medtronic, Dexcom, have greater resources than the Group has, which may result in others discovering, developing or commercializing competing products before or more successfully than the Group does, and the sales and operating results of the Group may be negatively affected. Our commercial opportunities could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer severe adverse events, are more convenient or are less expensive than any products that we commercialize or may develop. Many of the companies against which we are competing have significantly greater financial resources and expertise in R&D, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Our business and results of operations will suffer if we fail to compete effectively. In addition, certain development efforts throughout the diabetes industry, including that of the governmental authorities and other supporters of diabetes research are continually seeking ways to prevent, cure or improve treatment and management of diabetes. Therefore, our products and product candidates may be rendered obsolete by technological breakthroughs in diabetes monitoring, treatment, prevention and cure.
- The Company has incurred net losses since its inception and may incur net losses for the foreseeable future, and shareholders may lose substantially all your investments in the Company given the high risks involved in the medical device business. Investment in medical device development is highly speculative. It entails substantial upfront capital expenditures and significant risk that a product candidate will fail to gain regulatory approval or become commercially viable. We continue to incur significant expenses related to our ongoing operations. In addition, we will start incurring costs associated with being a public company in Hong Kong after the global offering. If any of our product candidates fails in clinical trials or does not gain regulatory approval, or if approved, fails to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Our failure to become and remain profitable would decrease the value of our Company and could impair our ability to raise capital, maintain our R&D efforts, expand our business or continue our operations.
- The revenue growth of the Group was mainly driven by the sales growth of Equil. Failure to achieve the anticipated sales growth of Equil may have a material adverse impact on the Group's business and results of operations. We cannot assure you that demand for Equil will continue to grow as anticipated. There is also no assurance that we will be able to maintain our sales and profit margin for Equil, which may be adversely affected by many factors outside of our control. If we are unable to maintain the sales growth of Equil, our business, financial condition and results of operations may be materially and adversely affected. Moreover, there is no guarantee that we may be able to develop or acquire new products that would diversify our product portfolio and reduce our dependence on Equil, or to do so in a timely or competitive manner.

Report of Directors

- The Group's future growth depends substantially on the success of its product candidates. If the Group is 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 and we may not be able to generate sufficient revenues and cash flows to continue our operations.
- If the Group encounters difficulties enrolling patients in our clinical trials, the Group's clinical development activities could be delayed or otherwise adversely affected. Our clinical trials will likely compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates. This competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Even if we are able to enroll a sufficient number of patients in our clinical trials, delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates.
- 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.
- 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.
- We have relatively limited experience in marketing and sales of our products and the commercialization of new products may require additional resources.
- If we fail to manage our distributors effectively, or fail to maintain, expand and optimize an effective distribution channel for our products, our business and sales of the relevant products could be adversely affected.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares. Although our management has proven track record of medical device manufacturing and commercialization, we have limited experience in manufacturing medical device products, which is a highly exacting and complex process. Our business could be materially and adversely affected if we encounter problems in the manufacturing process of our future medical devices.

Report of Directors

PROSPECTS

A description of the future development in the Company's future business is provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report.

USE OF PROCEEDS FROM THE LISTING OF SHARES OF THE COMPANY

The shares of the Company was listed on October 19, 2021 and the over-allotment option was partially exercised on November 10, 2021. The Company obtained net proceeds of HK\$1,875.53 million (equivalent to RMB1,533.49 million) in total after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and the partial exercise of the over-allotment option. The table below sets forth a detailed breakdown and description of the use of net proceeds from the listing of the Company up to December 31, 2021:

| | % of use of proceeds (Approximately) | Net proceeds from the IPO (HKD million) | Net proceeds from the IPO (RMB million) | Actual usage up to December 31, 2021 (RMB million) | Unutilized net proceeds as of December 31, 2021 (RMB million) |
|--|--|---|---|--|---|
| To fund our Core Product | 31% | 581.42 | 475.38 | 0.39 | 474.99 |
| – to fund ongoing and planned clinical trials of our Core Product for its further development, including but not limited to clinical trials for our Core Product's indication expansion, to prepare for and carry out registration of our Core Product in major markets worldwide | 14% | 262.58 | 214.69 | 0.39 | 214.30 |
| – to enhance our commercialization capabilities for our Core Product through expanding our global footprint by recruiting high-caliber sales staff with extensive local experience and establishing long-term cooperation with leading distribution partners, and organizing and participating in academic conferences and activities, among other efforts | 11% | 206.31 | 168.68 | 0.00 | 168.68 |
| – to fund the expansion of our manufacturing capacity of our Core Product, by upgrading our existing production lines, recruiting personnel and purchasing new machinery | 6% | 112.53 | 92.01 | 0.00 | 92.01 |

Report of Directors

| | % of use of proceeds (Approximately) | Net proceeds from the IPO (HKD million) | Net proceeds from the IPO (RMB million) | Actual usage up to December 31, 2021 (RMB million) | Unutilized net proceeds as of December 31, 2021 (RMB million) |
|---|--|---|---|--|---|
| For our CGMS | 35% | 656.43 | 536.73 | 1.09 | 535.64 |
| – to fund the pre-clinical studies, including but not limited to develop the second generation of our CGMS product, AiDEX X | 10% | 187.55 | 153.35 | 0.46 | 152.89 |
| – to fund clinical trials of our AiDEX G7 | 12% | 225.06 | 184.03 | 0.27 | 183.76 |
| – to fund the expansion of our manufacturing capacity of our CGMS | 6% | 112.53 | 92.01 | 0.36 | 91.65 |
| – to enhance our commercialization capabilities for our CGMS | 7% | 131.29 | 107.34 | 0.00 | 107.34 |
| For the pre-clinical studies, clinical trials, registration, manufacturing and commercialization of our second- generation patch insulin pump system | 11% | 206.31 | 168.68 | 1.68 | 167.00 |
| For the pre-clinical studies, clinical trials, registration, manufacturing and commercialization of our other products and product candidates | 8% | 150.04 | 122.68 | 0.15 | 122.53 |
| To fund the establishment of our cloud-based diabetes management platform | 5% | 93.78 | 76.67 | 0.97 | 75.70 |
| For working capital and other general corporate purposes | 10% | 187.55 | 153.35 | 16.45 | 136.90 |
| Total | 100% | 1,875.53 | 1,533.49 | 20.73 | 1,512.76 |

Notes:

- (1) Net IPO proceeds were received in Hong Kong dollars and translated to Renminbi for application planning.
- (2) The unutilized net proceeds of RMB1,512.76 million as of December 31, 2021 is expected to be fully utilized by December 31, 2025, subject to further adjustments based on the current and future development of market conditions and actual business needs of the Group. The remaining balance of the net proceeds have been deposited in bank. The Group expects that the remaining net proceeds shall be utilized gradually in accordance to the actual business needs and in the manner stated in the Prospectus. There was no change in the intended use of the unutilized net proceeds as previously disclosed in the Prospectus.

EVENTS AFTER THE END OF THE REPORTING PERIOD

For details of the events after the end of the Reporting Period, please refer to the section headed “Management Discussion and Analysis – Events After the Reporting Period” of this report.

Report of Directors

DIRECTORS

The Directors from the period of the Listing Date to December 31, 2021 and up to the date of this report are:

Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)

Dr. Yu Fei

Dr. Shi Yonghui

Ms. Liu Xiu

Non-executive Directors

Mr. Hu Xubo

Ms. Gao Yun

Independent Non-executive Directors

Dr. Li Lihua

Ms. Gao Jian

Ms. Wang Chunfeng

Mr. Ho Kin Cheong Kelvin

Supervisors

Mr. Li Zhenhua

Mr. Lyu Cheng

Mr. Zhao Zhiheng

Report of Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and the senior management of the Group as at the date of this report are set out on pages 20 to 31 in the section headed “Directors, Supervisors and Senior Management” of this report.

CHANGE OF INFORMATION OF DIRECTORS

Saved as disclosed in this report, there are no other changes to the Directors’, Supervisors’ and senior management’s information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS

For details in relation to directors’ and supervisors’ service contracts, please refer to the paragraph headed “Appointment and Re-election of Directors” under the Corporate Governance Report as set out on page 35 of this report.

Save as disclosed otherwise in this report, the Company has not entered, and do not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without any payment of compensation (other than statutory compensation)).

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the Independent Non-executive Directors, namely Dr. Li Lihua, Ms. Gao Jian, Ms. Wang Chunfeng and Mr. Ho Kin Cheong Kelvin, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our Independent Non-executive Directors have been independent from the date of their appointments to December 31, 2021 and remain so as of the date of this report.

Report of Directors

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at December 31, 2021, interests or short positions of Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are registered in the register that the Company must keep in accordance with the section 352 of the Securities and Futures Ordinance; or which shall be separately notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

| Name of Director | Nature of interest | Class of Shares | Number of underlying Shares held | Approximate percentage in the relevant class of Shares ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|------------------|-------------------------------------|-----------------|----------------------------------|---|--|
| Dr. Zheng | Beneficial owner | Domestic Shares | 88,278,594 (L) ⁽²⁾ | 30.82% | 20.74% |
| | Interests in controlled corporation | Domestic Shares | 34,729,562 (L) ⁽²⁾ | 12.12% | 8.16% |
| Mr. Hu Xubo | Beneficial interest | Domestic Shares | 16,055,165 (L) ⁽²⁾ | 5.60% | 3.77% |

Notes:

(1) As at December 31, 2021, the Company had 425,742,600 issued shares in total, comprising 65,742,600 H Shares, 286,473,574 Domestic Shares and 73,526,426 Unlisted Foreign Shares.

(2) "L" means holding a long position in Shares.

Save as disclosed above, so far as the Directors are aware, as at December 31, 2021, none of the Directors, Supervisors or chief executives has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required 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 taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Report of Directors

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

To the best of the knowledge of the Company and the Directors, the following are the persons, other than the Directors, Supervisors or chief executives of the Company, who had interests or short positions in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at December 31, 2021.

Interests in the Shares and Underlying Shares of the Company

| Name of substantial shareholder | Nature of interest | Class of Shares | Number of Shares interested | Approximate percentage in the relevant class of Shares ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|--|-------------------------------------|-------------------------|-----------------------------|---|--|
| Hangzhou Yantai Investment Partnership (Limited Partnership) (杭州研泰投資合夥企業(有限合夥)) ("Hangzhou Yantai") ⁽³⁾ | Beneficial owner | Domestic Shares | 19,031,297 | 6.64%(L) ⁽²⁾ | 4.47% |
| Hangzhou Hengtai | Beneficial owner | Domestic Shares | 15,698,265 | 5.48%(L) ⁽²⁾ | 3.69% |
| QM32 Limited ⁽⁴⁾ | Beneficial owner | Unlisted Foreign Shares | 34,071,947 | 46.34%(L) ⁽²⁾ | 8.00% |
| Zhejiang Jiuren Capital Management Co.,Ltd. (浙江九仁資本管理有限公司) ⁽⁵⁾ | Interest in controlled corporations | Domestic Shares | 28,027,046 | 9.78%(L) ⁽²⁾ | 6.58% |
| Yi Shi ⁽⁶⁾ | Interest in controlled corporations | Unlisted Foreign Shares | 25,637,520 | 34.87%(L) ⁽²⁾ | 6.02% |
| | | H Shares | 3,528,100 | 5.37%(L) ⁽²⁾ | 0.83% |
| Zhu Yong ⁽⁷⁾ | Interest in controlled corporations | Domestic Shares | 23,517,076 | 8.21%(L) ⁽²⁾ | 5.52% |
| Jiangsu Jiequan Lize Health Industry Venture Capital Fund (Limited Partnership) (江蘇韋泉醴澤健康產業創業投資基金(有限合夥)) ⁽⁷⁾ | Beneficial owner | Domestic Shares | 23,517,076 | 8.21%(L) ⁽²⁾ | 5.52% |
| Chen Fei ⁽⁸⁾ | Interest in controlled corporations | Domestic Shares | 21,776,804 | 7.60%(L) ⁽²⁾ | 5.12% |

Report of Directors

| Name of substantial shareholder | Nature of interest | Class of Shares | Number of Shares interested | Approximate percentage in the relevant class of Shares ⁽¹⁾ | Approximate percentage of shareholding interest ⁽¹⁾ |
|---|---|-------------------------|-----------------------------|---|--|
| Shanghai Liyao Investment Management Co., Ltd. (上海禮曜投資管理有限公司) ⁽⁸⁾ | Interest in controlled corporations | Domestic Shares | 21,776,804 | 7.60%(L) ⁽²⁾ | 5.12% |
| Yu Jia (于佳) ⁽⁹⁾ | Interest in controlled corporations | Domestic Shares | 16,055,165 | 5.60%(L) ⁽²⁾ | 3.77% |
| Suzhou Qiming Ronghe Venture Capital Partnership (Limited Partnership) (蘇州啟明融合創業投資合夥企業(有限合夥)) ("Suzhou Qiming") ⁽⁹⁾ | Beneficial owner | Domestic Shares | 16,055,165 | 5.60%(L) ⁽²⁾ | 3.77% |
| Tan Ching (談慶) ⁽¹⁰⁾ | Interest in controlled corporations | Unlisted Foreign Shares | 6,958,131 | 9.46%(L) ⁽²⁾ | 1.63% |
| Power SUM Limited ⁽¹⁰⁾ | Beneficial owner | Unlisted Foreign Shares | 6,958,131 | 9.46%(L) ⁽²⁾ | 1.63% |
| QM153 Limited ⁽¹¹⁾ | Beneficial owner | Unlisted Foreign Shares | 6,858,828 | 9.33%(L) ⁽²⁾ | 1.61% |
| Invesco Advisers, Inc. | Investment Manager | H Shares | 11,179,500 | 17.00%(L) ⁽²⁾ | 2.63% |
| Invesco Developing Markets Funds | Person having a security interest in Shares | H Shares | 9,711,800 | 14.77%(L) ⁽²⁾ | 2.28% |
| UBS Group AG ⁽¹²⁾ | Investment Manager | H Shares | 7,474,306 | 11.37%(L) ⁽²⁾ | 1.76% |
| Morgan Stanley ⁽¹³⁾ | Interest in controlled corporations | H Shares | 6,516,447 | 9.92%(L) ⁽²⁾ | 1.53% |
| Matthews International Capital Management, LLC | Investment Manager | H Shares | 5,200,000 | 7.91%(L) ⁽²⁾ | 1.22% |
| China International Capital Corporation Limited ⁽¹⁴⁾ | Interest in controlled corporations | H Shares | 4,192,936 | 6.38%(L) ⁽²⁾ | 0.98% |
| FMR LLC ⁽¹⁵⁾ | Interest in controlled corporations | H Shares | 3,773,663 | 5.74%(L) ⁽²⁾ | 0.89% |

Report of Directors

Notes:

- (1) As at December 31, 2021, the Company had 425,742,600 issued shares in total, comprising 65,742,600 H Shares, 286,473,574 Domestic Shares and 73,526,426 Unlisted Foreign Shares.
- (2) "L" means holding a long position in Shares.
- (3) Dr. Zheng, being the sole general partner, controls Hangzhou Yantai and Hangzhou Hengtai, both of which are employee incentive platforms. Therefore, under the SFO, in addition to his direct shareholding, Dr. Zheng is also deemed to be interested in the 19,031,297 Domestic Shares through Hangzhou Yantai and the 15,698,265 Domestic Shares of the Company through Hangzhou Hengtai, respectively.
- (4) QM32 Limited is held as to 96.99% by Qiming Venture Partners V, L.P., which is managed by Qiming GP V, L.P., which is in turn managed by Qiming Corporate GP V, Ltd. Therefore, Qiming Venture Partners V, L.P., Qiming GP V, L.P. and Qiming Corporate GP V, Ltd. are deemed to be interested in the interest of QM32 Limited under the SFO.
- (5) Zhejiang Jiuren Capital Management Co., Ltd. manages Hangzhou Jiuyao Equity Investment Partnership (Limited Partnership) (杭州九珧股權投資合夥企業(有限合夥))("Hangzhou Jiuyao"), Hangzhou Jiufu Equity Investment Partnership (Limited Partnership) (杭州九賦股權投資合夥企業(有限合夥))("Hangzhou Jiufu"), Hangzhou Yunbo Investment Partnership (Limited Partnership) (杭州雲帛投資合夥企業(有限合夥))("Hangzhou Yunbo") and Hangzhou Jiuge Equity Investment Partnership (Limited Partnership) (杭州九歌股權投資合夥企業(有限合夥))("Hangzhou Jiuge") in its capacity as the fund manager of these funds. Therefore, under SFO, Zhejiang Jiuren Capital Management Co., Ltd. is deemed to be interested in (i) the 10,683,565 Domestic Shares held by Hangzhou Jiuyao, (ii) the 10,683,565 Domestic Shares held by Hangzhou Jiufu, (iii) the 3,804,018 Domestic Shares held by Hangzhou Yunbo and (iv) the 2,855,898 Domestic Shares held by Hangzhou Jiuge.
- (6) LAV Evergreen (Hong Kong) Co., Limited is wholly-owned by Lilly Asia Ventures Fund II, L.P., which is managed by Lilly Asia Ventures Fund GP, L.P., which in turn is managed by LAV Corporate GP, Ltd., a company wholly-owned by Mr. Shi Yi. LAV Star Limited, being a cornerstone investor of the Company, is wholly-owned by LAV Fund VI, L.P. and LAV Star Opportunities Limited, being a cornerstone investor of the Company, is wholly-owned by LAV Fund VI Opportunities, L.P. (together with LAV Fund VI, L.P., collectively, the "LAV Fund VI"), each is ultimately controlled by Mr. Shi Yi. LAV Star Limited and LAV Star Opportunities Limited collectively own 3,528,100 H Shares. Therefore, (1) Lilly Asia Ventures Fund II, L.P., Lilly Asia Ventures Fund GP, L.P., LAV Corporate GP, Ltd. and Mr. Shi Yi are deemed to be interested in the 25,637,520 Unlisted Foreign Shares held by LAV Evergreen (Hong Kong) Co., Limited under the SFO; (2) Mr. Shi Yi is deemed to be interested in the 3,528,100 H Shares held by LAV Star Limited and LAV Star Opportunities Limited under the SFO.
- (7) Jiangsu Jiequan Lize Health Industry Venture Capital Fund (Limited Partnership) (江蘇蹇泉醴澤健康產業創業投資基金(有限合夥)) is managed by Jiangsu Lize Investment Management Co., Ltd. (江蘇醴澤投資管理有限公司), a company wholly-owned by Mr. Zhu Yong. Therefore, Jiangsu Lize Investment Management Co., Ltd. and Mr. Zhu Yong are deemed to be interested in the 23,517,076 Domestic Shares held by Jiangsu Jiequan Lize Health Industry Venture Capital Fund (Limited Partnership) under the SFO.

Report of Directors

- (8) Shanghai Li'an Venture Capital Investment Center (Limited Partnership) (上海禮安創業投資中心(有限合夥)) and Suzhou Likang Equity Investment Center (Limited Partnership) (蘇州禮康股權投資中心(有限合夥)) are both managed by Shanghai Liyi Investment Management Partnership (Limited Partnership) (上海禮頤投資管理合夥企業(有限合夥)), which in turn is managed by Shanghai Liyao Investment Management Co., Ltd. (上海禮曜投資管理有限公司). Shanghai Liyao Investment Management Co., Ltd. (上海禮曜投資管理有限公司) is wholly-owned by Mr. Chen Fei (陳飛). Therefore, Mr. Chen Fei, Shanghai Liyi Investment Management Partnership (Limited Partnership) and Shanghai Liyao Investment Management Co., Ltd. are deemed to be interested in (i) the 11,983,877 Domestic Shares held by Shanghai Li'an Venture Capital Investment Center (Limited Partnership) and (ii) the 9,792,927 Domestic Shares held by Suzhou Likang Equity Investment Center (Limited Partnership) under the SFO.
- (9) Suzhou Qiming is managed by Suzhou Qicheng Investment Management Partnership (Limited Partnership) (蘇州啟承投資管理合夥企業(有限合夥)), which is in turn managed by Shanghai Qichang Investment Consulting Co., Ltd. (上海啟昌投資諮詢有限公司), a company held as to 50% and 50% by Mr. Hu Xubo, a non-executive Director of our Company, and Ms. Yu Jia (于佳), respectively. Therefore, Suzhou Qicheng Investment Management Partnership (Limited Partnership), Shanghai Qichang Investment Consulting Co., Ltd., Mr. Hu Xubo and Ms. Yu Jia are deemed to be interested in the 16,055,165 Domestic Shares held by Suzhou Qiming under the SFO. For the disclosure of Mr. Hu Xubo's interests under part XV of the SFO, please refer to page 96 of this report.
- (10) Power SUM Limited is wholly-owned by Master Summer Limited, which is controlled by CDBI Partners Fund I, L.P., a limited partnership with CDBI Partners GP, Ltd being its general partner and is in turn controlled by Mr. Tan Ching (談慶). Therefore, Master Summer Limited, CDBI Partners Fund I, L.P., CDBI Partners GP, Ltd and Mr. Tan Ching are deemed to be interested in the 6,958,131 Unlisted Foreign Shares held by Power SUM Limited under the SFO.
- (11) QM153 Limited is held as to 99.09% by Qiming Venture Partners VII, L.P., whose sole general partner is Qiming GP VII, LLC. Therefore, Qiming Venture Partners VII, L.P. and Qiming GP VII, LLC are deemed to be interested in the 6,858,828 Unlisted Foreign Shares held by QM153 Limited under the SFO.
- (12) UBS Group AG directly wholly owns (i) UBS AG, which directly owns 1,094,606 H Shares; (ii) UBS Asset Management (Hong Kong) Ltd, which directly owns 74,100 H Shares; and (iii) UBS Fund Management (Luxembourg) S.A., which directly owns 6,305,600 H Shares. As such, UBS Group AG is deemed to be interested in an aggregate of 7,474,306 H Shares.
- (13) Morgan Stanley Capital Management, LLC wholly owns Morgan Stanley Domestic Holdings, Inc which wholly owns Morgan Stanley & Co. LLC, which directly owns 3,337,618 H Shares; and Morgan Stanley International Holdings Inc. wholly owns Morgan Stanley International Limited which wholly owns Morgan Stanley Investments (UK) which wholly owns Morgan Stanley & Co. International plc, which directly owns 3,178,829 H Shares. As such, Morgan Stanley is deemed to be interested in an aggregate of 6,516,447 H Shares.
- (14) China International Capital Corporation Limited indirectly wholly owns China International Capital Corporation Hong Kong Securities Limited, which directly owns 4,192,936 H Shares. As such China International Capital Corporation Limited is deemed to be interested in 4,192,936 H Shares.
- (15) FMR LLC directly owns FIDELITY MANAGEMENT & RESEARCH COMPANY LLC which wholly owns FIDELITY MANAGEMENT & RESEARCH (HONG KONG) LIMITED, which directly owns 3,773,663 H Shares. As such, FMR LLC is deemed to be interested in 3,773,663 H Shares.

Save as disclosed above, as at December 31, 2021, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors, Supervisors and the chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Report of Directors

EQUITY-LINKED AGREEMENTS

During the Reporting Period, the Company has not entered into any equity-linked agreement.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time from the period of the Listing Date to December 31, 2021 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouse or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS', SUPERVISORS' AND SINGLE LARGEST GROUP OF SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors, Supervisors and the Single Largest Group of Shareholders or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a Director of the Company and/or its subsidiaries.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 30 to the Consolidated Financial Statements contained herein. For the year ended December 31, 2021, none of the related parties transactions as disclosed in note 30 to the Consolidated Financial Statements constitute any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. For the year ended December 31, 2021, we have not entered into any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules.

DIRECTORS', SUPERVISORS' AND SINGLE LARGEST GROUP OF SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, no Director/Supervisor/the Single Largest Group of Shareholders or an entity connected with a Director/Supervisor/the Single Largest Group of Shareholders was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting from the period of the Listing Date to December 31, 2021 and up to the date of this report.

Report of Directors

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed from the period of the Listing Date to December 31, 2021 and up to the date of this report between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

PERMITTED INDEMNITY PROVISION

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

INFORMATION ON TAX REDUCTION AND EXEMPTION FOR HOLDERS OF H SHARES

Individual Investors

According to the Notice on the Management of Personal Income Tax Imposed after the Abolition of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividends and bonuses received by foreign resident individual shareholders from the issuance of shares in Hong Kong by domestic non-foreign invested enterprises is subject to the payment of individual income tax according to the items of "interests, dividend and bonus income", which shall be withheld and paid on behalf of the shareholders by the withholding and payment agents. The foreign resident individual shareholders who hold the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China and the tax arrangements between mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration management, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends and bonuses, generally withhold and pay individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries which have entered into tax agreements stipulating a tax rate of lower than 10%, the withholding and payment agents will file applications on their behalf to seek entitlement of the relevant agreed preferential treatments, and upon review and approval by the tax authorities, the excess tax amounts withheld and paid will be refunded; (2) for citizens from countries which have entered into tax agreements stipulating a tax rate of higher than 10% but lower than 20%, the withholding and payment agents will withhold and pay the individual income tax at the agreed-upon effective tax rate when distributing dividends, and are not obligated to file an application; (3) for citizens from countries without tax agreements or are under other situations, the withholding and payment agents will withhold and pay the individual income tax at a tax rate of 20% when distributing dividends and bonuses.

Report of Directors

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (Guo Shui Han [2006] No. 884) (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(國稅函[2006]884號)) signed on 21 August 2006, the Chinese government may impose tax on dividends payable by the Chinese companies to Hong Kong residents, but the tax should not exceed 10% of the total dividend payable, if Hong Kong residents hold at least 25% equity interest in the Chinese company, the relevant tax shall not exceed 5% of the total dividend payable by the Chinese company.

Enterprises

According to the Enterprise Income Tax law of the People's Republic of China (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) effective on 1 January 2008, if non-resident enterprises establish no organizations and sites within the territory of China, or though they have established certain organizations and sites but the dividends and bonuses received have actually not correlated to the organizations and sites established, such enterprises shall pay the enterprise income tax at the rate of 10% of its income from the Chinese territory. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

According to the Notice on the Withholding and Payment of Enterprise Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (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利代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H Share non-resident enterprise shareholders, they shall withhold and pay on behalf of the shareholders the enterprise income tax. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

Pursuant to the provisions in the Notice on Tax Policies Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (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稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends and bonuses obtained by mainland individual investors from investing in H Shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall withhold individual income tax at the tax rate of 20%. For the dividends and bonuses obtained by mainland securities investment funds from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, the individual income tax will be levied pursuant to the provisions mentioned above. For the dividends and bonuses obtained by mainland enterprise investors from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall not withhold any income taxes on the dividends and bonuses, as the income taxes shall be reported and paid by the investing enterprises on their own. Meanwhile, for the dividends and bonuses obtained by mainland resident enterprises from holding relevant H Shares for consecutive 12 months, the corporate income taxes shall be exempted according to laws.

Report of Directors

Pursuant to the current practices of Inland Revenue Department of Hong Kong, no taxes shall be paid for the dividends distributed by the Company.

The shareholders of the Company shall pay the relevant taxes and/or be entitled to tax reduction and exemption pursuant to the above provisions. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, they are advised to consult an expert.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at December 31, 2021, we had 523 employees (as at December 31, 2020: 327 employees). Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security contributions and other welfare payments. In accordance with applicable PRC laws, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees in the PRC. For the year ended December 31, 2021, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations, or any difficulty in recruiting employees.

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 require all of our employees, especially those who involved in sales and marketing and business development activities, to abide by our anti-bribery and anti-corruption compliance requirements and applicable laws and regulations to eliminate bribery and corruption risks. We closely monitor our employee's compliance with anti-bribery and anti-corruption policies.

Our Directors and Supervisors receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, contribution to the pension scheme and other share-based compensation. We determine the compensation of our Directors and Supervisors based on each the responsibilities, qualification, position and seniority of each Director and Supervisor. Details of the remuneration of Directors and Supervisors during the year are set out in note 8 to the Consolidated Financial Statements.

For the Reporting Period, no emoluments were paid by the Group to any Director, Supervisor or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors or Supervisors has waived any emoluments for the year ended December 31, 2021.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2021, by our Group to or on behalf of any of the Directors and Supervisors.

Report of Directors

Retirement Benefits Scheme

The employees of the Group's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

Employee Incentive Schemes

The following is a summary of the principal terms of the employee incentive schemes dated January 2, 2018 (as amended on September 21, 2020) and December 25, 2019 (as amended on September 21, 2020) respectively (collectively, the "Schemes"). The terms of the Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as the Scheme does not involve the grant of options by our Company after the Listing. Given the underlying Shares under the Schemes had already been issued, there will not be any dilution effect to the issued Shares upon the vesting of the Shares under the Schemes. No further award will be granted after Listing.

The Company had established two Employee Incentive Platforms, namely Hangzhou Yantai and Hangzhou Hengtai. The two Employee Incentive Platforms, in aggregate, held 34,729,562 Domestic Shares.

(a) Objectives

The purpose of the Schemes is to build an incentive mechanism for the management members and core employees of our Company, attracting talents in the labour market to raise the core competitiveness of the Company. The Scheme also serves the purpose of achieving efficient and high-quality management of the Company.

(b) Eligibility

Pursuant to the scheme documents (the "Scheme Documents"), participants of the Schemes include the Company's senior management members and core employees. The Scheme Documents further provided that the following employees may not be selected as participants to the Schemes (as applicable):

- Employees who have received public censure from any stock exchange or have been declared as disqualified persons for the preceding three years;

Report of Directors

- Employees who have received administrative penalties from CSRC due to material violation laws and regulations for the preceding three years;
- Employees who are forbidden to hold the position of director or senior management pursuant to the PRC Company Law; or
- Employees who are otherwise not eligible due to serious violations of laws, regulations and the policies of the Company as determined by the Board.

(c) Grant of Award

The sole general partner of Hangzhou Yantai and Hangzhou Hengtai is Dr. Zheng and in effect, all management powers and voting rights of the Employee Incentive Platforms reside with the sole general partner, Dr. Zheng.

All selected participants do not have any voting rights in the Company. The selected participants will be granted awards in the form of economic interest in the Employee Incentive Platforms as a limited partner of the relevant Employee Incentive Platform. Upon becoming the limited partner of the Employee Incentive Platforms, the selected participants indirectly receive economic interest in the corresponding number of underlying Shares held by the Employee Incentive Platforms.

(d) Administration of the Schemes

The Board retain full discretion over the following matters of the Schemes:

- the selection of participants in the Schemes, which currently include Directors, core employees and senior management members of our Group; and
- the implementation, amendment and termination of the Schemes.

Report of Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's largest customer accounted for 7.11% of the Group's total revenue. The Group's five largest customers accounted for 20.83% of the Group's total revenue.

During the Reporting Period, the Group's largest supplier accounted for 5.96% of the Group's total purchase. The Group's five largest suppliers accounted for 17.74% of the Group's total purchase.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the period of the Listing Date to December 31, 2021.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group made charitable contribution amounting to RMB550,000.00.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the CG Code. From the Listing Date to the date of this report, the Company has complied with all the applicable code provisions in the CG Code, save for the deviation from code provisions C.2.1 (i.e. former code provision A.2.1) and C.5.1 (i.e. former code provision A.1.1).

Report of Directors

In order to maintain high standards of corporate governance, the Board will continuously review and monitor the Company's corporate governance code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 32 to 54 of this report.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2021 have been audited by Ernst & Young.

Ernst & Young shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming annual general meeting.

By order of the Board of Directors

MicroTech Medical (Hangzhou) Co., Ltd.

Dr. Zheng Pan

Chairman and Chief Executive Officer

Independent Auditor's Report



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To the shareholders of MicroTech Medical (Hangzhou) Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of MicroTech Medical (Hangzhou) Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 114 to 194, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), 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.

Independent Auditor's Report

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.

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

Recoverability of trade receivables

As at 31 December 2021, the net carrying value of the Group's trade receivables amounted to RMB27,770,000, after netting off with an impairment provision of RMB2,572,000.

The collectability of trade receivables is a key element of the Group's working capital management, which is managed on an ongoing basis by management. The impairment of trade receivables was assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit loss of the trade receivables, management considered various factors such as the age of the balance, existence of disputes, recent historical payment patterns, any other available information concerning the creditworthiness of counterparties and influence from the macro economy. The assessment is highly judgmental.

The Group's disclosures about impairment of trade receivables are included in notes 2.4, 3 and 17 to the financial statements, which also explain the accounting policies and management's accounting estimates.

How our audit addressed the key audit matter

We evaluated management's assessment on the recoverability of the trade receivables by reviewing the detailed analyses of the ageing of the receivables and testing, on a sample basis, payments received subsequent to the year end, historical payment patterns, any disputes between the parties involved and the credit status of the counterparties where available. We also evaluated the expected credit loss provision methodology used by the Group and the estimates used to determine the expected credit losses by considering cash collection performance against historical trends.

Independent Auditor's Report

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 Report of Directors and the Corporate Governance Report and the Environmental, Social and 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 Report of Directors and the Corporate Governance Report, the Environmental, Social and 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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.

Independent Auditor's Report

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 HKSA's 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 HKSA's, 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.

Independent Auditor's Report

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

25 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 | 151,404 | 75,277 |
| Cost of sales | | (80,521) | (38,733) |
| Gross profit | | 70,883 | 36,544 |
| Other income and gain | 5 | 29,063 | 27,663 |
| Selling and distribution expenses | | (52,257) | (55,059) |
| Administrative expenses | | (41,480) | (45,758) |
| Impairment losses on financial assets, net | | (1,229) | (188) |
| Research and development costs | | (36,083) | (82,009) |
| Other expenses | | (17,033) | (2,135) |
| Finance costs | 7 | (17) | (308) |
| LOSS BEFORE TAX | 6 | (48,153) | (121,250) |
| Income tax | 10 | – | – |
| LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (48,153) | (121,250) |
| Attributable to: | | | |
| Owners of the parent | | (48,153) | (121,009) |
| Non-controlling interest | | – | (241) |
| | | (48,153) | (121,250) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 12 | RMB(0.13) | RMB(0.39) |

Consolidated Statement of Financial Position

31 December 2021

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|-------|-----------------|-----------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 73,184 | 65,965 |
| Intangible assets | 15 | 13,793 | 14,454 |
| Right-of-use assets | 14(a) | 6,938 | 6,962 |
| Prepayments, other receivables and other assets | 18 | 1,959 | 1,617 |
| Total non-current assets | | 95,874 | 88,998 |
| CURRENT ASSETS | | | |
| Inventories | 16 | 34,165 | 18,423 |
| Trade and bills receivables | 17 | 27,770 | 10,359 |
| Prepayments, other receivables and other assets | 18 | 20,352 | 4,502 |
| Financial assets at fair value through profit or loss | 20 | – | 105,192 |
| Cash and cash equivalents | 21 | 2,150,978 | 549,800 |
| Total current assets | | 2,233,265 | 688,276 |
| CURRENT LIABILITIES | | | |
| Trade payables | 22 | 14,115 | 7,599 |
| Lease liabilities | 14(b) | 115 | 126 |
| Other payables and accruals | 23 | 61,722 | 29,106 |
| Contract liabilities | 24 | 6,386 | 11,926 |
| Total current liabilities | | 82,338 | 48,757 |

Consolidated Statement of Financial Position

31 December 2021

| | Notes | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|-------|------------------------|------------------------|
| NET CURRENT ASSETS | | 2,150,927 | 639,519 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,246,801 | 728,517 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 14(b) | 140 | – |
| Total non-current liabilities | | 140 | – |
| Net assets | | 2,246,661 | 728,517 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 25 | 425,743 | 360,000 |
| Reserves | 26 | 1,820,918 | 368,517 |
| Total equity | | 2,246,661 | 728,517 |

Dr. Zheng Pan

Director

Ms. Liu Xiu

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

| | Attributable to owners of the parent | | | | | | | | |
|--|---------------------------------------|---|--|---|--|---|------------------|-------------------------------------|-------------------------|
| | Share capital RMB'000 (note 25) | Paid-in capital RMB'000 (note 25) | Share premium* RMB'000 (note 26) | Other reserves* RMB'000 (note 26) | Share award reserve* RMB'000 (note 26) | Retained profits/ (accumulated losses)* RMB'000 | Total RMB'000 | Non-controlling interest RMB'000 | Total equity RMB'000 |
| At 1 January 2020 | - | 74,402 | - | 255,101 | 80,654 | (193,367) | 216,790 | - | 216,790 |
| Loss for the year | - | - | - | - | - | (121,009) | (121,009) | (241) | (121,250) |
| Total comprehensive loss for the year | - | - | - | - | - | (121,009) | (121,009) | (241) | (121,250) |
| Equity-settled share award expense | - | - | - | - | 111,176 | - | 111,176 | - | 111,176 |
| Acquisition of non-controlling interests | - | - | - | (241) | - | - | (241) | 241 | - |
| Conversion into a joint stock company | 83,023 | (83,023) | - | (383,321) | - | 383,321 | - | - | - |
| Capital contribution by shareholders | 12,173 | 8,621 | 501,007 | - | - | - | 521,801 | - | 521,801 |
| Transfer from reserves to share capital | 264,804 | - | (264,804) | - | - | - | - | - | - |
| At 31 December 2020 | <u>360,000</u> | <u>-</u> | <u>236,203</u> | <u>(128,461)</u> | <u>191,830</u> | <u>68,945</u> | <u>728,517</u> | <u>-</u> | <u>728,517</u> |

| | Attributable to owners of the parent | | | | | |
|---|---------------------------------------|--|---|--|---|-------------------------|
| | Share capital RMB'000 (note 25) | Share premium* RMB'000 (note 26) | Other reserves* RMB'000 (note 26) | Share award reserve* RMB'000 (note 26) | Retained Profits/ (accumulated losses)* RMB'000 | Total equity RMB'000 |
| At 1 January 2021 | 360,000 | 236,203 | (128,461) | 191,830 | 68,945 | 728,517 |
| Loss for the year | - | - | - | - | (48,153) | (48,153) |
| Total comprehensive loss for the year | - | - | - | - | (48,153) | (48,153) |
| Equity-settled share award Expense | - | - | - | 12,433 | - | 12,433 |
| Issue of shares for the initial public offering | 65,743 | 1,591,644 | - | - | - | 1,657,387 |
| Share issue expenses | - | (103,523) | - | - | - | (103,523) |
| At 31 December 2021 | <u>425,743</u> | <u>1,724,324</u> | <u>(128,461)</u> | <u>204,263</u> | <u>20,792</u> | <u>2,246,661</u> |

* These reserve accounts comprise the consolidated reserves of RMB1,820,918,000 (2020: RMB368,517,000) 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 | | (48,153) | (121,250) |
| Adjustments for: | | | |
| Finance costs | 7 | 17 | 308 |
| Bank interest income | 5 | (23,316) | (2,376) |
| Investment income from financial assets at fair value through profit or loss | 5 | (1,172) | (5,768) |
| Gain on disposal of items of property, plant and equipment | 5 | (45) | (227) |
| Depreciation of property, plant and equipment | 13 | 6,223 | 3,287 |
| Depreciation of right-of-use assets | 14(a) | 326 | 493 |
| Amortisation of intangible assets | 15 | 1,783 | 1,704 |
| Impairment of trade receivables, net | 17 | 1,229 | 188 |
| Write-down of inventories to net realisable value | 6 | 547 | 106 |
| Equity-settled share award expense | 27 | 12,433 | 111,176 |
| Foreign exchange differences, net | 6 | 16,477 | 2,107 |
| | | (33,651) | (10,252) |
| Increase in inventories | | (16,289) | (9,891) |
| Increase in trade and bills receivables | | (18,640) | (3,161) |
| (Increase)/decrease in prepayments, other receivables and other assets | | (15,989) | 478 |
| Increase in an amount due from a director | | – | (378) |
| Increase in trade payables | | 6,516 | 2,351 |
| Increase in other payables and accruals | | 16,061 | 3,154 |
| (Decrease)/increase in contract liabilities | | (5,540) | 5,748 |
| Cash used in operations | | (67,532) | (11,951) |
| Interest received | | 23,316 | 2,376 |
| Net cash flows used in operating activities | | (44,216) | (9,575) |

Consolidated Statement of Cash Flows

Year ended 31 December 2021

| | Note | 2021 RMB'000 | 2020 RMB'000 |
|--|------|------------------|-----------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (17,599) | (25,655) |
| Proceeds from disposal of property, plant and equipment | | 45 | 390 |
| Purchases of intangible assets | 15 | (1,122) | (28) |
| Purchases of financial assets at fair value through profit or loss | | – | (195,500) |
| Proceeds from maturity of financial assets at fair value through profit or loss | | 105,000 | 211,000 |
| Investment income from financial assets at fair value through profit or loss | | 1,364 | 8,571 |
| Loans to a director | | – | (10,000) |
| Repayment of loans to a director | | – | 20,000 |
| Decrease/(increase) in time deposits with original maturity of over three months | | 10,000 | (10,000) |
| Net cash flows from/(used in) investing activities | | 97,688 | (1,222) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from initial public offering | | 1,657,387 | – |
| Payment for deferred listing expenses | | (83,014) | – |
| Capital contribution by shareholders | | – | 513,180 |
| New bank borrowings | | – | 10,000 |
| Repayment of bank borrowings | | – | (20,000) |
| Capital injection from the exercise of equity-settled share award | | – | 8,621 |
| Principal portion of lease payments | | (173) | (205) |
| Interest paid | | (17) | (320) |
| Net cash flows from financing activities | | 1,574,183 | 511,276 |

Consolidated Statement of Cash Flows

Year ended 31 December 2021

| | Note | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------|-------------------------|------------------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of year | | 539,800 | 41,428 |
| Effect of foreign exchange rate changes, net | | (16,477) | (2,107) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u>2,150,978</u> | <u>539,800</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents as stated in the consolidated statement of financial position | 21 | 2,150,978 | 549,800 |
| Time deposits with original maturity of over three months when acquired | | <u>—</u> | <u>(10,000)</u> |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | <u>2,150,978</u> | <u>539,800</u> |

Notes to Financial Statements

31 December 2021

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No. 108 Liuze Street, Cangqian Street, Yuhang District, Hangzhou, Zhejiang, China.

During the year, the Group was principally engaged in the research and development, manufacture and commercialisation of diabetes management medical devices and consumables.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 October 2021.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Name | Place and date of incorporation/ registration and place of operations | Registered share capital | Percentage of equity attributable to the Company Direct | Principal activities |
|---|---|-----------------------------|---|--|
| Hangzhou MicroTech E-Commerce Co., Ltd.* ("MicroTech E-Commerce") (杭州微泰電子商務有限公司) | PRC/Mainland China 19 September 2019 | RMB1,000,000 | 100% | Commercialisation of diabetes management medical devices and consumables |
| Hangzhou Jienuotong Science and Technology Materials Co., Ltd.* (杭州捷諾通科技材料有限公司) | PRC/Mainland China 30 November 2021 | RMB1,000,000 | 100% | Engineering and technology research experimentation and development |

* These entities are limited liability enterprises established under PRC law. The English name of these subsidiaries registered in the PRC represents the best efforts made by the management of the Company to directly translate their Chinese name as they did not register any official English name.

Notes to Financial Statements

31 December 2021

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in 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).

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.

Notes to Financial Statements

31 December 2021

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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 retained profits, 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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June
2021 (early adopted)*

Notes to Financial Statements

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 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 HKFRS 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.

The adoption of the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendment to HKFRS 16 issued in April 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. The amendment did not have any impact on the financial position and performance of the Group as the Group has not received any covid-19-related rent concessions for the year ended 31 December 2021.

Notes to Financial Statements

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to HKFRS 3 | <i>Reference to the Conceptual Framework</i> ¹ |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³ |
| HKFRS 17 | <i>Insurance Contracts</i> ² |
| Amendments to HKFRS 17 | <i>Insurance Contracts</i> ^{2, 5} |
| Amendment to HKFRS 17 | <i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ² |
| Amendments to HKAS 1 | <i>Classification of Liabilities as Current or Non-current</i> ^{2, 4} |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies</i> ² |
| Amendments to HKAS 8 | <i>Definition of Accounting Estimates</i> ² |
| Amendments to HKAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ² |
| Amendments to HKAS 16 | <i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹ |
| Amendments to HKAS 37 | <i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹ |
| Annual Improvements to HKFRSs 2018-2020 | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 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 HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

Notes to Financial Statements

31 December 2021

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

Amendments to HKFRS 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 June 2018 without significantly changing its requirements. The amendments also add to HKFRS 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 HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 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 HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) 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 HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 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.

Amendments to HKAS 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.

Notes to Financial Statements

31 December 2021

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

Amendments to HKAS 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 HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 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 HKFRS 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 HKAS 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.

Amendments to HKAS 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.

Notes to Financial Statements

31 December 2021

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

Amendments to HKAS 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.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 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.

Notes to Financial Statements

31 December 2021

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures unlisted investments at fair value 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.

Notes to Financial Statements

31 December 2021

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.

Notes to Financial Statements

31 December 2021

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 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.

Notes to Financial Statements

31 December 2021

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.

Notes to Financial Statements

31 December 2021

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 estimated useful lives of property, plant and equipment are as follows:

| | |
|-------------------------------|----------------|
| Buildings | 10 to 20 years |
| Machinery and equipment | 3 to 10 years |
| Computer and office equipment | 3 to 5 years |
| Motor vehicles | 5 years |

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 methods 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.

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

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful 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 4 to 20 years, which is the shorter of the legal registered period and the period over which the intellectual property is expected to generate net cash inflows from the commercialisation of the product after considering the typical product life cycles and the technical obsolescence of the intellectual property.

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 3 to 5 years.

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.

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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:

| | |
|--------------------------------|--------------|
| Leasehold land | 50 years |
| Office premises and warehouses | 1 to 2 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.

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(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.

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 warehouses and office premises (that is those leases that have a lease term of 12 months 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.

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost 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 HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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.

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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.

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.

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.

Notes to Financial Statements

31 December 2021

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).

Notes to Financial Statements

31 December 2021

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

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (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 its 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 payables.

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

The Group's financial liabilities include trade payables and other payables and accruals.

Subsequent measurement

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

Financial liabilities at amortised cost (payables)

After initial recognition, payables 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.

Notes to Financial Statements

31 December 2021

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.

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.

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

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 country 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.

Notes to Financial Statements

31 December 2021

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, 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, 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.

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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 year.

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 deferred income 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.

Notes to Financial Statements

31 December 2021

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 or services 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 contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods 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 is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of medical devices and consumables

Revenue from the sale of medical devices and consumables is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the products.

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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates share award plans for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the discounted cash flow method, the back-solve method and equity allocation based on the option pricing model ("OPM").

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 the 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.

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.

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 a modified vesting period is shorter than the original vesting period, all of the expenses relating to both the original and modified elements of the award should be recognised by the end of the modified vesting period as no services will be rendered beyond that point.

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31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local government. The Company and its subsidiaries 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 and practice 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Notes to Financial Statements

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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.

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).

Notes to Financial Statements

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses of trade receivables (Continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates 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 between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast 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 17 to the financial statements.

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at least at each financial year end based on changes in circumstances.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to Financial Statements

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value measurement of share-based payments

The Group has set up share award plans and granted shares to the Company's directors and the Group's employees. The fair value is determined by an external valuer using the discounted cash flow method, the back-solve method and equity allocation based on the OPM. Significant estimates on assumptions, including the expected volatility and risk-free interest rate, are made by the board of directors of the Company. Further details are included in note 27 to the financial statements.

Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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 as they have arisen in companies 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 note 10 to the financial statements.

Notes to Financial Statements

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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 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|-------------------------|------------------------|------------------------|
| Mainland China | 107,285 | 60,111 |
| Other countries/regions | 44,119 | 15,166 |
| | <u>151,404</u> | <u>75,277</u> |

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

The Group's non-current assets are all located in Mainland China.

Information about major customers

The Group does not have major customers whose revenue accounts for more than 10% the Group's revenue.

Notes to Financial Statements

31 December 2021

5. REVENUE, OTHER INCOME AND GAIN

An analysis of revenue is as follows:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|------------------------|------------------------|
| <i>Revenue from contracts with customers</i> | | |
| Sale of medical devices and consumables | <u>151,404</u> | <u>75,277</u> |

Revenue from contracts with customers

(a) Disaggregated revenue information

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--------------------------------------|------------------------|------------------------|
| Geographical markets | | |
| Mainland China | <u>107,285</u> | 60,111 |
| Other countries/regions | <u>44,119</u> | <u>15,166</u> |
| | <u>151,404</u> | <u>75,277</u> |
| Timing of revenue recognition | | |
| Goods transferred at a point in time | <u>151,404</u> | <u>75,277</u> |

The following table shows the amounts of revenue recognised during the year that were included in the contract liabilities at the beginning of the year and recognised from performance obligations satisfied in previous periods:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Revenue recognised that was included in contract liabilities at the beginning of the year: | | |
| Sale of medical devices and consumables | <u>11,905</u> | <u>6,178</u> |

Notes to Financial Statements

31 December 2021

5. REVENUE, OTHER INCOME AND GAIN (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of medical devices and consumables

The performance obligation is satisfied upon acceptance of the products by the customers and payment is generally due within 3 months to 9 months.

An analysis of other income and gain is as follows:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Other income | | |
| Government grants | 4,502 | 19,243 |
| Bank interest income | 23,316 | 2,376 |
| Investment income from financial assets at fair value through profit or loss | 1,172 | 5,768 |
| Others | 28 | 49 |
| | <u>29,018</u> | <u>27,436</u> |
| Gain | | |
| Gain on disposal of items of property, plant and equipment | 45 | 227 |
| | <u>29,063</u> | <u>27,663</u> |

* The government grants mainly represent subsidies received from the local governments for compensating expenses arising from research activities and rewarding research and development costs and capital expenditure incurred for certain projects.

Notes to Financial Statements

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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 | | 80,521 | 38,733 |
| Research and development costs | | 36,083 | 82,009 |
| Depreciation of property, plant and equipment | 13 | 6,223 | 3,287 |
| Depreciation of right-of-use assets | 14(a) | 326 | 493 |
| Amortisation of intangible assets* | 15 | 1,783 | 1,704 |
| Impairment of trade receivables, net | 17 | 1,229 | 188 |
| Write-down of inventories to net realisable value** | | 547 | 106 |
| Government grants | | (4,502) | (19,243) |
| Bank interest income | | (23,316) | (2,376) |
| Investment income from financial assets at fair value through profit or loss | | (1,172) | (5,768) |
| Gain on disposal of items of property, plant and equipment | | (45) | (227) |
| Lease payments not included in the measurement of lease liabilities | 14(c) | 78 | 396 |
| Foreign exchange differences, net | | 16,477 | 2,107 |
| Auditor's remuneration | | 1,680 | 22 |
| Equity-settled share award expense | | 12,433 | 111,176 |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | 58,823 | 39,504 |
| Pension scheme contributions | | 4,034 | 153 |
| Staff welfare expenses | | 4,778 | 2,160 |
| Equity-settled share award expense | | – | 45,651 |
| | | 67,635 | 87,468 |

* The amortisation of intangible assets for the year is included in "Selling and distribution expenses", "Administrative expenses" and "Research and development costs" in the consolidated statement of profit or loss and other comprehensive income.

** The write-down of inventories to net realisable value for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

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7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Interest on a bank borrowing | – | 299 |
| Interest on lease liabilities (<i>note 14(c)</i>) | <u>17</u> | <u>9</u> |
| | <u>17</u> | <u>308</u> |

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 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 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Fees | <u>218</u> | <u>30</u> |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,554 | 2,525 |
| Pension scheme contributions | 49 | 3 |
| Equity-settled share award expense | <u>12,433</u> | <u>65,525</u> |
| | <u>16,036</u> | <u>68,053</u> |
| | <u>16,254</u> | <u>68,083</u> |

Notes to Financial Statements

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

(Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2021 | 2020 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Dr. Li Lihua ⁽¹⁾ | 60 | 10 |
| Ms. Gao Jian ⁽¹⁾ | 60 | 10 |
| Ms. Wang Chunfeng ⁽¹⁾ | 60 | 10 |
| Mr. Ho Kin Cheong Kelvin ⁽²⁾ | 38 | — |
| | 218 | 30 |

⁽¹⁾ Dr. Li Lihua, Ms. Gao Jian and Ms. Wang Chunfeng were appointed as independent directors in October 2020 and were re-designated as independent non-executive directors in April 2021.

⁽²⁾ Mr. Ho Kin Cheong Kelvin was appointed as an independent non-executive director in April 2021.

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

Notes to Financial Statements

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

(Continued)

(b) Executive directors, non-executive directors, the chief executive and supervisors

Executive directors

| | Salaries, allowances and benefits in kind <i>RMB'000</i> | Pension scheme contributions <i>RMB'000</i> | Equity-settled share award expense <i>RMB'000</i> | Total remuneration <i>RMB'000</i> |
|--|---|--|--|---|
| 2021 | | | | |
| Dr. Zheng Pan (chief executive) ⁽³⁾ | 1,047 | 12 | – | 1,059 |
| Ms. Liu Xiu ⁽⁴⁾ | 543 | 12 | – | 555 |
| Dr. Yu Fei ⁽⁴⁾ | 1,021 | 12 | – | 1,033 |
| Dr. Shi Yonghui ⁽⁵⁾ | 856 | 8 | 12,433 | 13,297 |
| Ms. Xu Fangling ⁽⁶⁾ | 87 | 5 | – | 92 |
| | <u>3,554</u> | <u>49</u> | <u>12,433</u> | <u>16,036</u> |
| 2020 | | | | |
| Dr. Zheng Pan (chief executive) ⁽³⁾ | 904 | 1 | 45,965 | 46,870 |
| Ms. Liu Xiu ⁽⁴⁾ | 210 | – | 4,071 | 4,281 |
| Ms. Xu Fangling ⁽⁶⁾ | 382 | 1 | 2,036 | 2,419 |
| Dr. Yu Fei ⁽⁴⁾ | 1,029 | 1 | 13,453 | 14,483 |
| | <u>2,525</u> | <u>3</u> | <u>65,525</u> | <u>68,053</u> |

Notes to Financial Statements

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

(Continued)

(b) Executive directors, non-executive directors, the chief executive and supervisors (Continued)

Executive directors (Continued)

- ⁽³⁾ Dr. Zheng Pan was a director and was re-designated as an executive director in April 2021. He was also the chief executive of the Company during the year.
- ⁽⁴⁾ Dr. Yu Fei and Ms. Liu Xiu were appointed as directors in October 2020 and were re-designated as executive directors in April 2021.
- ⁽⁵⁾ Dr. Shi Yonghui was designated as an executive director in June 2021.
- ⁽⁶⁾ Ms. Xu Fangling was a director of the Company and re-designated as executive director in April 2021. She resigned from her position as an executive director with effect from June 2021.

Non-executive directors

Mr. Hu Xubo was a director and was re-designated as a non-executive director in April 2021. Ms. Gao Yun was appointed as a director in May 2020 and was re-designated as a non-executive director in April 2021. There were no fees and other emoluments payable to the non-executive directors during the year.

Notes to Financial Statements

31 December 2021

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

(Continued)

(b) Executive directors, non-executive directors, the chief executive and supervisors (Continued)

Supervisors

| | Salaries, allowances and benefits in kind <i>RMB'000</i> | Pension scheme contributions <i>RMB'000</i> | Equity-settled share award expense <i>RMB'000</i> | Total remuneration <i>RMB'000</i> |
|---------------------------------|---|--|--|---|
| 2021 | | | | |
| Mr. Li Zhenhua ⁽⁷⁾ | 282 | 12 | – | 294 |
| Mr. Zhao Zhiheng ⁽⁷⁾ | 165 | 12 | – | 177 |
| Mr. Lyu Cheng ⁽⁷⁾ | – | – | – | – |
| | <u>447</u> | <u>24</u> | <u>–</u> | <u>471</u> |
| 2020 | | | | |
| Mr. Li Zhenhua ⁽⁷⁾ | 349 | 1 | 2,000 | 2,350 |
| Mr. Zhao Zhiheng ⁽⁷⁾ | 257 | 1 | 958 | 1,216 |
| Mr. Lyu Cheng ⁽⁷⁾ | – | – | – | – |
| | <u>606</u> | <u>2</u> | <u>2,958</u> | <u>3,566</u> |

⁽⁷⁾ Mr. Li Zhenhua, Mr. Zhao Zhiheng and Mr. Lyu Cheng were appointed as supervisors in October 2020.

During the year and in prior years, Dr. Zheng Pan, Dr. Yu Fei, Ms. Liu Xiu, Ms. Xu Fangling, Mr. Li Zhenhua, Mr. Zhao Zhiheng and Dr. Shi Yonghui were granted shares in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such share awards, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

31 December 2021

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2020: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | 2021 | 2020 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Salaries, allowances and benefits in kind | 2,328 | 1,574 |
| Pension scheme contributions | 24 | 3 |
| Equity-settled share award expense | – | 20,226 |
| | 2,352 | 21,803 |

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 | 2 | – |
| HK\$5,500,001 to HK\$6,000,000 | – | 1 |
| HK\$6,500,001 to HK\$7,000,000 | – | 1 |
| HK\$11,500,001 to HK\$12,000,000 | – | 1 |
| | 2 | 3 |

During the year ended 31 December 2020, share awards were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such share awards, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the financial statements for the reporting period are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

Notes to Financial Statements

31 December 2021

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the companies which operates in Mainland China are subject to CIT at a rate of 25% (2020: 25%) on the taxable income. Preferential tax treatment is available to the Company since it was recognised as a High and New Technology Enterprise, and it was entitled to a preferential tax rate of 15% (2020: 15%) during the year. MicroTech E-Commerce is qualified as a Small and Micro Enterprise and was entitled to a preferential tax rate of 2.5% (2020: 5%) during the year.

The income tax expense of the Group during the year is analysed as follows:

| | 2021 | 2020 |
|--------------------------------|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current tax: | | |
| Charge for the year | - | - |
| Deferred tax | - | - |
| Total tax expense for the year | - | - |

Notes to Financial Statements

31 December 2021

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

| | 2021 | 2020 |
|--|-----------------|-----------|
| | RMB'000 | RMB'000 |
| Loss before tax | (48,153) | (121,250) |
| Tax at the statutory tax rate of 25% in Mainland China | (12,038) | (30,313) |
| Preferential tax rates enacted by local authority | 5,296 | 12,258 |
| Expenses not deductible for tax | 3,102 | 17,577 |
| Additional deductible allowance for research and development costs | (5,480) | (2,232) |
| Temporary differences and tax losses not recognised | 9,120 | 2,710 |
| Tax charge at the Group's effective tax rate | — | — |

Deferred tax assets have not been recognised in respect of the following items:

| | 2021 | 2020 |
|----------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Tax losses | 225,342 | 151,410 |
| Deductible temporary differences | 19,954 | 14,072 |
| | 245,296 | 165,482 |

The Group had tax losses arising in Mainland China of RMB225,342,000 (2020: RMB151,410,000) that will expire in one to ten years for offsetting against 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.

Notes to Financial Statements

31 December 2021

11. DIVIDENDS

No dividend has been paid or declared by the Company in respect of the year ended 31 December 2021 (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 for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 373,164,928 in issue during the year. The weighted average number of ordinary shares of 306,401,310 for the year ended 31 December 2020 is calculated based on the assumption that paid-in capital had been fully converted into share capital at the same conversion ratio of 1:1 as upon transformation into a joint stock company by converting the net assets of the Company as of the conversion base date amounting to RMB227,659,000 into 83,022,715 ordinary shares of RMB1.00 each and the transfer of share premium to share capital by converting share premium of RMB264,804,195 into 264,804,195 ordinary shares of RMB1.00 each had been completed on 1 January 2020. After the conversion of share premium, the number of ordinary shares increased from 95,195,805 to 360,000,000. Details of the transformation into a joint stock company and transfer of share premium to share capital are set out in notes 25(a) and 25(c), respectively.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2020 and 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years.

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31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>RMB'000</i> | Machinery and equipment <i>RMB'000</i> | Computer and office equipment <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Construction in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-----------------------------|---|---|-------------------------------------|---|-------------------------|
| 31 December 2021 | | | | | | |
| At 1 January 2021: | | | | | | |
| Cost | 54,297 | 16,715 | 1,786 | 222 | 115 | 73,135 |
| Accumulated depreciation | (1,446) | (4,534) | (983) | (207) | - | (7,170) |
| Net carrying amount | <u>52,851</u> | <u>12,181</u> | <u>803</u> | <u>15</u> | <u>115</u> | <u>65,965</u> |
| At 1 January 2021, net of accumulated depreciation | 52,851 | 12,181 | 803 | 15 | 115 | 65,965 |
| Additions | 5,654 | 5,840 | 845 | 624 | 479 | 13,442 |
| Depreciation provided during the year (<i>note 6</i>) | (3,341) | (2,522) | (349) | (11) | - | (6,223) |
| Transfers | 347 | 114 | - | - | (461) | - |
| At 31 December 2021, net of accumulated depreciation | <u>55,511</u> | <u>15,613</u> | <u>1,299</u> | <u>628</u> | <u>133</u> | <u>73,184</u> |
| At 31 December 2021: | | | | | | |
| Cost | 60,298 | 22,669 | 2,631 | 628 | 133 | 86,359 |
| Accumulated depreciation | (4,787) | (7,056) | (1,332) | - | - | (13,175) |
| Net carrying amount | <u>55,511</u> | <u>15,613</u> | <u>1,299</u> | <u>628</u> | <u>133</u> | <u>73,184</u> |

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings RMB'000 | Machinery and equipment RMB'000 | Computer and office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|--|----------------------|--|--|------------------------------|--|------------------|
| 31 December 2020 | | | | | | |
| At 1 January 2020: | | | | | | |
| Cost | – | 7,450 | 1,710 | 218 | 38,737 | 48,115 |
| Accumulated depreciation | – | (3,325) | (1,242) | (207) | – | (4,774) |
| Net carrying amount | – | 4,125 | 468 | 11 | 38,737 | 43,341 |
| At 1 January 2020, net of accumulated depreciation | – | 4,125 | 468 | 11 | 38,737 | 43,341 |
| Additions | 4,860 | 3,210 | 580 | 4 | 17,420 | 26,074 |
| Disposals | – | (143) | (20) | – | – | (163) |
| Depreciation provided during the year (note 6) | (1,446) | (1,616) | (225) | – | – | (3,287) |
| Transfers | 49,437 | 6,605 | – | – | (56,042) | – |
| At 31 December 2020, net of accumulated depreciation | 52,851 | 12,181 | 803 | 15 | 115 | 65,965 |
| At 31 December 2020: | | | | | | |
| Cost | 54,297 | 16,715 | 1,786 | 222 | 115 | 73,135 |
| Accumulated depreciation | (1,446) | (4,534) | (983) | (207) | – | (7,170) |
| Net carrying amount | 52,851 | 12,181 | 803 | 15 | 115 | 65,965 |

Notes to Financial Statements

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14. LEASES

The Group as a lessee

The Group has lease contracts for warehouses and office premises used in its operations. Lump sum payments were made upfront to acquire the leasehold land from the government with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and warehouses generally have lease terms between 1 and 2 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension and termination options and variable lease payments.

(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 <i>RMB'000</i> | Office premises and warehouses <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|-------------------------------------|--|-------------------------|
| As at 1 January 2020 | 6,944 | 180 | 7,124 |
| Additions | – | 331 | 331 |
| Depreciation charge (<i>note 6</i>) | (148) | (345) | (493) |
| As at 31 December 2020 and 1 January 2021 | <u>6,796</u> | <u>166</u> | <u>6,962</u> |
| Additions | – | 302 | 302 |
| Depreciation charge (<i>note 6</i>) | (148) | (178) | (326) |
| As at 31 December 2021 | <u>6,648</u> | <u>290</u> | <u>6,938</u> |

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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 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Carrying amount at 1 January | 126 | – |
| New leases | 302 | 331 |
| Accretion of interest recognised during the year | 17 | 9 |
| Payments | <u>(190)</u> | <u>(214)</u> |
| Carrying amount at 31 December | <u><u>255</u></u> | <u><u>126</u></u> |
| Analysed into: | | |
| Current portion | 115 | 126 |
| Non-current portion | <u><u>140</u></u> | <u><u>–</u></u> |

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

Notes to Financial Statements

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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 | 2020 |
|--|----------------|---------|
| | RMB'000 | RMB'000 |
| Interest on lease liabilities (note 7) | 17 | 9 |
| Depreciation charge of right-of-use assets | 326 | 493 |
| Expense relating to short-term leases (included in administrative expenses, selling and distribution expenses, research and development costs and cost of sales) (note 6) | 78 | 396 |
| Total amount recognised in profit or loss | 421 | 898 |

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 29(c) and note 28(b), respectively, to the financial statements.

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15. INTANGIBLE ASSETS

| | Software RMB'000 | Intellectual property RMB'000 | Total RMB'000 |
|--|---------------------|-------------------------------------|------------------|
| 31 December 2021 | | | |
| At 1 January 2021: | | | |
| Cost | 166 | 21,947 | 22,113 |
| Accumulated amortisation | (133) | (7,526) | (7,659) |
| Net carrying amount | <u>33</u> | <u>14,421</u> | <u>14,454</u> |
| Cost at 1 January 2021, net of accumulated amortisation | 33 | 14,421 | 14,454 |
| Additions | 1,122 | – | 1,122 |
| Amortisation provided during the year (note 6) | (123) | (1,660) | (1,783) |
| At 31 December 2021 | <u>1,032</u> | <u>12,761</u> | <u>13,793</u> |
| At 31 December 2021: | | | |
| Cost | 1,288 | 21,947 | 23,235 |
| Accumulated amortisation | (256) | (9,186) | (9,442) |
| Net carrying amount | <u>1,032</u> | <u>12,761</u> | <u>13,793</u> |
| 31 December 2020 | | | |
| At 1 January 2020: | | | |
| Cost | 138 | 21,947 | 22,085 |
| Accumulated amortisation | (89) | (5,866) | (5,955) |
| Net carrying amount | <u>49</u> | <u>16,081</u> | <u>16,130</u> |
| Cost at 1 January 2020, net of accumulated amortisation | 49 | 16,081 | 16,130 |
| Additions | 28 | – | 28 |
| Amortisation provided during the year (note 6) | (44) | (1,660) | (1,704) |
| At 31 December 2020 | <u>33</u> | <u>14,421</u> | <u>14,454</u> |
| At 31 December 2020: | | | |
| Cost | 166 | 21,947 | 22,113 |
| Accumulated amortisation | (133) | (7,526) | (7,659) |
| Net carrying amount | <u>33</u> | <u>14,421</u> | <u>14,454</u> |

Notes to Financial Statements

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16. INVENTORIES

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|------------------|-------------------------------|------------------------|
| Raw materials | 19,785 | 10,377 |
| Work in progress | 8,067 | 3,783 |
| Finished goods | 6,313 | 4,263 |
| | 34,165 | 18,423 |

17. TRADE AND BILLS RECEIVABLES

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|-------------------|-------------------------------|------------------------|
| Trade receivables | 30,342 | 11,458 |
| Bills receivable | – | 244 |
| | 30,342 | 11,702 |
| Impairment | (2,572) | (1,343) |
| | 27,770 | 10,359 |

Certain of the Group's trading terms with its customers are on credit. The credit period is generally within three months, extending up to nine months for certain customers. 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.

Notes to Financial Statements

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17. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance is as follows:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---------------|------------------------|------------------------|
| Within 1 year | 26,752 | 9,304 |
| 1 to 2 years | 874 | 536 |
| 2 to 3 years | 142 | 229 |
| Over 3 years | 2 | 46 |
| | <u>27,770</u> | <u>10,115</u> |

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---------------------------------|------------------------|------------------------|
| At beginning of year | 1,343 | 1,155 |
| Impairment losses, net (note 6) | <u>1,229</u> | <u>188</u> |
| At end of year | <u>2,572</u> | <u>1,343</u> |

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.

Notes to Financial Statements

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17. TRADE AND BILLS RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

| | Gross carrying amount <i>RMB'000</i> | Expected credit loss rate % | Expected credit loss <i>RMB'000</i> |
|------------------|--|-----------------------------------|---|
| Less than 1 year | 27,954 | 4.30% | 1,202 |
| 1 to 2 years | 1,130 | 22.65% | 256 |
| 2 to 3 years | 440 | 67.73% | 298 |
| Over 3 years | 818 | 99.76% | 816 |
| | <u>30,342</u> | 8.48% | <u>2,572</u> |

As at 31 December 2020

| | Gross carrying amount <i>RMB'000</i> | Expected credit loss rate % | Expected credit loss <i>RMB'000</i> |
|------------------|--|-----------------------------------|---|
| Less than 1 year | 9,778 | 4.85% | 474 |
| 1 to 2 years | 681 | 21.29% | 145 |
| 2 to 3 years | 485 | 52.78% | 256 |
| Over 3 years | 514 | 91.05% | 468 |
| | <u>11,458</u> | 11.72% | <u>1,343</u> |

Notes to Financial Statements

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18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Current | | |
| Prepayments | 15,677 | 3,143 |
| Value-added tax recoverable | 4,032 | 803 |
| Other receivables | 643 | 556 |
| | <u>20,352</u> | <u>4,502</u> |
| Non-current | | |
| Advance payments for property, plant and equipment | 1,820 | 1,617 |
| Advance payments for long-term deferred expenditure | 139 | – |
| | <u>1,959</u> | <u>1,617</u> |
| | <u><u>22,311</u></u> | <u><u>6,119</u></u> |

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2021 and 2020, the loss allowance was assessed to be minimal.

Notes to Financial Statements

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19. DUE FROM A DIRECTOR

Amounts due from a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

| Name | At 31 December 2021 RMB'000 | Maximum amount outstanding during the year RMB'000 | At 31 December 2020 RMB'000 | Maximum amount outstanding during the year RMB'000 | At 1 January 2020 RMB'000 | Security held |
|---|--------------------------------------|---|--------------------------------------|---|------------------------------------|------------------|
| Dr Zheng Pan* | - | - | - | 10,000 | 9,622 | None |
| Shukang Biomedical (Hangzhou) Co., Ltd** ("Shukang Biomedical") | - | - | - | 500 | - | None |
| Total | - | - | - | - | 9,622 | |

* The loan granted to Dr. Zheng Pan for the year ended 31 December 2020 was unsecured, interest-bearing at a rate of 4.03% per annum, non-trade in nature and repayable within six months.

** The loan granted to Shukang Biomedical, an entity controlled by Dr. Zheng Pan, for the year ended 31 December 2020, was unsecured, interest-free, non-trade in nature and repayable on demand.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2021 RMB'000 | 2020 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Unlisted investments, at fair value | - | 105,192 |

The unlisted investments represented wealth management products issued by commercial banks and financial institutions in Mainland China. They 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. For information about the methods and assumptions used in determining fair value, please refer to note 32 to the financial statements.

Notes to Financial Statements

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21. CASH AND CASH EQUIVALENTS

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---------------------------------|------------------------|------------------------|
| Cash and bank balances | 1,586,179 | 118,207 |
| Time deposits | 564,799 | 431,593 |
| Cash and cash equivalents | 2,150,978 | 549,800 |
| Denominated in: | | |
| RMB | 934,259 | 472,244 |
| United States dollar ("US\$") | 92,418 | 77,556 |
| Hong Kong dollar ("HK\$") | 1,124,301 | – |
| Total cash and cash equivalents | 2,150,978 | 549,800 |

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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between 3 months and 1 year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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22. 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 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---------------|-------------------------------|------------------------|
| Within 1 year | 14,017 | 7,482 |
| 1 to 2 years | 3 | 110 |
| 2 to 3 years | 91 | – |
| Over 3 years | 4 | 7 |
| | 14,115 | 7,599 |

Trade payables are non-interest-bearing and are normally settled on 30-day terms.

23. OTHER PAYABLES AND ACCRUALS

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Other payables | 32,215 | 8,946 |
| Accrued payroll | 17,818 | 9,362 |
| Government grants | 8,000 | 8,000 |
| Taxes payable other than corporate income tax | 2,469 | 2,481 |
| Accrued expenses | 1,196 | 277 |
| Deferred revenue | 24 | 40 |
| | 61,722 | 29,106 |

Other payables are non-interest-bearing and repayable on demand.

Notes to Financial Statements

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24. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---------|------------------------|------------------------|
| Current | <u>6,386</u> | <u>11,926</u> |

During the year, contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration.

25. SHARE CAPITAL

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|------------------------|------------------------|------------------------|
| Issued and fully paid: | | |
| Ordinary shares | <u>425,743</u> | <u>360,000</u> |

A summary of movements in the Company's share capital is as follows:

| | Number of shares | Share capital <i>RMB'000</i> |
|---|---------------------|---------------------------------|
| At 1 January 2020 | – | – |
| Issue of ordinary shares upon conversion into a joint stock company (a) | 83,022,715 | 83,023 |
| Issue of ordinary shares (b) | 12,173,090 | 12,173 |
| Transfer from reserves to share capital (c) | <u>264,804,195</u> | <u>264,804</u> |
| At 31 December 2020 and 1 January 2021 | 360,000,000 | 360,000 |
| Issue of shares for the initial public offering (d) | <u>65,742,600</u> | <u>65,743</u> |
| As at 31 December 2021 | <u>425,742,600</u> | <u>425,743</u> |

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25. SHARE CAPITAL (Continued)

Notes:

- (a) In October 2020, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The net assets of the Company as of the conversion base date, including paid-in capital, other reserves and accumulated losses, amounting to RMB227,659,000 were converted into 83,022,715 ordinary shares of RMB1.00 each. The excess of the net assets converted over the nominal value of the ordinary shares was credited to the Company's other reserves.
- (b) In November 2020, the Company issued 12,173,090 shares in total with par value of RMB1.00 each to Zhangjiagang Taikang Qianzhen Equity Investment Partnership (Limited Partnership), Shenzhen Tencent Information Technology Co., Ltd., Zhuhai Yitai Management Consulting Enterprise (Limited Partnership), Suzhou Chenzhide Investment Partnership (Limited Partnership), Nanjing Jianye Sanzheng Shunxin Equity Investment Partnership (Limited Partnership), CICC Pucheng Investment Co., Ltd., Shanghai CEL Guanghai Equity Investment Center (Limited Partnership), Suzhou Likang Equity Investment Center (Limited Partnership), Shanghai Guofang Zouzhen Enterprise Service Center (Limited Partnership), QM153 Limited and Mr. Teng Rongsong. Proceeds of RMB513,180,000 were received during the year ended 31 December 2020.
- (c) In December 2020, RMB264,804,195 of the share premium was converted into 264,804,195 ordinary shares of RMB1.00 each. After the conversion, the number of ordinary shares increased from 95,195,805 to 360,000,000.
- (d) In connection with the Company's initial public offering (including the full exercise of the over-allotment option), 65,742,600 shares of RMB1.00 each were issued at a price of HK\$30.5 per share for a total cash consideration, before expenses, of approximately HK\$2,005,149,000 (equivalent to RMB1,657,387,000). Dealings in these shares on the Stock Exchange commenced in October 2021 and November 2021.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the year is presented in the consolidated statement of changes in equity.

Share premium

The Group's share premium represents the share premium paid by the shareholders of the Company after its conversion into a joint-stock company in November 2020 and the share premium raised from the initial public offering in the Stock Exchange in October 2021.

Share award reserve

The Group's share award reserve represents the share-based compensation reserve due to equity-settled share award, details of the movements are set out in the consolidated statement of changes in equity.

Other reserves

Other reserves of the Group mainly represent the share premium contributed by the shareholders of the Company before its conversion into a joint stock company in November 2020.

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27. SHARE-BASED PAYMENTS

The Company adopted employee incentive schemes (the “Schemes”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company’s operations. Eligible participants of the Schemes include the Company’s directors, senior management and other employees. During the year, the Group granted ordinary shares of the Company under the Schemes through Hangzhou Hengtai and Hangzhou Yantai to certain employees.

In January 2018, 562,834 restricted ordinary shares of Hangzhou Yantai were granted to ten selected employees for a total consideration of RMB563,000.

In December 2019, 4,151,136 registered ordinary shares of Hangzhou Hengtai were granted to two selected employees for a total consideration of RMB4,151,000.

In September 2020 and December 2020, a total of 4,469,665 registered ordinary shares of Hangzhou Yantai were granted to thirty selected employees for a total consideration of RMB4,470,000.

For shares granted to the employees in January 2018 and one employee in December 2019, there are service periods requirement for which this requirement was terminated in September 2020. Except for the above, there are no service periods or performance target requirements for other share grants. The fair value of services received in return for shares granted was measured by reference to the fair value of shares granted and the subscription price paid by employees.

In June 2021, 665,926 registered ordinary shares of Hangzhou Yantai were granted to Dr. Shi Yonghui, the Company’s executive director, for a total consideration of RMB12,000,000.

The discounted cash flow method and the back-solve method were used to determine the underlying equity fair value of the Company and the OPM model to determine the fair value of shares granted. The key inputs into the model other than the underlying equity fair value of the Company at the date of grant were as follows:

| | 2021 | 2020 |
|-----------------------------|------|-----------|
| Risk-free interest rate (%) | 2.8 | 2.8-2.9 |
| Volatility (%) | 47.9 | 47.3-47.9 |

During the year, share award expenses of RMB12,433,000 (2020: RMB111,176,000), were charged to profit or loss, which included expenses for one director (2020: four) of RMB12,433,000 (2020: RMB65,525,000).

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28. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Contracted, but not provided for Buildings | <u>1,444</u> | <u>1,210</u> |

- (b) The Group has a lease contract that has not yet commenced as at 31 December 2021. The future lease payments for the non-cancellable lease contract are RMB199,000 due within one year and RMB199,000 due in the second year.

29. 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 RMB302,000 (2020: RMB331,000) and RMB302,000 (2020: RMB331,000), respectively, in respect of lease arrangements for office premises.

(b) Changes in liabilities arising from financing activities

| | Interest-bearing bank borrowing <i>RMB'000</i> | Lease liabilities <i>RMB'000</i> |
|--|--|--|
| At 1 January 2020 | 10,012 | – |
| Changes from financing cash flows | (10,311) | (214) |
| New leases | – | 331 |
| Interest expense | <u>299</u> | <u>9</u> |
| At 31 December 2020 and 1 January 2021 | – | 126 |
| Changes from financing cash flows | – | (190) |
| Interest expense | – | 17 |
| New leases | <u>–</u> | <u>302</u> |
| At 31 December 2021 | <u>–</u> | <u>255</u> |

Notes to Financial Statements

31 December 2021

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statements of cash flows is as follows:

| | 2021 | 2020 |
|-----------------------------|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within operating activities | 78 | 396 |
| Within financing activities | 190 | 214 |
| | 268 | 610 |

30. RELATED PARTY TRANSACTIONS

| Name | Relationship |
|--|--|
| Dr. Zheng Pan | Director |
| Shukang Biomedical | An entity controlled by a director |
| Jinhua City Wucheng District Jingxin Trading Corporation ("Jingxin Trading") | An entity controlled by a relative of a director |
| Jinhua City Wucheng District Qirui Trading Corporation ("Qirui Trading") | An entity controlled by a relative of a director |

Notes to Financial Statements

31 December 2021

30. RELATED PARTY TRANSACTIONS (Continued)

- (a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

| | Notes | 2021 RMB'000 | 2020 RMB'000 |
|---|-------|-----------------|-----------------|
| Loans to: | | | |
| Dr. Zheng Pan | (i) | – | 10,000 |
| Shukang biomedical | (ii) | – | 500 |
| | | – | 10,500 |
| Repayment of loans to: | | | |
| Dr. Zheng Pan | | – | 20,000 |
| Shukang biomedical | | – | 500 |
| | | – | 20,500 |
| Interest from: | | | |
| Dr. Zheng Pan | (i) | – | 299 |
| Repayment of payment on behalf of the Group by: | | | |
| Dr. Zheng Pan | | – | 389 |
| Purchases of goods from: | | | |
| Jingxin Trading | (iii) | – | 1,182 |
| Qirui Trading | (iii) | – | 593 |
| | | – | 1,775 |

Notes:

- (i) The loan granted to Dr. Zheng Pan for the year ended 31 December 2020 was unsecured, bore interest at a rate of 4.03% per annum, and repayable within six months.
- (ii) The loan granted to Shukang Biomedical was unsecured, non-interest-bearing and repayable on demand.
- (iii) The purchases of goods from the related parties were made according to the published prices and conditions offered by the related parties to their major customers.

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30. RELATED PARTY TRANSACTIONS (Continued)

- (b) Other transaction with a related party:

A director of the Group, Dr. Zheng Pan, has guaranteed the Group's bank loan up to nil (2020: RMB10,000,000) during the year, which was released in full as at 30 April 2021.

- (c) Compensation of key management personnel of the Group:

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Salaries, allowances and benefits in kind | 6,255 | 5,227 |
| Pension scheme contributions | 80 | 7 |
| Equity-settled share award expense | 12,433 | 78,343 |
| Total compensation paid to key management personnel | <u>18,768</u> | <u>83,577</u> |

Further details of directors' remuneration are included in note 8 to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

2021

Financial assets

| | Financial assets at amortised cost <i>RMB'000</i> |
|---|--|
| Trade and bills receivables | 27,770 |
| Financial assets included in prepayments, other receivables and other assets | 643 |
| Cash and cash equivalents | <u>2,150,978</u> |
| | <u>2,179,391</u> |

Notes to Financial Statements

31 December 2021

31. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2021 (Continued)

Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|--|
| Trade payables | 14,115 |
| Financial liabilities included in other payables and accruals | 32,215 |
| | <u>46,330</u> |

2020

Financial assets

| | Financial assets at fair value through profit or loss RMB'000 | Financial assets at amortised cost RMB'000 | Total RMB'000 |
|--|--|---|------------------|
| Trade and bills receivables | – | 10,359 | 10,359 |
| Financial assets included in prepayments, other receivables and other assets | – | 556 | 556 |
| Financial assets at fair value through profit or loss | 105,192 | – | 105,192 |
| Cash and cash equivalents | – | 549,800 | 549,800 |
| | <u>105,192</u> | <u>560,715</u> | <u>665,907</u> |

Notes to Financial Statements

31 December 2021

31. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020 (Continued)

Financial liabilities

| | Financial liabilities at amortised cost <i>RMB'000</i> |
|---|---|
| Trade payables | 7,599 |
| Financial liabilities included in other payables and accruals | <u>8,946</u> |
| | <u><u>16,545</u></u> |

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, trade and bills receivables, trade payables and financial liabilities included in other payables and accruals and approximate to their carrying amounts largely due to the short-term maturities of these instruments. All the carrying amounts of the Group's financial liabilities approximate to their fair value.

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 finance 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 chief financial officer. The valuation process and results are discussed with the directors of the Company periodically for financial reporting.

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 Group invests in unlisted investments, which represent wealth management products issued by commercial banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using the valuation technique based on the sum of principal and interest receivable.

Notes to Financial Statements

31 December 2021

32. 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 2020

| | Fair value measurement using | | | Total RMB'000 |
|--|--|---|---|------------------|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | |
| Financial assets at fair value through profit or loss | – | 105,192 | – | 105,192 |

The Group did not have any financial assets measured at fair value as at 31 December 2021.

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 and 2020.

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.

Notes to Financial Statements

31 December 2021

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowing and cash and cash equivalents. 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 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

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. 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.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (due to translation of monetary assets and liabilities) and the Group's equity.

| | Increase/ (decrease) in rate of foreign currency % | (Increase)/ decrease in loss before tax RMB'000 | Increase/ (decrease) in equity RMB'000 |
|---------------------------------|---|--|---|
| 31 December 2021 | | | |
| If RMB weakens against US\$ | 5 | 5,044 | 5,044 |
| If RMB strengthens against US\$ | (5) | (5,044) | (5,044) |
| If RMB weakens against HK\$ | 5 | 55,350 | 55,350 |
| If RMB strengthens against HK\$ | (5) | (55,350) | (55,350) |
| 31 December 2020 | | | |
| If RMB weakens against US\$ | 5 | 3,828 | 3,828 |
| If RMB strengthens against US\$ | (5) | (3,828) | (3,828) |

Notes to Financial Statements

31 December 2021

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

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. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2021

| | 12-month ECLs | Lifetime ECLs | | | Total RMB'000 |
|---|--------------------|--------------------|--------------------|--------------------------------|------------------|
| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Simplified approach RMB'000 | |
| Trade receivables* | - | - | - | 30,342 | 30,342 |
| Financial assets included in prepayments, other receivables and other assets – Normal** | 643 | - | - | - | 643 |
| Cash and cash equivalents – Not yet past due | 2,150,978 | - | - | - | 2,150,978 |
| | <u>2,151,621</u> | <u>-</u> | <u>-</u> | <u>30,342</u> | <u>2,181,963</u> |

Notes to Financial Statements

31 December 2021

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

| | 12-month | Lifetime ECLs | | | Total |
|---|----------------|---------------|----------|---------------|----------------|
| | ECLs | ECLs | | | |
| | Stage 1 | Stage 2 | Stage 3 | Simplified | |
| | RMB'000 | RMB'000 | RMB'000 | approach | RMB'000 |
| | | | | RMB'000 | |
| Trade receivables* | – | – | – | 11,458 | 11,458 |
| Bills receivable** | 244 | – | – | – | 244 |
| Financial assets included in prepayments, other receivables and other assets | | | | | |
| – Normal** | 556 | – | – | – | 556 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 549,800 | – | – | – | 549,800 |
| | <u>550,600</u> | <u>–</u> | <u>–</u> | <u>11,458</u> | <u>562,058</u> |

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the bills receivable and 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”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

Notes to Financial Statements

31 December 2021

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of 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.

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 | Total RMB'000 |
| Trade payables | 14,115 | - | - | - | 14,115 |
| Financial liabilities included in other payables and accruals | 32,215 | - | - | - | 32,215 |
| Lease liabilities | - | 61 | 122 | 245 | 428 |
| | <u>46,330</u> | <u>61</u> | <u>122</u> | <u>245</u> | <u>46,758</u> |

| | 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 | Total RMB'000 |
| Trade payables | 7,599 | - | - | - | 7,599 |
| Financial liabilities included in other payables and accruals | 8,946 | - | - | - | 8,946 |
| Lease liabilities | - | 43 | 86 | - | 129 |
| | <u>16,545</u> | <u>43</u> | <u>86</u> | <u>-</u> | <u>16,674</u> |

Notes to Financial Statements

31 December 2021

34. 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 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|---|------------------------|------------------------|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 73,184 | 65,965 |
| Intangible assets | 13,775 | 14,429 |
| Right-of-use assets | 6,938 | 6,962 |
| Investment in subsidiaries | 2,000 | 1,000 |
| Prepayments, other receivables and other assets | 1,959 | 1,617 |
| Total non-current assets | <u>97,856</u> | <u>89,973</u> |
| CURRENT ASSETS | | |
| Inventories | 33,810 | 18,345 |
| Trade and bills receivables | 27,579 | 10,359 |
| Prepayments, other receivables and other assets | 19,577 | 4,027 |
| Due from a subsidiary | 6,705 | 1,170 |
| Financial assets at fair value through profit or loss | – | 105,192 |
| Cash and cash equivalents | 2,148,590 | 549,378 |
| Total current assets | <u>2,236,261</u> | <u>688,471</u> |
| CURRENT LIABILITIES | | |
| Trade payables | 14,040 | 7,578 |
| Lease liabilities | 115 | 126 |
| Other payables and accruals | 61,070 | 28,895 |
| Contract liabilities | 6,386 | 11,926 |
| Total current liabilities | <u>81,611</u> | <u>48,525</u> |
| NET CURRENT ASSETS | <u>2,154,650</u> | <u>639,946</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>2,252,506</u> | <u>729,919</u> |

Notes to Financial Statements

31 December 2021

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

| | 2021 <i>RMB'000</i> | 2020 <i>RMB'000</i> |
|--|------------------------|------------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | 2,252,506 | 729,919 |
| NON-CURRENT LIABILITIES | | |
| Lease liabilities | 140 | – |
| Total non-current liabilities | 140 | – |
| Net assets | 2,252,366 | 729,919 |
| EQUITY | | |
| Share capital | 425,743 | 360,000 |
| Reserves (<i>note</i>) | 1,826,623 | 369,919 |
| Total equity | 2,252,366 | 729,919 |

Notes to Financial Statements

31 December 2021

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

| | Share premium <i>RMB'000</i> | Other reserves <i>RMB'000</i> | Share award reserve <i>RMB'000</i> | Retained profits/ (accumulated losses) <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|------------------------------------|-------------------------------------|--|--|-------------------------|
| At 1 January 2020 | – | 255,101 | 80,654 | (193,367) | 142,388 |
| Loss and total comprehensive loss for the year | – | – | – | (119,848) | (119,848) |
| Equity-settled share award expense | – | – | 111,176 | – | 111,176 |
| Capital contribution by shareholders | 501,007 | – | – | – | 501,007 |
| Conversion into a joint stock company | – | (383,321) | – | 383,321 | – |
| Transfer to share capital | (264,804) | – | – | – | (264,804) |
| At 31 December 2020 and 1 January 2021 | 236,203 | (128,220) | 191,830 | 70,106 | 369,919 |
| Loss and total comprehensive loss for the year | – | – | – | (43,850) | (43,850) |
| Equity-settled share award expense | – | – | 12,433 | – | 12,433 |
| Issue of shares for the initial public offering | 1,591,644 | – | – | – | 1,591,644 |
| Share issue expenses | (103,523) | – | – | – | (103,523) |
| At 31 December 2021 | <u>1,724,324</u> | <u>(128,220)</u> | <u>204,263</u> | <u>26,256</u> | <u>1,826,623</u> |

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2022.

Definitions and Glossary of Technical Terms

| | |
|------------------------------------|---|
| “13th Five-Year Plan” | outline of the 13th Five Year Plan for national economic and social development of the PRC (中華人民共和國國民經濟和社會發展第十三個五年規劃綱要) |
| “AGM” | annual general meeting of the Company |
| “artificial pancreas” | an integrated diabetes management system that tracks blood glucose levels using a continuous glucose monitor and automatically delivers the insulin when needed using an insulin pump according to its control algorithm |
| “Audit Committee” | the audit committee of the Board |
| “BGMS” | blood glucose monitoring system |
| “blood glucose” | blood glucose, also referred to as blood sugar, is the amount of glucose in your blood, an indicator of diabetes monitoring |
| “Board” or “Board of Directors” | the board of Directors of our Company |
| “calibration-free” | also known as “factory-calibrated”, the ability to use the sensor without the need for BGMS calibration; while users may opt to calibrate at his/her own discretion, a calibration-free CGMS does not require the user to perform a finger stick blood glucose calibration before displaying the glucose values |
| “CE marking” | a certification marking that indicates conformity with health, safety, and environmental protection standards for products sold within the European Economic Area |
| “CEO” or “Chief Executive Officer” | chief executive officer of our Company |
| “CG Code” | the Corporate Governance Code set out in Appendix 14 of the Listing Rules |
| “CGMS” | continuous glucose monitoring system |

Definitions and Glossary of Technical Terms

| | |
|---|---|
| “Chairman” | chairman of the Board |
| “China” or “PRC” | People’s Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires otherwise, references in this report to “China” and the “PRC” do not apply to Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| “CIC” | China Insights Industry Consultancy Limited, an independent professional market research and consulting company |
| “Company”, “our Company”, “the Company”, “MicroTech” or “MicroTech Medical” | MicroTech Medical (Hangzhou) Co., Ltd.* (微泰醫療器械(杭州)股份有限公司), a limited liability company incorporated in the PRC on January 20, 2011 and converted into a joint stock limited liability company incorporated in the PRC on November 6, 2020, whose stock code is: HK2235 |
| “Core Product” | Equil Patch Insulin Pump System, the designated “core product” as defined under Chapter 18A of the Listing Rules |
| “CSRC” | the China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Director(s)” | the directors of the Company |
| “Domestic Share(s)” | ordinary share(s) issued by our Company, with a nominal value of RMB1.0 each, which are subscribed for or credited as paid in Renminbi |
| “Dr. Zheng” | Dr. Zheng Pan (鄭攀), the chairman of the Board, an executive Director, the Chief Executive Officer of the Company and a member of the Single Largest Group of Shareholders |
| “Employment Incentive Platforms” | Hangzhou Yantai and Hangzhou Hengtai |
| “FDA” | U.S. Food and Drug Administration |

Definitions and Glossary of Technical Terms

| | |
|--|--|
| “Global Offering” | the Hong Kong public offering and the international offering of the Shares |
| “GMP” | good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification |
| “Group”, “our Group”, “our”, “we” or “us” | the Company and its subsidiaries from time to time |
| “H Share(s)” | overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB1.0 each, which is/are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange |
| “Hangzhou Hengtai” | Hangzhou Hengtai Brand Management Partnership (Limited Partnership) (杭州衡泰品牌管理合夥企業(有限合夥)), a limited partnership established in the PRC on December 11, 2019, of which Dr. Zheng is the sole general partner, one of the Employee Incentive Platforms |
| “Hangzhou Yantai” | Hangzhou Yantai Investment Partnership (Limited Partnership) (杭州研泰投資合夥企業(有限合夥)), a limited partnership established in the PRC on January 2, 2018, of which Dr. Zheng is the sole general partner, one of the Employee Incentive Platforms |
| “HbA1C” | hemoglobin A1C, one of the indicators in the monitoring and management of diabetes |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange” or “Stock Exchange or HKEx” | The Stock Exchange of Hong Kong Limited |

Definitions and Glossary of Technical Terms

| | |
|---------------------------------------|---|
| “hs CRP+CRP” | high-sensitivity C-reactive protein test, also known as full-range CRP test; regular CRP test measures general levels of inflammation in your body, while high sensitivity CRP test detects presences of low levels blood CRP which is usually associated with certain heart conditions |
| “H Share Registrar” | Tricor Investor Services Limited |
| “Independent Non-executive Directors” | the independent non-executive Directors of the Board |
| “IVD” | in vitro diagnostic medical devices, referring to devices such as reagent, calibrator, control material, kit, specimen receptacle, software, instrument, apparatus, equipment, or system, whether used alone or in combination, intended by the manufacturer for tests performed on samples taken from the human body, such as swabs of mucus from inside the nose or back of the throat, or blood taken from a vein or fingerstick |
| “KOLs” | key opinion leaders |
| “Latest Practicable Date” | April 19, 2022 being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication |
| “Listing” | the listing of the shares on the Main Board of the Stock Exchange |
| “Listing Date” | October 19, 2021, being the date on which the Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time |
| “Main Board” | the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM of the Hong Kong Stock Exchange |
| “MAU” | one of the indicators in the monitoring and management of diabetes |

Definitions and Glossary of Technical Terms

| | |
|---|---|
| “MicroTech E-Commerce” | Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司), a limited liability company established under the laws of the PRC on September 19, 2019 and our Company’s subsidiary |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of 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 |
| “POCT” | point-of-care-testing, also known as near-patient testing, offer results within minutes of taking a test, allowing for rapid diagnosis and quick decisions about patient care |
| “Prospectus” | the prospectus of the Company dated October 6, 2021, in relations of its Global Offering |
| “R&D” | research and development |
| “Remuneration and Assessment Committee” | the remuneration and assessment committee of the Board |
| “Reporting Period” | the year ended 31 December 2021 |
| “RMB or “Renminbi”” | Renminbi, the lawful currency of the PRC |
| “Schemes” | the employee incentive schemes dated January 2, 2018 (as amended on September 21, 2020) and December 25, 2019 (as amended on September 21, 2020) respectively |
| “Securities and Futures Ordinance” or “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

Definitions and Glossary of Technical Terms

| | |
|--|---|
| “SFO” | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| “Shanghai-Hong Kong Stock Connect” | a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading |
| “Share(s)” | ordinary share(s) in the capital of our Company with a nominal value of RMB1.0 each |
| “Shareholder(s)” | holder(s) of our Share(s) |
| “Single Largest Group of Shareholder(s)” | Dr. Zheng Pan, Hangzhou Yantai and Hangzhou Hengtai |
| “Strategy Committee” | the strategy committee of the Board |
| “Supervisor(s)” | the supervisors of the Company |
| “Supervisory Committee” | the supervisory committee of our Company |
| “Unlisted Foreign Share(s)” | ordinary share(s) issued by our Company, with a nominal value of RMB1.0 each, which is/are subscribed for or credited as paid in a currency other than Renminbi, held by foreign investors and not listed on any stock exchange |
| “U.S.” or “United States” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “ZJMPA” | Zhejiang Medical Products Administration (浙江省藥品監督管理局) |

For the purpose of this annual report and for illustration purpose only, conversion of HK\$ to RMB is based on the exchange rate of HK\$1 to RMB0.8176.

