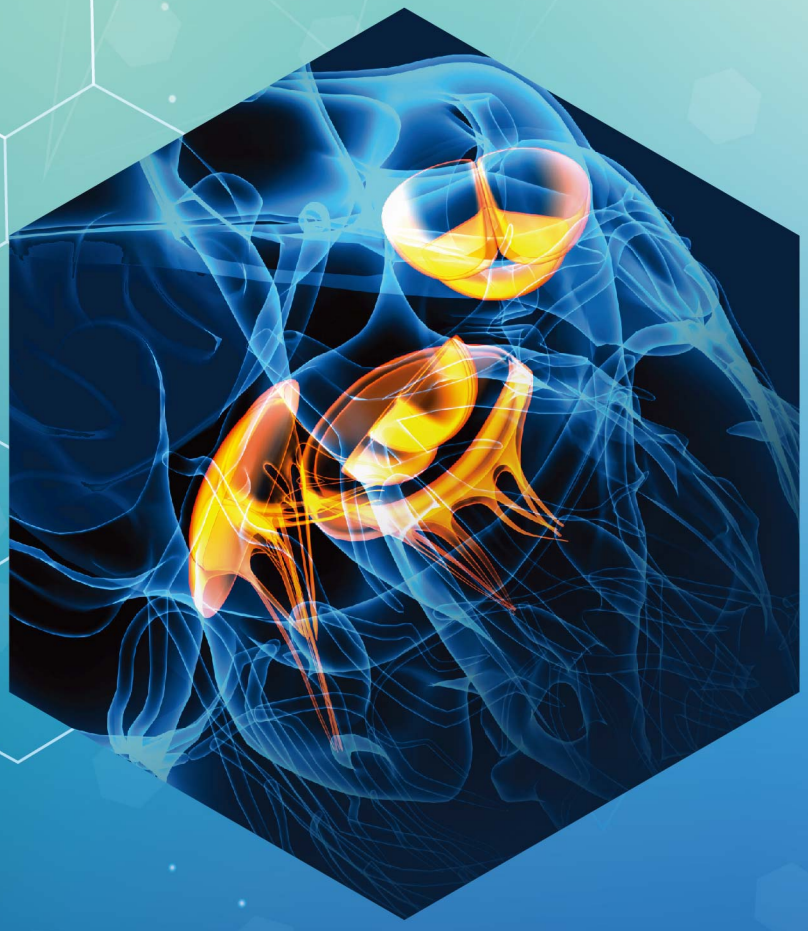
启明医疗®
VENUSMEDTECH

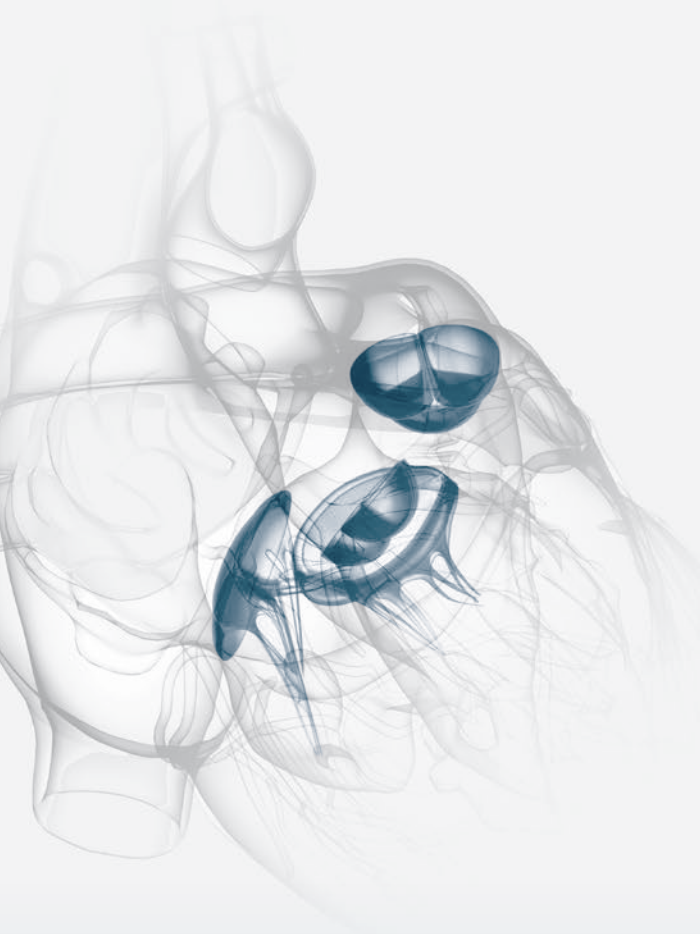
杭州啓明醫療器械股份有限公司
Venus Medtech (Hangzhou) Inc.
(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 2500



2020 ANNUAL REPORT

CONTENTS



Corporate Information

(As of December 31, 2020)

Name in Chinese:	杭州啓明醫療器械股份有限公司
Name in English:	Venus Medtech (Hangzhou) Inc.
Legal representative:	Mr. Min Frank Zeng
Chairman:	Mr. Min Frank Zeng
Registered capital:	RMB422,968,943[1]
Headquarters in the PRC:	
Registered and office address	Room 311, 3/F, Block 2, No. 88, Jiangling Road, Binjiang District, Hangzhou, PRC
Company website	http://www.venusmedtech.com/
E-mail	inquiry@venusmedtech.com
Principal place of business in Hong Kong:	40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong[3]
Board of Directors:	
Executive Directors	Mr. Min Frank Zeng *(Chairman)*, Mr. Zhenjun Zi, Mr. Lim Hou-Sen (Lin Haosheng)
Non-executive Director	Ms. Nisa Bernice Wing-Yu Leung *(Vice chairwoman)*
Independent non-executive Directors	Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau, Mr. Chi Wai Suen
Supervisors:	Ms. Yan Xiao, Mr. Wei Wang, Ms. Lingling Yang
Audit Committee:	Mr. Chi Wai Suen *(Chairman)*, Mr. Wan Yee Joseph Lau, Mr. Ting Yuk Anthony Wu
Remuneration and Assessment Committee:	Mr. Ting Yuk Anthony Wu *(Chairman)*, Mr. Wan Yee Joseph Lau, Mr. Chi Wai Suen
Nomination Committee:	Mr. Wan Yee Joseph Lau *(Chairman)*, Mr. Chi Wai Suen, Mr. Ting Yuk Anthony Wu
Joint Company Secretaries:	Mr. Haiyue Ma, Ms. Po Yi Fok[2]
Authorized Representatives:	Mr. Zhenjun Zi, Ms. Po Yi Fok[2]
Auditor engaged by the Company:	Ernst & Young *Certified Public Accountants and Registered Public Interest Entity Auditor*

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

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

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

Chairman's Statement

Dear Shareholders:

In 2020, the outbreak of COVID-19 pandemic has brought adverse effects to the global political and economic landscape. Against such backdrop, Venus Medtech strived to grasp the opportunities and adhered to its corporate strategies of developing core technologies and innovative globalization. It has achieved remarkable progress in multiple fields, including sales, research and development as well as external cooperation, which laid a solid foundation for future rapid development.

In the past year, Venus Medtech maintained a rapid growth in the revenue of sales despite it was significantly affected by COVID-19 pandemic, with its revenue for the year reached RMB276 million, representing a year-on-year increase of 18.3%. In particular, the revenue of the Company for the second half of the year increased by 38.3% on a year-on-year basis, demonstrating rapid recovery of the number of hospital surgeries and the strong demand of physicians and patients after the pandemic being controlled. In China, TAVR is still an innovative procedure for patients with aortic valve stenosis. Venus Medtech is committed to professional academic promotion, and continuously enhancing the awareness of physicians and patients of diseases and procedures. The Company completed more than 100 training sessions in new centers, with over 4,000 physicians and 100,000 patients influenced by the education and the number of hospitals covered by the Company's products increasing to 249.

While the increase of our sales volume, the Company focused on the building of quality system to take a lead in setting industry standards. We have established a quality-tracking monitoring information system which is under the real-time monitor by the National Medical Products Administration, so as to effectively ensure the safety of our products in clinical applications. The Company was therefore honored with the title of State Outstanding Unit for Monitoring and Evaluation of Adverse Drug Reactions of 2020.

We have constantly launched new products which was benefitting from our efficient research and development and innovation. In November 2020, Venus Medtech's second generation artificial valve system, VenusA-Plus, was approved for marketing by the National Medical Products Administration and became the first artificial valve system with retrievable function in China. The retrievable function significantly reduces the risk of operating the device and enhances the safety of procedures. The launch of the second generation of the product has enriched the Company's product pipelines, and is expected to further boost physicians' incentives to perform TAVR procedures and benefits patients.

Chairman's Statement

In addition to independent research and development, we also actively identify strategic cooperation partners globally, introduce technology platforms and carry out innovative alliances. In May 2020, we collaborated with Opus Medical Therapies, LLC to develop innovative devices for mitral regurgitation and tricuspid regurgitation. In June 2020, we cooperated with Pi-Cardia Ltd. in Israel to introduce leaflex, its innovative product for aortic valve repair, which is greatly complementary to the Company's existing aortic valve replacement products. In January 2021, we established cooperation with Endoluminal Sciences Pty Ltd in Australia to introduce its active anti-paravalvular leakage technology platform to achieve the iterative innovation of our valve products in existing pipelines.

The year of 2021 will be the first year of internalization of Venus Medtech, and VenusP-Valve, the self-expanding pulmonary valve product developed by the Company through in-house innovation, now is at the final stage for CE Marking by European Medicines Agency and is prepared to apply for registration and clinical application in the U.S.. Due to the urgency of clinical demand, VenusP-Valve was granted special approval from UK's Medicine and Healthcare Products Regulatory Agency for its early admission to the U.K. market in March 2021, fully demonstrating the clinical value of this innovative product. Our products and sales network are rapidly expanding towards the world, as evidenced by TriGUARD3, a remote anti-embolism cerebral protection device, being approved in Europe in March of last year, VenusA-Valve being approved in four countries including Brazil and Thailand, and VenusA-Plus being approved in countries such as Thailand. We have started to sell TriGUARD3, pre-expanded balloon TAV8 and other products in developed markets.

Looking forward to 2021, we remain optimistic about the growth in sales of existing products. The acceleration of the arrival of China's aging society has led to a growing population of potential patients. The PRC government's strongly support to the core technology innovation has also prompted hospitals and physicians to embrace innovative technologies and products more actively. Venus Medtech will continue to carry out in-depth independent research and development within the structural heart disease space, build an innovative ecosystem in the industry, and introduce digitalization and intelligence technologies into our existing product pipelines to further benefit patients. Leveraging our professional academic promotion and globalized business capabilities, we aspire to realize the vision of popularizing our brand towards the world and build it as a flagship brand of China's smart manufacturing.

Mr. Min Frank Zeng
Chairman of the Board

Hangzhou, People's Republic of China, March 31, 2021

Financial Summary

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

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

Management Discussion and Analysis

I. BUSINESS OVERVIEW

Overview

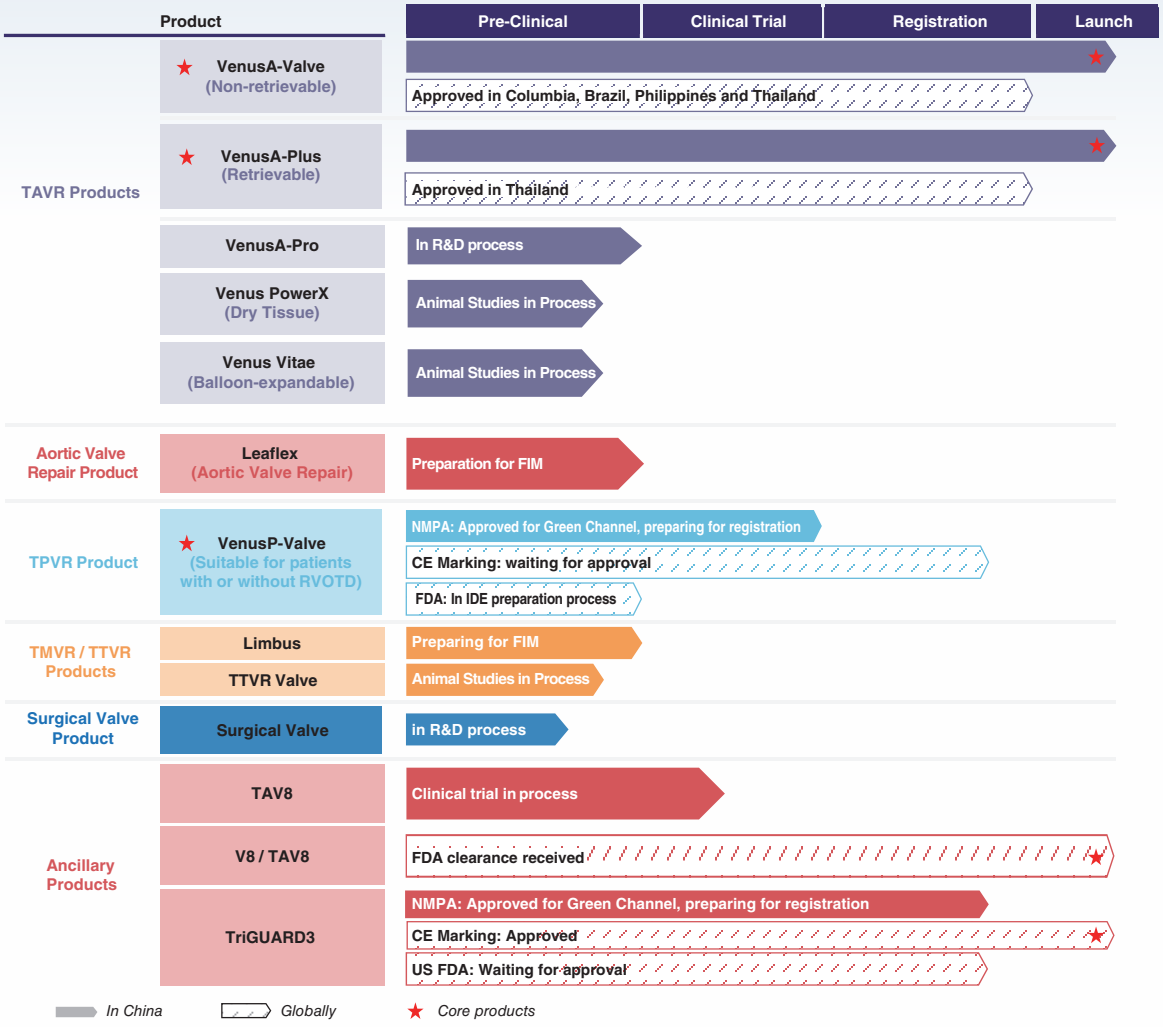
We operate in a large untapped and fast-growing transcatheter heart valve market in China and globally. Our products and product candidates are designed for transcatheter implantation to replace dysfunctional heart valves (i.e. TAVR, TPVR, TMVR and TTVR) mainly associated with aortic stenosis and pulmonic, mitral and tricuspid regurgitation.

Due to COVID-19 pandemic, the TAVR surgeries were negatively impacted in the first half of 2020. However, we see significant revival from the second half of 2020 and based on current condition, we expect the negative impact from COVID-19 pandemic will be limited for 2021. Also, COVID-19 pandemic imposed difficulties of material purchasing from overseas, which may slow down our R&D or manufacturing process. The Company has taken various measures to decrease the negative impacts from COVID-19 pandemic, including strengthening market induction via online tools and purchasing materials earlier to ensure safe stocking. Considering the Company possesses plentiful resources to carry out business operation in the future, we will continue our current development and commercialization strategy.

Our Products and Product Pipeline

Our heart valve portfolio comprises of nine self-developed products and product candidates, including two marketed TAVR products (VenusA-Valve and VenusA-Plus), one TAVR product in pre-registration stage (VenusA-Pro), two TAVR products in design stage (Venus PowerX and Venus Vitae), one TPVR product in registration stage (VenusP-Valve), one TMVR product in design stage (Limbus), one TTVR product in design stage and one surgical valve in design stage. In addition to heart valve systems, we offer key ancillary products compatible with transcatheter heart valve replacement procedures, including marketed valvuloplasty balloon products (V8 and TAV8) and one marketed CEP device (TriGUARD3). We also offer one aortic valve repair device in pre-clinical stage (Leaflex).

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



"Retrievable" function allows physicians to retrieve the valve during a TAVR procedure
"Patients without RVOTD" refers to patients without RVOTD but have symptoms similar to those of RVOTD that can be treated with TPVR procedures using our VenusP-Valve

VenusA-Valve – Our Core Product

As a leader in TAVR technologies in China, we focus on the development, manufacturing and sale of transcatheter aortic heart valves and their respective delivery systems. We currently have two products on the market, VenusA-Valve is our first-generation TAVR device, which is used to treat severe aortic stenosis using a catheter-based approach. VenusA-Valve received marketing approval from the NMPA in April 2017, and was subsequently commercialized in August 2017, which marked the first NMPA-approved TAVR product and the first TAVR product commercialized in China. Moreover, we registered VenusA-Valve in Colombia in April 2018 and we commercialized VenusA-Valve in Philippines in the third quarter of 2019. We submitted the GMP application of the manufacturing system of VenusA-Valve in Brazil in August 2018 and on-site audit was postponed due to COVID-19. We also submitted the product registration of VenusA-Valve in Brazil in August 2019 and received the approval in April 2020. In addition, VenusA-Valve was also approved in Thailand in December 2020.

For the year ended December 31, 2020, our revenue generated from the sales of VenusA-Valve amounted to RMB272.0 million, representing an increase of 17.2% compared to RMB232.1 million for the year ended December 31, 2019.

VenusA-Valve has been used to treat patients with severe aortic stenosis. According to Frost & Sullivan, there is an increasing population of aortic stenosis patients worldwide and in China, and the TAVR procedure in China has been applied to patients ineligible for surgeries and patients with intermediate to high surgical risk. Similarly in the Philippines and other markets where we have launched or are preparing to launch our TAVR products, the application of TAVR procedure is expected to be approved for severe aortic stenosis patients with low to intermediate surgical risk.

As of December 31, 2020, in China, there were five TAVR products approved for marketing by the NMPA in China, including VenusA-Valve and VenusA-Plus of our Company, J-Valve of Jiecheng, VitaFlow-Valve of MicroPort and Sapien 3 of Edwards Lifesciences. There were several TAVR pipeline products in China at clinical trial stage.

VenusA-Plus – Our Core Product

VenusA-Plus is an upgraded product based on VenusA-Valve. Compared to VenusA-Valve, VenusA-Plus contains a DCS with retrieving function. VenusA-Plus received marketing approval from the NMPA in November 2020, and has been commercialized in early 2021. VenusA-Plus is the first retrievable TAVR product that obtained approval in China. We also submitted the product registration of VenusA-Plus in Thailand and received approval in December 2020.

Driven by the increasing number of patients with severe aortic stenosis and regurgitation, the number of TAVR procedures and the size of TAV market is expected to continue to grow. As of December 31, 2020, VenusA-Plus was the only one TAVR product with retrievable function approved for marketing by NMPA in China. For details, see "VenusA-Valve – Our Core Product" above.

VenusP-Valve – Our Core Product

VenusP-Valve is a transcatheter pulmonary valve system, which is designed for percutaneous implantation via cardia catheterization into the RVOT to treat RVOTD including pulmonary valve backflow as a result of treatment for patients with congenital heart disease. We have completed the clinical trial in China for VenusP-Valve. In April 2019, VenusP-Valve was approved by the NMPA to be eligible for the Special Approval Procedures of Innovative Medical Devices promulgated by the NMPA. We submitted the application for the CE Marking in April 2019 and it is in technical review process. Once launched, VenusP-Valve is expected to become the first self-expanding TPVR product in the EU, the first large-sized TPVR product for patients with RVOTD after receiving TAP treatment globally.

VenusP-Valve is designed to treat patients with pulmonary regurgitation, which is mainly caused by degeneration of RVOT from a previous repair to treat ToF patients and other congenital heart diseases. With the increasing number of ToF and other RVOTD patients, demand for TPVR products such as VenusP-Valve is expected to increase. Considering the high prevalence of newborns with congenital heart defects every year in China and global market, TPVR treatment may become reimbursable under governmental medical insurance in the future, which will increase its accessibility and affordability. Meanwhile, the improved safety and efficacy of TPVR procedure over SPVR procedure will increase the acceptance among patients and physicians. Therefore, we expect the market adoption of our VenusP-Valve will increase.

As of December 31, 2020, there were three TPVR products approved by the FDA or received CE Marking, including Sapien 3 and Sapien XT from Edwards Lifesciences and Melody from Medtronic.

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

VenusA-Pro Valve

We are in the process of designing our product, VenusA-Pro Valve, TAVR device, which is used to treat severe aortic stenosis using a catheter-based approach and self-expanding valve. Our pre-clinical studies for VenusA-Pro Valve is in process. This program will feature improved control on valve deployment and retrievability. For the sales of VenusA-Pro Valve in China, similar to the registration of VenusA-Plus Valve, we will submit to the NMPA for its approval.

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

Venus PowerX Valve

We are in the process of designing our product, Venus PowerX Valve, TAVR device, which is used to treat severe aortic stenosis using a catheter-based approach and self-expanding valve. Our design-stage animal studies for Venus PowerX Valve are currently on-going, and we are in the process of refining our design based on the animal studies. This program will feature coronary access, retrievability, steerability and dry tissue technology. For the sales of Venus PowerX Valve in China, similar to the registration of VenusA-Valve, we will submit our clinical trial results to the NMPA for its approval.

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

Venus Vitae Valve

We are in the process of designing our product, Venus Vitae Valve, TAVR device, which is used to treat severe aortic stenosis using a catheter-based approach and balloon expandable valve. Our design-stage animal studies for Venus Vitae Valve are currently on-going, and we are in the process of refining our design based on the animal studies. The product will feature low profile, coronary access, steerability and innovative dehydrated tissue technology. For the sales of Venus Vitae Valve in China, similar to the registration of VenusA-Valve, we will submit our clinical trial results to the NMPA for its approval.

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

Venus Mitral Valve – Limbus

We are in the process of designing our product, Limbus, for TMVR treatment of mitral regurgitation patients. Our design-stage animal studies for Limbus are currently on-going, and we are in the process of refining our design based on the animal studies. For the sales of Limbus in China, similar to the registration of VenusA-Valve, we will submit our clinical trial results to the NMPA for its approval. We have strengthened Limbus program with the signing of a license agreement with Opus Medical Therapies, LLC., allowing us access to leading edge technology in this field.

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

Venus Tricuspid Valve

We are in the process of designing our product, Venus Tricuspid Valve, for TTVR treatment of tricuspid regurgitation patients. Our design-stage animal studies for Venus Tricuspid Valve are currently ongoing, and we are in the process of refining our design based on the animal studies. For the sales of Venus Tricuspid Valve in China, similar to the registration of VenusA-Valve, we will submit our clinical trial results to the NMPA for its approval.

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

Surgical Valve

We are in the process of designing our product, Surgical Valve, a surgical valve replacement product for treatment of aortic valve stenosis and regurgitation patients. We are currently preparing for our first design stage animal studies. This program will feature a dry tissue valve with improved hemodynamic performance features to accommodate future VIV TAVR procedures. For the sales of Surgical Valve, we will submit our clinical trial results to the NMPA for its approval.

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

V8 and TAV8

A balloon aortic valvuloplasty catheter system is designed to be used in stand-alone balloon aortic valvuloplasty procedures and the dilatation of aortic valve leaflets prior to and after TAVR procedure. InterValve has developed two generations of bicuspid aortic valve catheter system, V8 and TAV8, both of which have received FDA 510 (k) clearance. In November 2016, InterValve assigned V8 and TAV8 related patents and transferred related regulatory approvals to us. We are in the process of clinical trials of TAV8 and expect to apply for an import product license with the NMPA for TAV8 after the clinical trials are completed.

WE MAY NOT BE ABLE TO ULTIMATELY MARKET V8 AND TAV8 SUCCESSFULLY IN THE EU AND CHINA.

CEP Device – TriGUARD3

TriGUARD3 is a CEP device designed to provide coverage of all three major aortic vessels (brachiocephalic artery, left carotid artery, and left subclavian artery) to minimize the risk of cerebral damage during TAVR and other structural heart procedures. It is the only CEP device designed to cover all three major aortic vessels globally according to Frost & Sullivan. In June 2020, TriGUARD3 was approved by the NMPA to be eligible for the Special Approval Procedures of Innovative Medical Devices promulgated by the NMPA. TriGUARD3 received CE Marking for use in cardiac procedures on in March 2020 and we have submitted for the FDA registration in September 2020. In addition, TriGUARD3 has completed its first clinical application in the PRC in January 2021, which is also its first clinical application in Asia.

Aortic Valve Repair – Leaflex

Leaflex is a stand-alone catheter-based treatment of aortic stenosis. It modifies leaflet calcium to restore mobility to the affected valve, thereby improving flow and reducing transvalvular gradient. The procedure is simple to perform, non-implant based and requires only a short hospital stay. We will be importing the Leaflex product to the Chinese market and plan to conduct FIM in the second quarter of 2021.

WE MAY NOT BE ABLE TO ULTIMATELY MARKET LEAFLEX SUCCESSFULLY.

Our Platform

As we build our pipeline, we have established a transcatheter heart valve platform with robust R&D, manufacturing and commercialization capabilities.

R&D

Our R&D team, based in China, Israel and the U.S., is led by our COO, Mr. Lim Hou-Sen (Lin Haosheng), former CTO of Transcatheter Technologies GmbH and a veteran with more than 16 years' experience in the industry. The R&D team of Keystone is led by Mr. Amit Ashkenazi, who has extensive experience in the R&D of medical devices. We remain at the forefront of heart valve technology by maintaining close contact with leading cardiologists globally, and develop products that specifically address the clinical needs of transcatheter heart valve replacement procedures. Our powerful R&D capabilities are reflected by our strong intellectual property portfolio.

The time required from developing to commercializing a new product varies by product candidate and can be affected by various factors which may be beyond our control, such as clinical trial results and government policies and approvals.

Manufacturing

We have an approximately 9,000 sq.m. facility in Hangzhou, China and an approximately 816 sq.m. facilities in Israel for manufacturing our heart valve products and product candidates. Our manufacturing facilities comply with the GMP requirements in the U.S., the EU and China and follow rigorous manufacturing and quality control standards to ensure high product quality and safety. We conduct all the key valve manufacturing procedures in-house. Over the years, we have accumulated extensive expertise and know-how in manufacturing heart valve products, which sets a solid foundation for our long-term growth.

Commercialization

We have a dedicated in-house sales team with a focus on academic marketing driven by our extensive expertise and clinical resources. As the pioneer in launching the first TAVR product in China, our products have contributed to the underlying clinical experience of leading experts in China in setting up the guidelines for physicians conducting TAVR and TPVR procedures. We have also established a systematic TAVR training program in China to promote our TAVR products as well as TAVR awareness and drive the penetration rate of TAV market in China.

II. FINANCIAL REVIEW

Overview

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

Revenue

During the Reporting Period, all of our revenue was generated from sales of medical devices. Sales of VenusA-Valve have comprised the major portion of our revenue since its commercialization in August 2017 and are expected to account for a substantial portion of our sales in the near future.

The Group's revenue for the year ended December 31, 2020 was RMB276.0 million, representing an increase of 18.3% compared to RMB233.3 million for the year ended December 31, 2019. The increase was primarily attributable to enhanced market recognition of VenusA-Valve and an increase in sales volume leveraging our constant promotion and business expansion. For the year ended December 31, 2020, revenue from sales of VenusA-Valve accounted for 98.5% of our total revenue, as compared to 99.5% for the year ended December 31, 2019.

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

Revenue	Year ended December 31, 2020 RMB'000	Proportion	Year ended December 31, 2019 RMB'000	Proportion
VenusA-Valve	**272,010**	**98.5%**	232,073	99.5%
TriGUARD3	**3,347**	**1.2%**	0	0%
Others	**690**	**0.3%**	1,199	0.5%
Total	**276,047**	**100%**	233,272	100%

Cost of Sales

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

The Group's cost of sales for the year ended December 31, 2020 was RMB48.8 million, representing an increase of 26.4% compared to RMB38.6 million for the year ended December 31, 2019. The increase was primarily attributable to increases in staff cost and raw materials costs as a result of increased sales volume of VenusA-Valve.

Gross Profit and Gross Profit Margin

As a result of the aforementioned factors, the gross profit of the Group increased by 16.7% from RMB194.7 million for the year ended December 31, 2019 to RMB227.3 million for the year ended December 31, 2020. Gross profit margin is calculated as gross profit divided by revenue. The gross profit margin of the Group decreased from 83.5% for the year ended December 31, 2019 to 82.3% for the year ended December 31, 2020, mainly due to a slight decrease in unit price in certain regions for the purpose of sales promotion and market share expansion.

Other Income and Gains

The Group's other income and gains for the year ended December 31, 2020 was RMB118.2 million, representing an increase of 667.5% compared to RMB15.4 million for the year ended December 31, 2019, primarily attributable to an increase in government grants received during the year of 2020 as compared with the year of 2019, increase in interest income due to increase in balance of bank deposits and gains from fair value changes as a result of a forward exchange settlement.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the year ended December 31, 2020 was RMB134.6 million, representing an increase of 8.0% compared to RMB124.6 million for the year ended December 31, 2019. The increase was in line with the increase in sales revenue during the year of 2020 compared with the year of 2019, primarily due to an increase in the number of sales staffs and therefore an increase in staff cost as well as increased investment in market development.

R&D Costs

The Group's R&D costs for the year ended December 31, 2020 was RMB167.3 million, representing a decrease of 16.6% compared to RMB200.5 million for the year ended December 31, 2019. The decrease was primarily attributable to an expense in relation to the Employee Incentive Scheme of approximately RMB36.7 million incurred in the previous year.

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

	Year ended December 31, 2020 RMB'000	Year ended December 31, 2019 RMB'000
R&D Costs for Core Products		
Staff cost	**8,865**	8,866
Raw material cost	**4,659**	2,734
Third-party contracting cost	**500**	3,500
Intellectual property expenses	**2,432**	2,248
Clinical trial expenses	**10,183**	10,080
Others	**11,021**	9,444
R&D Costs for Other Product Candidates		
Staff cost	**32,463**	38,602
Raw material cost	**11,517**	9,094
Third-party contracting cost	**6,952**	2,216
Intellectual property expenses	**4,164**	6,765
Clinical trial expenses	**31,577**	35,654
Others	**33,918**	25,604

Administrative Expenses

The Group's administrative expenses for the year ended December 31, 2020 was RMB104.1 million, representing a decrease of 47.3% compared to RMB197.6 million for the year ended December 31, 2019. The decrease was primarily attributable to an expense in relation to the Employee Incentive Scheme of approximately RMB69.2 million and listing expenses of approximately RMB24.6 million incurred in the previous year while no such expenses were incurred in the current year.

Other Expenses

The Group's other expenses for the year ended December 31, 2020 was RMB121.8 million, representing an increase of 171.9% compared to RMB44.8 million for the year ended December 31, 2019. The increase was primarily attributable to an increase in charitable donations and exchange losses arising from conversion of Renminbi to Hong Kong dollars.

Impairment Losses on Financial Assets, Net

The Group's reversal on impairment losses on financial assets, net, for the year ended December 31, 2020 was RMB0.1 million, representing a change of 104.5% compared to RMB2.2 million of impairment loss on financial assets, net for the year ended December 31, 2019. The above change was primarily attributable to a decrease in expected credit loss rate and reversal of bad debts provision on trade receivables.

Finance Costs

The Group's finance costs for the year ended December 31, 2020 was RMB4.2 million, representing a decrease of 80.8% compared to RMB21.9 million for the year ended December 31, 2019. The decrease was primarily attributable to repayment of bank loans and a decrease in finance charge for a guarantee compared with the previous year.

Income Tax Credit

The Group's income tax credit for the year ended December 31, 2020 was RMB3.0 million, representing an increase of 275.0% compared to the income tax credit of RMB0.8 million for the year ended December 31, 2019. The increase was primarily attributable to more additional deductible allowance for R&D costs compared with the previous year.

Non-IFRS Measures

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

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

	Year ended December 31, 2020 (RMB'000)	Year ended December 31, 2019 (RMB'000)
Loss for the year	**(182,868)**	(380,765)
Add:		
Share awards[1]	**9,000**	120,705
Listing expenses[2]	**–**	24,587
Adjusted net loss for the year[3]	**(173,868)**	(235,473)

Notes:

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

(2) Listing expenses are one-off expenses in relation to the listing of the Company's H Shares on the Main Board of the Stock Exchange and its initial global offering.

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

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

Capital Management

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

Liquidity and Financial Resources

The Group's cash and cash equivalents as at December 31, 2020 were RMB2,708.2 million, representing an increase of 12.2% compared to RMB2,413.3 million for the year ended December 31, 2019. The increase was primarily attributable to placement of new H Shares by the Company in September 2020.

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

Borrowings and Gearing Ratio

The Group did not have any borrowings as at December 31, 2020, representing a decrease of 100% compared to RMB120.0 million as at December 31, 2019. The decrease was primarily attributable to repayment of principal and interest of such borrowings by the Group at the beginning of 2020.

The gearing ratio (calculated by dividing the sum of borrowings and lease liabilities by total equity) of the Group as at December 31, 2020 was 0.9%, representing a decrease of 81.3% compared to 4.8% as at December 31, 2019.

Net Current Assets

The Group's net current assets, as at December 31, 2020 were RMB2,954.9 million, representing a an increase of 26.5% compared to net current assets of RMB2,336.0 million as at ended December 31, 2019. The increase was primarily due to an increase in the cash of the Group as an result of the placement of new H shares by the Company in September 2020.

Foreign Exchange Exposure

We have transactional currency exposures. Certain of our bank balances, other receivables, other financial assets, other payables and other financial liabilities are dominated in foreign currencies and are exposed to future foreign currency risk. Management of the Group monitors foreign exchange exposure and will enter into forward exchange settlement agreements with financial institutions to lock exchange rate risks should the need arise.

Pledge of Shares

On January 30, 2019, Mr. Zhenjun Zi, one of our controlling shareholders at the time of our Prospectus, provided the Share Pledge of 9,000,000 Shares to Hangzhou Gaoxin Technology Innovation Services Ltd. (杭州高新科技創業服務有限公司), an Independent Third Party, as a counter guarantee for the loan of RMB100 million (i.e. the principal amount) to our Company, at an interest rate of the loan prime rate issued by the National Interbank Funding Centre plus 0.04% per annum, for a term of twelve months, effective from January 30, 2019 to January 29, 2020. For details, please refer to the section headed "Relationship with Our Controlling Shareholders" in the Prospectus. On February 21, 2020, the Share Pledge was released.

We do not have any controlling shareholder during the Reporting Period.

Significant Investments, Material Acquisitions and Disposals

For the year ended December 31, 2020, we did not hold any significant investments. For the Reporting Period, we did not have material acquisitions or disposals of subsidiaries, associates and joint ventures.

Capital Expenditure

For the year ended December 31, 2020, the Group's total capital expenditure amounted to approximately RMB218.2 million, which was used in (i) purchase of property, plant and equipment; (ii) payments related to acquisition of 510 Kardiac and investment in associates; and (iii) purchase of other intangible assets.

Charge on Assets

As at December 31, 2020, there was no charge on assets of the Group.

Contingent Liabilities

As at December 31, 2020, we did not have any contingent liabilities.

Subsequent Events

On January 22, 2021, in order to raise capital to facilitate the sustainable development of the Company and satisfy its requirements for capital in light of the rapid development of the business of the Company, the Company entered into a placing agreement with Goldman Sachs (Asia) L.L.C. and UBS AG Hong Kong Branch (as the placing agents), pursuant to which the Company conditionally agreed to place 18,042,500 new H shares at the placing price of HK$80.08 per placing share to no less than six professional, institutional and/or individual investors which are not connected persons of the Company (the "January 2021 Placing"). The net placing price (after deduction of the expenses of the January 2021 Placing) is approximately HK$79.10 per placing share. The placing price of HK$80.08 per placing share represents a discount of approximately 2.6% to the closing price of HK$82.20 per H share as quoted on the Stock Exchange on January 21, 2021, being the last trading day immediately before the execution of the placing agreement. The completion of the January 2021 Placing took place on January 29, 2021 and an aggregate of 18,042,500 new H shares have been successfully allotted and issued by the Company at the placing price of HK80.08 per placing share on the same day. The aggregate gross proceeds from the January 2021 Placing amounted to approximately HK$1,445 million and the aggregate net proceeds from the January 2021 Placing amounted to approximately HK$1,427 million after deducting the expenses of the January 2021 Placing. For details of the January 2021 Placing, please refer to the Company's announcements dated January 22, 2021 and January 29, 2021, respectively.

Save as disclosed above, the Company is not aware of any material subsequent events from December 31, 2020 to the date of this report.

Employees and Remuneration Policies

As of December 31, 2020, we had 514 employees in total.

Among the 514 employees, 461 of our employees are stationed in China, and 53 of our employees are stationed overseas primarily in the U.S. and Israel. In compliance with the applicable labor laws, we enter into individual employment contracts with our employees covering matters such as wages, bonuses, employee benefits, workplace safety, confidentiality obligations, non-competition and grounds for termination. These employment contracts typically have terms of three to five years.

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

Future Investment Plans and Expected Funding

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

III. PROSPECTS

We will continue our mission to become a global leader in the development and commercialization of transcatheter solutions for structural heart diseases. We plan to execute the following strategies to achieve our mission.

Continue to grow sales of VenusA-Valve

Sales of TAVR products in China possess substantial growth potential. We intend to solidify our leadership position in China's TAV market by increasing VenusA-Valve's sales volume. Towards that goal, we plan to substantially increase sales to hospitals with which we have existing relationships as well as expand our sales network to cover more hospitals and further promote TAVR awareness among hospitals, physicians and patients in China.

We believe there are still substantial unmet demands for TAVR products from the hospitals to which we currently sell VenusA-Valve. We also believe there is significant potential to develop new hospitals to perform TAVR procedures. We plan to increase sales efforts to deepen the penetration in hospitals to which we currently sell VenusA-Valve and expand into new hospitals in China by leveraging our direct access to KOLs in cardiac interventional therapy, providing systematic training to physicians, and increasing TAVR awareness among hospitals, physicians and patients. We plan to continue to implement and improve our systematic TAVR training program to expedite the physician education process and to promote our TAVR products.

We also plan to further promote TAVR awareness among patients with structural heart diseases in China, in particular to low surgical risk patients, in order to broaden the patient base of our TAVR products. We cooperate with several foundations to subsidize patients' medical expenses and conduct regular follow-up visits post procedures. We will continue to participate in heart valve conferences and academic events to further promote awareness of our products and TAVR generally. We believe that these marketing activities will strengthen our brand name and enable us to accumulate first-hand know-how for structural heart diseases and keep abreast of the market developments in transcatheter heart valve solutions.

Leverage our experience with VenusA-Valve to commercialize VenusP-Valve and other product candidates in China

We plan to leverage our experience in successfully commercializing VenusA-Valve in China to launch VenusP-Valve and our other product candidates in the Chinese market in the future. We have completed the clinical trial for VenusP-Valve in China in January 2018. We believe our experiences with respect to the regulatory approval will significantly facilitate the approval process of VenusP-Valve. In April 2019, VenusP-Valve was approved by the NMPA to be eligible for the Special Approval Procedures of Innovative Medical Devices. We will benefit from our established network with and direct access to KOLs, hospitals and physicians to introduce our new valve products. We believe that our existing brand and reputation for VenusA-Valve will facilitate our commercialization of VenusP-Valve upon approval. We also plan to replicate our existing training model for TAVR procedures to VenusP-Valve and our other product candidates to educate hospitals and physicians and promote our new products.

Expand our presence in North America, the EU and emerging markets to become a global leader

We plan to broaden our sales and expand our presence globally, especially in North America and the EU, as we believe we will benefit from higher medical expense levels in these developed regions. Medical expense levels in China remain low compared to the U.S. and the EU.

We are in the process of various clinical trials and registration applications in the U.S., the EU and emerging markets. We plan to leverage on the existing brand names of TriGUARD3 to enter the U.S. and the EU markets and subsequently establish our own brand name. With our acquisition of Keystone in December 2018, we plan to have Keystone as our platform for the U.S. and the EU markets which could help us with the clinical trials, registration and promotion of our products in these markets. TriGUARD3 received CE Marking for use in cardiac procedures on March 4, 2020. We have submitted for the FDA registration in September 2020. We believe we can leverage the global experience in product development and clinical trial of Keystone to advance the clinical trials of our other product candidates in the U.S. and the EU in order to obtain approvals and launch our products worldwide. We also plan to promote VenusP-Valve in the EU and North America. We have submitted application for CE Marking for VenusP-Valve in April 2019, which is currently under technical review. With respect to emerging markets, we registered VenusA-Valve in Colombia in April 2018 and commercialized VenusA-Valve in Philippines in the third quarter of 2019. We submitted for GMP application for the production system of VenusA-Valve in Brazil in August 2018 but suffered a delay in on-site review due to COVID-19 pandemic. We also submitted for registration for VenusA-Valve in Brazil in August 2019 and received the approval in April 2020.

To execute our global expansion strategy, we will continue to participate in international heart valve conferences and academic events to further promote our products and brand.

Continue to advance and strengthen our pipeline products within the structural heart disease space

We plan to advance our existing pipeline products to further expand our coverage within the structural heart disease space, both horizontally covering all four heart valves and vertically from valves, CEP, valvuloplasty balloons to other ancillary devices. We will invest in technological innovation to strengthen our R&D capabilities to develop new products and enhance our competitiveness as we believe innovation is a key factor to achieve our mission to become a global leader of transcatheter solutions for structural heart diseases.

We may selectively form partnerships with complementary product providers to enhance our clinical strengths and market advantages and make acquisitions that have the potential to broaden our product portfolio. We believe our established network with and direct access to KOLs, hospitals and physicians gives us the best knowledge of strategic opportunities which could complement or improve our existing product offerings. As of the date of this report, we had not identified any specific acquisition targets.

IV. RISK MANAGEMENT

Principal Risks and Uncertainties facing the Company

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

Risks relating to Our Business

Risks relating to the Development of Our Product Candidates

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

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

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

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

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

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

Risks relating to Extensive Government Regulations

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

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

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

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

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

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

Risks relating to Commercialization and Distribution of Our Products

- If our products cause, or are perceived to cause, severe adverse events, our reputation, revenue and profitability could be materially and adversely affected.
- Failure to achieve broad market acceptance or maintain good reputation necessary for our cardiovascular products and any future products would have a material adverse impact on our results of operations and profitability.
- We rely on our in-house marketing force to promote our products.
- There is no guarantee that we will succeed in expanding our sales network to cover new hospitals.
- If we fail to maintain an effective distribution channel for our products, our business and sales of the relevant products could be adversely affected.
- If we experience delays in collecting payments from our distributors, our cash flows and operations could be adversely affected.
- We face substantial competition, which may result in others discovering, developing or commercializing competing products before or more successfully than we do.
- Our sales may be affected by the level of medical insurance reimbursement patients receive for TAVR procedures using our products.

Risks relating to Manufacture and Supply of Our Products

- Delays in completing and receiving regulatory approvals for our manufacturing facilities, or damage to, destruction of or interruption of production at such facilities, could delay our development plans or commercialization efforts.
- If we fail to increase our production capacity as planned, our business prospects could be materially and adversely affected.
- The manufacture of our products is highly complex and subject to strict quality controls. If we or any of our suppliers or logistics partners encounters manufacturing, logistics, or quality problems, including as a result of natural disasters, our business could suffer.

- Fluctuations in prices of raw materials may have a material adverse effect on us.
- We may experience supply interruptions that could harm our ability to manufacture products.
- We rely on supply from a limited number of suppliers, which may severely harm our operations if the supplier loses its qualification or eligibility because of its failure to comply with regulatory requirements or stops our supply due to contractual disputes.
- Failure to maintain and predict inventory levels in line with the level of demand for our products could cause us to lose sales or face excess inventory risks and holding costs, either of which could have a material adverse effect on our business, financial condition and results of operations.

Risks relating to Our Intellectual Property Rights

- If we are unable to obtain and maintain patent protection for our products and product candidates through intellectual property rights, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties may compete directly against us.
- We may not be able to protect our intellectual property rights.
- We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time-consuming and unsuccessful. Our patent rights relating to our products and product candidates could be found invalid or unenforceable if being challenged in court or before the CNIPA or courts or related intellectual property agencies in other jurisdictions.
- If we are sued for infringing intellectual property rights of third parties, such litigation could be costly and time consuming and could prevent or delay us from developing or commercializing our product candidates.
- Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment, and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.
- Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

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

Risks relating to Our Reliance on Third Parties

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

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

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

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

Risks relating to Our Financial Position and Need for Additional Capital

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

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

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

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

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

Risks relating to Our Operations

- Our future success depends on our ability to retain key personnel in our R&D team, sales and marketing team and executives and to attract, retain and motivate qualified personnel.
- We have significantly increased the size and capabilities of our organization, and we may experience difficulties in managing our growth.
- If we engage in acquisitions or strategic partnerships, this may increase our capital requirements, dilute our Shareholders, cause us to incur debt or assume contingent liabilities, and subject us to other risks.
- If we fail to successfully integrate our recently acquired subsidiary or any future targets into our own operations, our post-acquisition performance and business prospects may be adversely affected.
- Product liability claims or lawsuits could cause us to incur substantial liabilities.
- If we become subject to litigation, legal or contractual disputes, governmental investigations or administrative proceedings, our management's attention may be diverted and we may incur substantial costs and liabilities.
- We may be subject, directly or indirectly, to applicable anti-kickback, false claims laws, physician payment transparency laws, fraud and abuse laws or similar healthcare and security laws and regulations in China and other jurisdictions, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.
- If we fail to comply with applicable anti-bribery laws, our reputation may be harmed and we could be subject to penalties and significant expenses that have a material adverse effect on our business, financial condition and results of operations.
- If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.
- Our internal computer systems may fail or suffer security breaches.

- If we or parties on whom we rely fail to maintain the necessary licenses for the development, production, sales and distribution of our products, our ability to conduct our business could be materially impaired.

- Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

- Our insurance coverage may not completely cover the risks related to our business and operations.

- Negative publicity and allegations involving us, our Shareholders, Directors, officers, employees and business partners may affect our reputation and, as a result, our business, financial condition and results of operations may be negatively affected.

Risks relating to Doing Business in China

- The medical device industry in China is highly regulated and such regulations are subject to change which may affect approval and commercialization of our product candidates.

- Changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies.

- There are uncertainties regarding the interpretation and enforcement of PRC laws, rules and regulations.

- Potential investors may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

- We are a PRC enterprise and we are subject to PRC tax on our global income, and the dividends payable to investors and gains on the sale of our Shares by our investors are subject to PRC tax. Under the Enterprise Income Tax Law of the PRC, our offshore subsidiaries may therefore be subject to PRC income tax on their worldwide taxable income.

- Payment of dividends is subject to restrictions under PRC law and regulations.

- Any failure to comply with PRC regulations regarding our Employee Incentive Scheme or the mandatory social insurance may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

- Restrictions on currency exchange may limit our ability to utilize our revenue effectively.

- Our business benefits from certain financial incentives and discretionary policies granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations.

- Regulations relating to offshore investment activities by PRC residents may subject us to fines or sanctions imposed by the PRC government, including restrictions on our PRC subsidiary's abilities to pay dividends or make distributions to us and our ability to increase our investment in our PRC subsidiary.

- The political relations between China and other countries may affect our business operations.

Key Principles of Risk Management

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

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

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

- The Audit Committee oversees and manages the overall risks associated with our business operations, including:
  - reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives;
  - reviewing and approving our corporate risk tolerance;
  - monitoring the most significant risks associated with our business operation and our management's handling of such risks;
  - reviewing our corporate risk in light of our corporate risk tolerance; and
  - monitoring and ensuring the appropriate application of our risk management framework across our Group.
- The chief financial officer, Mr. Haiyue Ma, is responsible for:
  - formulating and updating our risk management policy and objectives;
  - reviewing and approving major risk management issues of our Company;
  - promulgating risk management measures;
  - providing guidance on our risk management approach to the relevant departments in our Company;
  - reviewing the relevant departments' reporting on key risks and providing feedback;
  - supervising the implementation of our risk management measures by the relevant departments;
  - ensuring that the appropriate structure, processes and competences are in place across our Group; and
  - reporting to the Audit Committee on the Group's material risks.

- The relevant departments in our Company, including the finance department, the legal department and the human resources department and the compliance department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments shall:

  – gather information about the risks relating to their operation or function;

  – conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives;

  – prepare a risk management report annually for our chief executive officer's review;

  – monitor the key risks relating to their operation or function;

  – implement appropriate risk responses where necessary; and

  – develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

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

Intellectual Property Rights Risk Management

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

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

Directors, Supervisors and Senior Management

DIRECTORS

Mr. Min Frank Zeng (曾敏), aged 58, is the chairman of our Board and an executive Director. Mr. Zeng joined our Group in June 2013 as a Director. He is primarily responsible for the overall management, business strategies, regulatory approvals and commercial suitability and sustainability of products of the Group.

Mr. Zeng has more than 17 years of industry experience. Prior to joining our Group, Mr. Zeng served as a non-executive director of LifeTech Scientific Corporation, a company listed on the Stock Exchange (Stock Code: 1302) from September 2006 to August 2012. Mr. Zeng was the chief executive officer of Horizon Scientific Corporation, which primarily incubates new technologies for medical devices, from April 2004 to present.

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

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

Mr. Zhenjun Zi (訾振軍), aged 51, is an executive Director and general manager of our Company. Mr. Zi joined our Group in November 2012 as a Director and general manager of our Company. He is primarily responsible for the overall management, business strategies, regulatory approvals and commercial suitability and sustainability of products of the Group.

Mr. Zi has extensive industry experience. Prior to joining our Group, Mr. Zi served as a member of senior management of Lifetech Scientific Corporation, a company listed on the Stock Exchange (Stock Code: 1302) from January 2003 to December 2011.

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

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

Mr. Lim Hou-Sen (Lin Haosheng) (林浩昇), aged 48, is an executive Director, the chief operating officer and the chief technology officer of our Company. Mr. Lim joined our Group in December 2016 as the chief technology officer. Mr. Lim is primarily responsible for business operations, regulatory approvals, quality control and commercial suitability and sustainability of products of the Group.

Mr. Lim has more than 17 years of industry experience. Prior to joining our Group, Mr. Lim was the managing director and chief technology officer of Transcatheter Technologies GmbH, a medical device company incorporated in Germany, which primarily focuses on heart valve implantation and aortic therapy solutions, from January 2009 to October 2016. From September 2005 to December 2008, Mr. Lim was the founder and served as the chief executive officer of EndoCor Pte. Ltd., a company incorporated in Singapore, which develops minimally invasive heart valve and medical devices in the structural heart space. From March 2003 to December 2008, Mr. Lim was a managing director in a biomedical company named Embryon, Inc., which primarily engages in research and experimental development on biotechnology, life and medical science.

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

Ms. Nisa Bernice Wing-Yu Leung (梁潁宇), aged 51, is the vice-chairwoman of our Board and a non-executive Director. Ms. Leung joined our Group in June 2013 as the vice-chairwoman of our Board and a Director. She is primarily responsible for the strategic development and business planning of our Group.

Ms. Leung has more than 19 years of industry experience. Ms. Leung has been a partner at Qiming Development (HK) Limited, a venture capital firm in China where she leads its health care investments, since December 2007. Ms. Leung has also been a co-founder of Biomedic Holdings Ltd., which has operations and investments in medical devices, pharmaceuticals and health care services in China, since February 2004. Ms. Leung was a venture partner at PacRim Venture Partners from July 2001 to June 2003.

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

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

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

Mr. Ting Yuk Anthony Wu (胡定旭), aged 67, was appointed as a Director in November 2018 and was re-designated as an independent non-executive Director in July 2019. Mr. Wu is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

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

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

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

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

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

Mr. Wan Yee Joseph Lau (劉允怡), aged 74, was appointed as an independent non-executive Director in July 2019, with effect from the Listing Date. Mr. Lau is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

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

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

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

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

Mr. Chi Wai Suen (孫志偉), aged 57, was appointed as an independent non-executive Director in July 2019, with effect from the Listing Date. Mr. Suen is primarily responsible for participating in the decision-making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

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

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

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

SUPERVISORS

Ms. Yan Xiao (肖燕), aged 39, was appointed as the chairwoman of the Supervisory Committee on November 26, 2018 and an employee Supervisor on November 23, 2018. Ms. Xiao is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

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

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

Mr. Wei Wang (王瑋), aged 39, was appointed as a Shareholders' representative Supervisor on November 26, 2018. Mr. Wang is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

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

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

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

Ms. Lingling Yang (楊玲玲), aged 60, was appointed as a Shareholders' representative Supervisor on November 26, 2018. Ms. Yang is primarily responsible for monitoring the financial affairs of our Company, supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

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

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

SENIOR MANAGEMENT

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

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

Mr. Haiyue Ma (馬海越), aged 43, was appointed as the chief financial officer when he joined our Group in June 2018, and the joint company secretary in July 2019. Mr. Ma is primarily responsible for the finance management of our Group. Prior to joining our Group, Mr. Ma served as an executive director at the investment banking division of Morgan Stanley Huaxin Securities Co., Ltd. from July 2017 to June 2018. From November 2004 to July 2017, Mr. Ma held various positions at KPMG Huazhen LLP, including an audit manager from November 2004 to June 2007, an audit senior manager from July 2007 to September 2011 and an audit partner from October 2011 to July 2017. From May 2002 to November 2004, Mr. Ma held various positions, including audit manager at Ernst & Young Da Hua.

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

Mr. Christopher Lee Richardson, aged 61, was appointed as the head of U.S. operations when he joined our Group in July 2019. Mr. Richardson is primarily responsible for the operations of our Group in the United States.

Mr. Richardson served as the president and chief executive officer of Keystone, which was acquired by our Group in December 2018, from May 2016 to November 2018, the president international and chief commercial officer of Direct Flow Medical Inc. from January 2014 to May 2016 and a general manager at Abbott Vascular Structural Heart (Evalve Inc) from January 2008 to January 2014. Mr. Richardson has served as a director of 510 Kardiac Devices, Inc., a medical device company, since September 2015.

Mr. Richardson received a bachelor of science degree in psychology from Indiana University in the United States in May 1983. He was certified as a PA-C (Physician Assistant-Certified) after receiving a degree of Associate of Applied Science from Cuyahoga Community College in the United States in June 1985.

Directors' Report

The Board presents this directors' report in the Group's annual report for the year ended December 31, 2020.

PRINCIPAL ACTIVITIES

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

There were no significant changes in the nature of the Group's principal activities during the year ended December 31, 2020.

BUSINESS REVIEW

Overview and Performance of the Year

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

Environmental Policies and Performance

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

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

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

Compliance with Relevant Laws and Regulations

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Reporting Period and up to the date of this report, the Group had complied with the laws, regulations and regulatory requirements of the places where the Group operates in all material respects, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the Corporate Governance Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period and up to the date of the report, none of the Group and the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the 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.

Key Relationships with Stakeholders

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

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

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

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

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

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

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

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

Key Risks and Uncertainties and Risk Management

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

Events after the Reporting Period

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

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

List of Directors and Supervisors

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

Directors

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

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

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

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

Biographies of Directors, Supervisors and Senior Management

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

Changes in Directors, Supervisors and Senior Management

(i) Change in Directors and Composition of Board Committees

During the Reporting Period, there were no changes in Directors and composition of Board Committees.

(ii) Change in Supervisors

During the Reporting Period, there were no changes in Supervisors.

(iii) Change in Senior Management

During the Reporting Period, there were no changes in Senior Management.

Service Contracts of Directors, Supervisors and Senior Management

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

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

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

Remuneration of Directors, Supervisors and Five Highest-Paid Individuals

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

Employees and Remuneration Policies

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

Confirmation of Independence from the Independent Non-Executive Directors

The Company has received the annual confirmations of independence from all independent non-executive Directors, namely, Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau and Mr. Chi Wai Suen, pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed their respective confirmations of independence, and considers that all independent non-executive Directors have been independent for the year ended December 31, 2020 and remain so as of the date of this report.

Directors' Interests in Competing Businesses

Save as disclosed in the "Directors, Supervisors and Senior Management" of this report, none of the Directors have any disclosable interests in any business which competes or is likely to compete against the businesses of the Group for the year ended December 31, 2020.

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

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

CONNECTED TRANSACTIONS

The Group conducts connected transactions in strict compliance with the Listing Rules, and the policies on information disclosure management and on management of connected transactions of the Company. The Group's connected transactions are conducted based on the principles of equity, openness and fairness, and the connected transaction agreements are entered into based on the principles of equality, voluntariness, equivalence and compensation.

Mr. Zhenjun Zi ("Mr. Zi"), one of our controlling shareholders as of the date of the Prospectus, executive Director and general manager, has provided a counter guarantee for one of our loans. For details, see "Relationship with our Controlling Shareholders – Independence from the Controlling Shareholders – Financial Independence" in the Prospectus. The provision of counter guarantee constitutes a continuing connected transaction under the Listing Rules. Our Directors are of the view that the counter guarantee, being financial assistance (as defined in the Listing Rules) provided by Mr. Zi for our benefit, was on normal commercial terms and no security over our assets was granted in respect of such financial assistance. Accordingly, the provision of counter guarantee is exempt from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules. On February 21, 2020, the aforementioned counter guarantee was discharged.

On July 15, 2020, in order to cooperate with other professional life science, healthcare and related companies, and to introduce external funds, participate in and support the Group's mergers and acquisitions as well as financing of life science, healthcare and related enterprises, the Company entered into a subscription agreement with Ascendum Healthcare Fund I, L.P. (the "Fund") and Ascendum Venture Partners GP I, L.P. (the "Ascendum Venture Partners"), pursuant to which the Company agreed to (a) subscribe for a limited partnership interest in the Fund for a capital commitment in the amount of US$8 million and (b) become a limited partner of the Fund pursuant to the terms and conditions of the limited partnership agreement. On the same day, the Company also made an arrangement with the Fund, pursuant to which the Company agreed that the final total capital commitment of the Company and its affiliates in the Fund will not exceed 20% of all capital commitments of the partners of the Fund, and will not be in an amount which is more than US$25 million. On the same day, the Company also entered into a limited partnership agreement with Ascendum Venture Partners (on behalf of the Fund and as the general partner of the Fund), Ms. Serena Ying Shao (as the initial limited partner of the Fund), Qiming Venture Partners VII, L.P. (the "QVP VII") (as a limited partner of the Fund), Qiming VII Strategic Investors Fund, L.P. (the "QVSIF") (as a limited partner of the Fund) and DCP Discovery Limited (as a limited partner of the Fund), to govern the relationship among the partners of the Fund and regulate the management of the Fund. QVP VII and QVSIF are exempted limited partnerships established in the Cayman Islands. The general partner of QVP VII and QVSIF is Qiming GP VII, LLC (the "QGP VII"), a limited liability company incorporated in the Cayman Islands. Mr. Duane Kuang, an Independent Third Party, Mr. Gary Rieschel, an Independent Third Party, and Ms. Nisa Bernice Wing-Yu Leung, our non-executive Director, each then owned 33.33% of the equity interests in QGP VII. As such, QVP VII and QVSIF were each controlled by Ms. Nisa Bernice Wing-Yu Leung, and were thus associates of a connected person of the Company. Accordingly, the transaction under the limited partnership agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio calculated under Rule 14.07 of the Listing Rules in respect of the Company's aggregate capital contribution under the transaction exceeds 0.1% but is less than 5%, the transaction is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. For details of the aforementioned transaction, please refer to the Company's announcement dated July 15, 2020.

Save as disclosed above, during the Reporting Period, the Group did not conduct any non-exempt connected transactions or continuing connected transactions in accordance with the Listing Rules.

For the year ended December 31, 2020, save as disclosed above, no related party transactions as set out in "Notes to Financial Statements – 37. Related Party Transactions" of this report constitute connected transactions or continuing connected transactions required to be disclosed under the Listing Rules.

DISCLOSURE OF INTERESTS

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

As of December 31, 2020, the interests or short positions of the Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director/Supervisor/Chief Executive	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Listed Share Capital of the Company *(Note 4)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 4)*
Mr. Min Frank Zeng *(Note 1)*	H Shares	Interest of controlled corporations	38,651,618/ Long position	9.14%	9.34%
	Unlisted Foreign Shares	Interest of controlled corporations	9,302,786/ Long position	2.20%	99.99%
Mr. Zi *(Note 2)*	H Shares	Beneficial owner	30,923,302/ Long position	7.31%	7.48%
		Interest of controlled corporations	25,952,222/ Long position	6.14%	6.27%
	Unlisted Foreign Shares	Other	1,208/ Long position	0.00%	0.01%
Mr. Lim Hou-Sen (Lin Haosheng) *(Note 3)*	H Shares	Interest of controlled corporations	4,792,361/ Long position	1.13%	1.16%
	Unlisted Foreign Shares	Interest of controlled corporations	1,208/ Long position	0.00%	0.01%

Notes:

(1) Horizon Binjiang LLC, an investment holding company incorporated in California, the United States, owns 38,651,618 H Shares and 9,302,786 Unlisted Foreign Shares of the Company. Mr. Min Frank Zeng, as its sole shareholder, is deemed to be interested in the interest owned by Horizon Binjiang LLC under the SFO.

(2) Mr. Zi beneficially owns 30,923,302 H Shares of the Company. In addition to his direct shareholding, he is also deemed to be interested in 25,952,222 H Shares and 1,208 Unlisted Foreign Shares of the Company through the below intermediaries he controlled under the SFO:

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

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

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

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

- The PRC Employee Entities own an aggregate of 6,229,658 H Shares of the Company. Hangzhou Nuoxin Investment Management Limited (杭州諾心投資管理有限公司) is the general partner of the PRC Employee Entities. Mr. Zi, as the sole shareholder of Hangzhou Nuoxin Investment Management Limited, is deemed to be interested in the interest owned by the PRC Employee Entities under the SFO.

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

(3) Mr. Lim Hou-Sen (Lin Haosheng) is deemed to be interested in 4,792,361 H Shares and 1,208 Unlisted Foreign Shares of the Company under the SFO through his interest in the Offshore Employee Entities (Blue Summit Management Limited, Mercury Holding Limited and Jupiter Holding Limited).

(4) The Company has two classes of Shares: H Shares as one class of Shares, Unlisted Foreign Shares as another class. As of December 31, 2020, the total issued share capital of the Company was 422,968,943 Shares, which comprise 413,664,949 H Shares and 9,303,994 Unlisted Foreign Shares.

Substantial Shareholders' Interests or Short Positions

As of December 31, 2020, to the knowledge of the Company and the Directors after making reasonable inquiries, the following persons (other than the Directors, Supervisors and chief executive of the Company as disclosed above) have interests or short positions in Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by the Company under Section 336 of the SFO:

Name of Shareholders	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Share Capital of the Company *(Note 4)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 4)*
Horizon Binjiang LLC *(Note 1)*	H Shares	Interest of controlled corporations	38,651,618/ Long position	9.14%	9.34%
	Unlisted Foreign Shares	Interest of controlled corporations	9,302,786/ Long position	2.20%	99.99%
Qiming Corporate GP III, Ltd. *(Note 2)*	H Shares	Interest in controlled corporations	67,527,980/ Long position	15.97%	16.32%

Name of Shareholders	Class of Shares	Capacity	Number of Securities/Type of Shares Held	Approximate Percentage of Shareholding in the Total Share Capital of the Company *(Note 4)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 4)*
Qiming GP III, L.P. *(Note 2)*	H Shares	Interest in controlled corporations	67,527,980/ Long position	15.97%	16.32%
Qiming Venture Partners III, L.P. *(Note 2)*	H Shares	Interest in controlled corporations	47,131,229/ Long position	11.14%	11.39%
Ming Zhi Investments Limited *(Note 2)*	H Shares	Interest in controlled corporations	47,131,229/ Long position	11.14%	11.39%
Ming Zhi Investments (BVI) Limited *(Note 2)*	H Shares	Beneficial owner	47,131,229/ Long position	11.14%	11.39%

Notes:

(1) Horizon Binjiang LLC, an investment holding company incorporated in California, the United States, owns 38,651,618 H Shares and 9,302,786 Unlisted Foreign Shares of the Company. Mr. Zeng, as its sole shareholder, is deemed to be interested in the interest owned by Horizon Binjiang LLC under the SFO.

(2) Qiming Corporate GP III, Ltd. is deemed to be interested in 67,527,980 H Shares of the Company through the below intermediaries it controls under the SFO:

- Ming Zhi Investments (BVI) Limited, an investment holding company incorporated in the British Virgin Islands, owns 47,131,229 H Shares of the Company. For the purpose of the SFO, Ming Zhi Investments Limited (as the sole shareholder of Ming Zhi Investments (BVI) Limited), Qiming Venture Partners III, L.P. (as a 96.94% shareholder of Ming Zhi Investments Limited) and Qiming GP III, L.P. (as the general partner of Qiming Venture Partners III, L.P) are deemed to be interested in the interest owned by Ming Zhi Investments (BVI) Limited.

- QM22 (BVI) Limited, an investment holding company incorporated in the British Virgin Islands, owns 20,396,751 H Shares of the Company. For the purpose of the SFO, QM22 Limited (as the sole shareholder of QM22 (BVI) Limited), Qiming Venture Partners III Annex Fund, L.P. (as the sole shareholder of QM22 Limited), Qiming GP III, L.P. (as the general partner of Qiming Venture Partners III Annex Fund, L.P.) and Qiming Corporate GP III, Ltd. (as the general partner of Qiming GP III, L.P.) are deemed to be interested in the interest owned by QM22 (BVI) Limited.

(3) The Company has two classes of Shares: H Shares as one class of Shares, Unlisted Foreign Shares as another class. As of December 31, 2020, the total issued share capital of the Company was 422,968,943 Shares, which comprise 413,664,949 H Shares and 9,303,994 Unlisted Foreign Shares.

RIGHTS OF DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

During the year ended December 31, 2020 and up to the date of this report, none of the Directors, Supervisors or their respective spouses or minor children under the age of 18 years were granted with rights, or had exercised any such rights, to acquire benefits by means of purchasing Shares or debentures of the Company. Neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors, Supervisors or their respective spouses or minor children under the age of 18 years to acquire such rights from any other body corporates.

SHARE OPTION SCHEME

During the year ended December 31, 2020, the Company did not have any share option scheme which was required to be disclosed.

RESTRICTED SHARE INCENTIVE SCHEME

During the year ended December 31, 2020, the Company did not have any restricted share incentive scheme which was required to be disclosed.

RESULTS AND DIVIDENDS

The results of the Group for the year ended December 31, 2020 are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of this report.

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2020. (2019: Nil)

SHARE CAPITAL

Details of the issued shares of the Group during the year ended December 31, 2020 are set out in "Notes to Financial Statements – 31. Share Capital" of this report.

RESERVES AND DISTRIBUTABLE RESERVES

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

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations made by the Group amounted to RMB58.4 million (2019: RMB32.5 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2020 are set out in "Notes to Financial Statements – 13. Property, Plant and Equipment" of this report.

ISSUANCE OF SHARES AND UTILIZATION OF PROCEEDS

(i) Use of Proceeds from the Initial Global Offering

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

As of December 31, 2020, the Group had used the net proceeds from the Global Offering for the following purposes:

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Amount of net proceeds can be utilized as of January 1, 2020 (RMB million)	Actual amount of utilized proceeds as of December 31, 2020 (RMB million)	Amount of unutilized proceeds as of December 31, 2020 (RMB million)
(A) For our Core Products:	35.00	895.3	895.3	286.1	609.2
(i) ongoing sales and marketing of VenusA-Valve in China and planned commercialization of VenusA-Valve in other countries	5.00	127.9	127.9	81.2	46.7
(a) the continuous expansion of market coverage of VenusA-Valve in China	3.15	80.6	80.6	80.6	–
(b) in the commercialization in Colombia	0.70	17.9	17.9	0.1	17.8
(c) the commercialization in the Philippines	0.70	17.9	17.9	0.3	17.6
(d) the commercialization in other jurisdictions such as Brazil and Taiwan	0.45	11.5	11.5	0.2	11.3
(ii) ongoing and planned R&D and commercial launches of VenusA-Plus,	12.00	307.0	307.0	142.6	164.4
(a) pre-clinical activities in China	0.32	8.2	8.2	8.2	0.0
(b) the ongoing clinical trial in China	0.90	22.9	22.9	22.9	0.0
(c) registration	0.37	9.6	9.6	3.4	6.2
registration in China	0.11	2.8	2.8	2.7	0.1
registration in other jurisdictions	0.26	6.8	6.8	0.7	6.1

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Amount of net proceeds can be utilized as of January 1, 2020 (RMB million)	Actual amount of utilized proceeds as of December 31, 2020 (RMB million)	Amount of unutilized proceeds as of December 31, 2020 (RMB million)
(d) the commercialization in various jurisdictions	8.37	214.1	214.1	96.4	117.7
commercialization in China	6.32	161.7	161.7	96.4	65.3
commercialization in other markets	2.05	52.4	52.4	–	52.4
(e) post-marketing surveillance	2.04	52.2	52.2	11.7	40.5
(iii) ongoing and planned R&D and commercial launches of VenusP-Valve	18.00	460.4	460.4	62.3	398.1
(a) pre-clinical activities in the U.S.	1.06	27.1	27.1	26.1	1.0
(b) the clinical trial to be conducted for the FDA approval	2.17	55.5	55.5	–	55.5
(c) registration	0.92	23.4	23.4	11.3	12.1
NMPA	0.07	1.8	1.8	0.8	1.0
FDA	0.46	11.7	11.7	0.6	11.1
CE Marking	0.39	9.9	9.9	9.9	0.0
(d) commercialization in various jurisdictions	13.14	336.2	336.2	24.9	311.3
China	3.85	98.5	98.5	24.9	73.6
U.S. and Canada	1.27	32.5	32.5	–	32.5
EU	2.68	68.6	68.6	–	68.6
Other markets	5.34	136.6	136.6	–	136.6
(e) post-marketing surveillance	0.71	18.2	18.2	–	18.2

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Amount of net proceeds can be utilized as of January 1, 2020 (RMB million)	Actual amount of utilized proceeds as of December 31, 2020 (RMB million)	Amount of unutilized proceeds as of December 31, 2020 (RMB million)
(B) Allocated to our other products and product candidates	30.00	767.4	767.4	245.5	521.9
(i) ongoing and planned R&D and marketing of CEP device	17.00	434.9	434.9	155.1	279.8
(a) pre-clinical activities	4.18	106.9	106.9	35.9	71.0
(b) clinical trials primarily for the ongoing Phase II REFLECT trial in the U.S. and the clinical trial for TriGUARD3 planned to be conducted in China	3.69	94.4	94.4	16.7	77.7
(c) registration and post-marketing surveillance	3.93	100.5	100.5	57.0	43.5
(d) commercialization in various jurisdictions	5.20	133.1	133.1	45.5	87.6
(ii) ongoing and planned R&D of VenusA-Pilot	3.00	76.7	76.7	1.7	75.0
(iii) ongoing and planned R&D of mitral valve products	2.00	51.2	51.2	13.6	37.6
(iv) R&D of tricuspid valve products	2.00	51.2	51.2	2.5	48.7
(v) ongoing and planned R&D of valvuloplasty balloon products such as V8 and TAV8	2.00	51.2	51.2	10.6	40.6
(vi) ongoing and planned R&D of other product candidates	4.00	102.2	102.2	62.0	40.2

Use of proceeds	Percentage of total net proceeds (in the same proportion as stated in the Prospectus) (%)	Amount of net proceeds for the relevant use (in the same proportion as stated in the Prospectus (RMB million)	Amount of net proceeds can be utilized as of January 1, 2020 (RMB million)	Actual amount of utilized proceeds as of December 31, 2020 (RMB million)	Amount of unutilized proceeds as of December 31, 2020 (RMB million)
(C) Payment of considerations and other transaction expenses related to acquisition of Keystone	10.00	255.8	255.8	–	255.8
(D) Our continued expansion of product portfolio through internal research and/or potential acquisition	15.00	383.7	383.7	170.2	213.5
(E) Working capital and other general corporate purposes	10.00	255.8	0 (Note 1)	255.8	–
TOTAL	100	2,558.0	2,302.2 (Note 1)	957.6	1,600.4

Note:

1. An amount of RMB270.3 million was used by the Company as deposit for a guarantee arrangement and constituted an amount used as working capital as of January 1, 2020. As of the date of this report, this amount has already been returned from the relevant depositary account to the Company, therefore, for the purpose of calculation of the total amount of proceeds can be unutilized as of January 1, 2020, the actual amount of proceeds can be utilized as of January 1, 2020 for working capital and other general corporate purposes is treated as zero.

Regarding the net proceeds that had not been utilized as of December 31, 2020, the Company intends to use them in the same manner and proportions as stated in the Prospectus. The unutilized amount of net proceeds is expected to be used by December 31, 2022.

(i) Use of Proceeds from the September 2020 Placing

On September 3, 2020, in order to raise capital to facilitate the sustainable development of the Company and satisfy its requirements for capital in light of the rapid development of the business of the Company, the Company entered into a placing agreement with Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Hong Kong Securities Limited (as the placing agents), pursuant to which the Company conditionally agreed to place 18,500,000 new H shares at the placing price of HK$64.19 per placing share to no less than six professional, institutional and/or individual investors which are not connected persons of the Company (the "September 2020 Placing"). The net placing price (after deduction of the expenses of the September 2020 Placing) is approximately HK$63.41 per placing share. The placing price of HK$64.19 per placing share represents a discount of approximately 2.00% of the closing price or HK$65.5 per H share as quoted on the Stock Exchange on September 2, 2020, being the last trading day immediately before the execution of the placing agreement. The completion of the September 2020 Placing took place on September 10, 2020 and an aggregate of 18,500,000 new H shares have been successfully allotted and issued by the Company at the placing price of HK64.19 per placing share on the same day. The aggregate gross proceeds from the September 2020 Placing amounted to approximately HK$1,188 million and the aggregate net proceeds from the September 2020 Placing amounted to approximately HK$1,173 million after deducting the expenses of the September 2020 Placing. For details of the September 2020 Placing, please refer to the Company's announcements dated September 3, 2020 and September 10, 2020, respectively.

For the period from September 10, 2020 (i.e. the date of completion of the September 2020 Placing) to December 31, 2020, the Company has used RMB61.3 million for general working capital. The Company intends to use the net proceeds that had not been utilized as of December 31, 2020 in the same manner and proportion as set out in the Company's announcement dated September 10, 2020.

(i) Use of Proceeds from the January 2021 Placing

As set out in the section headed "Management Discussion and Analysis – II. Financial Review – Subsequent Events" of this report, the aggregate gross proceeds from the January 2021 Placing amounted to approximately HK$1,445 million and the aggregate net proceeds from the January 2021 Placing amounted to approximately HK$1,427 million after deducting the expenses of the January 2021 Placing. The net placing price (after deduction of the expenses of the January 2021 Placing) is approximately HK$79.10 per placing share. The Company intends to use the net proceeds in the same manner and proportion as set out in the Company's announcement dated January 29, 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2020, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

H SHARE FULL CIRCULATION

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

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

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

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

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

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

CONVERTIBLE BONDS

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

BANK LOANS AND OTHER BORROWINGS

Save of bank loans and other borrowings of the Group as of December 31, 2020 are set out in "Notes to Financial Statements – 27. Interest-bearing Bank Borrowings" of this report.

EQUITY-LINKED AGREEMENTS

Saved as disclosed in this report, there was no equity-linked agreement entered into by the Company during the year ended December 31, 2020.

PERMITTED INDEMNITY

The Company has maintained appropriate liability insurance policies for its Directors, Supervisors and senior management during the year ended December 31, 2020.

MANAGEMENT CONTRACTS

Save for employment contracts with employees, the Company did not enter into any contracts nor had any existing contracts in respect of all or any significant part of management and administration of business of the Company for the year ended December 31, 2020 and up to the date of this report.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION INFORMATION FOR HOLDERS OF H SHARES

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

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2020, the respective percentages of the total sales attributable to the Group's largest customer and five largest customers in aggregate were 11.12% and 45.33%.

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

During the year ended December 31, 2020, the percentage of purchases attributable to the Group's five largest suppliers did not exceed 30%.

Relationships with Major Customers and Suppliers

Customers

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

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

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

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

Suppliers

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

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

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

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

MATERIAL LITIGATION AND ARBITRATION

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

MATERIAL CONTRACTS AND EXECUTION

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

LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF CONTROLLING SHAREHOLDERS

As at the date of this report, the Company has not entered into any loan agreement which contains covenants requiring specific performance of controlling shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company had adopted and applied the principles and code provisions as set out in the Corporate Governance Code. During the year ended December 31, 2020, the Company has strictly complied with the code provisions in the Corporate Governance Code. For details, please refer to "Corporate Governance Report" of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The consolidated financial statements of the Group for the year ended December 31, 2020 have been audited by Ernst & Young, certified public accountants. There were no change in the auditors of the Company in the preceding three years.

A resolution for the appointment of Ernst & Young as the auditors of the Company for the 2021 financial statements will be proposed at the forthcoming AGM.

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

Hangzhou, the People's Republic of China, March 31, 2021

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

The Board presents this corporate governance report in the Group's annual report for the year ended December 31, 2020.

During the year ended December 31, 2020, the Company has strictly complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

II. SHAREHOLDERS AND GENERAL MEETINGS

(i) Rights of Shareholders' General Meetings and Shareholders

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

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

During the year ended December 31, 2020, our Company held one general meeting on 21 May 2020. All proposed Shareholders' resolutions put to the above general meeting were resolved by poll vote and were duly passed. The vote tally of each such resolution was set out in the Company's announcements released on the day of the general meeting.

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

The attendance records of each Director at the Shareholders' general meeting of the Company during the year ended December 31, 2020 are set out below:

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

III. BOARD OF DIRECTORS AND PERFORMANCE OF DUTIES

(i) Chairman and Chief Executive

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

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

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

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

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

(iii) Composition of the Board of Directors

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

As at the end of the Reporting Period, the Board of our Company comprises seven Directors, including three executive Directors (Mr. Min Frank Zeng, Mr. Zhenjun Zi and Mr. Lim Hou-Sen (Lin Haosheng)), one non-executive Director (Ms. Nisa Bernice Wing-Yu Leung) and three independent non-executive Directors (Mr. Ting Yuk Anthony Wu, Mr. Wan Yee Joseph Lau and Mr. Chi Wai Suen). None of the Directors, Supervisors and senior management existed the relationships (including financial, business, family or other material/ relevant relationships) with other Directors, Supervisors and members of the senior management of our Company. The Board complied with the requirements of appointing at least three independent non-executive Directors (among whom at least one independent non-executive Director holds the appropriate professional qualifications or accounting or relevant financial management professional knowledge) set out in Rules 3.10(1) and 3.10(2) of the Listing Rules at any time during the year ended December 31, 2020. The Company also complied with the requirements of appointing independent non-executive Directors, accounting for one-third of the members of the Board set out in Rule 3.10A of the Listing Rules.

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

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

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

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

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

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

The Board was held seven meetings during the year ended December 31, 2020 for reviewing and approving the annual results for the year ended December 31, 2019, unaudited interim results for the six months ended June 30, 2020, issue and placement of H Shares under general mandate and review of corporate governance policy of the Company and duties performed by the Board under paragraph D.3.1 of the Corporate Governance Code.

The chairman of the Board held one meeting with the independent non-executive Directors during the year ended December 31, 2020 without the presence of other Directors.

The attendance records of each Director at the Board meetings during the year ended December 31, 2020 are set out below:

Name of Director	Attendance/ Number of Board Meetings
Mr. Min Frank Zeng	7/7
Mr. Zhenjun Zi	7/7
Mr. Lim Hou-Sen (Lin Haosheng)	7/7
Ms. Nisa Bernice Wing-Yu Leung	7/7
Mr. Ting Yuk Anthony Wu	7/7
Mr. Wan Yee Joseph Lau	7/7
Mr. Chi Wai Suen	7/7

(v) Training for Directors

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

According to records provided by the Directors, a summary of training received by the Directors for the year ended December 31, 2020 is as follows:

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

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

IV. BOARD COMMITTEES AND PERFORMANCE OF DUTIES

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

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

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

(i) Audit Committee

1. Functions of the Committee

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

2. Work Summaries and Meetings of the Committee

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

- reviewing the annual results and financial report for the year ended December 31, 2019;
- reviewing the unaudited interim results and financial report for the six months ended June 30, 2020;
- reviewing the financial reporting and the compliance procedures;
- reviewing the policies and practices on corporate governance;
- reviewing the compliance with the Corporate Governance Code and the disclosure requirement in the corporate governance report as contained in Appendix 14 to the Listing Rules;
- reviewing the code of conduct and the compliance manuals for employees and the Directors, the financial, operational and compliance monitoring;
- reviewing the risk management and internal control systems;
- reviewing the internal audit work of the risk management and internal audit department; and
- reviewing the work of the external auditor.

The Audit Committee met with the external auditor of the Company in the absence of management of the Company once in relation to the provision of audit service to the Company for the year ended December 31, 2020.

3. Attendance of Members of the Committee

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

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

The Company's annual results for the year ended December 31, 2020 have been reviewed by the Audit Committee on March 31, 2021. The Audit Committee considers that the annual financial results for the year ended December 31, 2020 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

(ii) Remuneration and Assessment Committee

1. Functions of the Committee

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

2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Remuneration and Assessment Committee held one meeting during the year ended 31 December 2020 to review the remuneration policy and structure of the Company, and consider and make recommendation to the Board on the remuneration packages of the Directors, Supervisors and the senior management of the Company.

3. *Attendance of Members of the Committee*

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

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

Details of the Directors' and Supervisors' remuneration are set out in "Notes to Financial Statements – 8. Directors', Supervisors' and Chief Executive's Remuneration" of this report. In addition, the remuneration payable to the senior management of the Company (who are not the Directors) by band for the year ended December 31, 2020 are set out in the section headed "Corporate Governance Report – V. Remuneration of Senior Management" of this report.

(iii) Nomination Committee

1. Functions of the Committee

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

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

2. Work Summaries and Meetings of the Committee

During the Reporting Period, the Nomination Committee held one meeting during the year ended December 31, 2020 to review the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board and make recommendations to the Board relating to the re-election of Directors to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company; to review the training and continuous professional development of the Directors and senior management; and to assess the independence of the independent non-executive Directors.

3. Attendance of Members of the Committee

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

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

V. REMUNERATION OF SENIOR MANAGEMENT

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

	Number of senior management Year ended 31 December	
Band of remuneration (in RMB)	2020	2019
1,000,000 – 2,000,000	1	–
4,000,000 – 5,000,000	1	–
24,000,000 – 25,000,000	–	1
40,000,000 – 41,000,000	–	1

VI. CONVENING AN EXTRAORDINARY GENERAL MEETING BY SHAREHOLDERS

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

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

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

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

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

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

(i) Putting Forward Enquiries to the Board

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

(ii) Putting Forward Proposals at General Meetings

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

VII. OTHER RELEVANT MATTERS

(i) Compliance with the Model Code

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

The Company's employees, who are likely to be in possession of inside information of the Company, have also been subject to the code of conduct regarding Directors' and Supervisors' securities transactions of the Company. No incident of non-compliance of code of conduct regarding Directors' and Supervisors' securities transactions by the employees was noted by the Company during the year ended December 31, 2020.

(ii) Responsibilities of Directors for the Consolidated Financial Statements

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

All Directors acknowledge and confirm their responsibilities of preparing the consolidated financial statements which truly reflect the business and operating results of the Group for the year ended December 31, 2020, including the results and cash flows of the Group.

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

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

(iii) Appointment and Remuneration of Auditing Firm

The Company appointed Ernst & Young as the auditor of the consolidated financial statements of the Group prepared under International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance for the year ended December 31, 2020. There has been no change in the accounting firm appointed during the Reporting Period.

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

During the year ended December 31, 2020, the remuneration paid/payable to the external auditor of the Company for the provision of audit services for the year ended December 31, 2020 amounted to RMB3.9 million (including auditing fees incurred by each subsidiary).

During the year ended December 31, 2020, the remuneration paid/payable to the external auditor of the Company in respect of non-audit services for the year ended December 31, 2020 amounted to RMB0.7 million. The nature of such non-audit services is to provide advisory services.

(iv) Review by Audit Committee

The Audit Committee has reviewed the 2020 consolidated financial statements of the Group for the year ended December 31, 2020.

(v) Joint Company Secretaries

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

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

Both Mr. Ma and Ms. Fok have confirmed that they had received no less than 15 hours of relevant professional training during the year ended December 31, 2020.

(vi) Communication with Shareholders

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

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

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

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

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

(vii) Board Diversity Policy

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

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

The Board has not established a specific target number or date by which to achieve a specific number of women on the Board, as it will consider a multitude of factors in determining the best nominee at the relevant time, including the Company's objectives and challenges at the time.

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

(viii) Amendments to the Articles of Association

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

In accordance with the regulatory requirements, economic environment and changes in the actual condition of the Company, as well as the Reply of the State Council on the Adjustment of the Notice Period for the Holding of Shareholders' General Meeting and Other Matters Applicable to Overseas Listed Companies (Guo Han [2019] No. 97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的披覆》(國函[2019]97號)), corresponding amendments to the Articles of Association have been approved at the Shareholders' general meeting held on May 21, 2020. Such amendments took effect on the same day as above mentioned.

The Company completed placing of 18,500,000 new H Shares on September 10, 2020. In order to reflect the corresponding change in the registered capital of the Company as a result thereof, the Company has amended the corresponding provisions of the Articles of Association under the mandate approved at the Shareholders' general meeting held on May 21, 2020. Such amendments took effect on September 10, 2020.

(ix) Risk Management and Internal Control

1. Risk Management

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

2. Establishment of the Internal Control System

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

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

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

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

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

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

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

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

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

- The Company has an internal audit function, which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems, and reports their findings to the Board on, at least, an annual basis. During the year ended December 31, 2020, the Company did not identify any material issues.

4. Procedures for Processing and Releasing Inside Information

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

During the year ended December 31, 2020, our Company has truthfully, accurately, legally and timely disclosed information in strict compliance with the requirements of domestic and foreign laws and regulations, the Listing Rules, the Articles of Association and the policy on information disclosure management of our Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information fairly, timely and effectively.

5. Appraisal of Internal Control

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

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

During the year ended December 31, 2020, the Group was not aware of any material defect in internal control of the Group. The Board is of the view that the Group has established an effective internal control system, which achieves our objectives of internal control and is free of material defect and significant defect and acknowledged that the risk management and internal control systems are effective and adequate.

(x) Dividend Policy

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

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

- other factors that the Board deems relevant.

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

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

- offsetting losses in prior years, if any;

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

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

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

(xi) Nomination Policy

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

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

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

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

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

Environmental, Social and Governance Report

This is the second Environmental, Social and Governance Report ("ESG report") released by the Company and its subsidiaries (collectively referred to as "Venus Medtech", "the Group" or "We" in the ESG report). It is used to disclose the Group's strategy, practices, measures and performances in ESG in 2020 to stakeholders such as governments, shareholders, employees and clients.

In accordance with requirements in the *ESG Reporting Guide* set out in Appendix 27 to the Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited ("HKEx"), this report covers the main businesses of Venus Medtech in China. There is no material change in the scope of disclosure compared to the 2019 ESG report. The key performance indicators ("KPIs") in environment aspect mainly cover the headquarters of the Group in Hangzhou, including office buildings, factories, Research and Development (R&D) Centre. The key performance indicators in social aspect mainly cover the Company and all its subsidiaries in China. The report covers the period from January 1, 2020 to December 31, 2020.

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

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

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

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

- **Consistency:** The statistical method of disclosure in this report is consistent with the 2019 ESG report to ensure comparability of information.

RESPONSIBLE GOVERNANCE

Adhering to the strategy of sustainable development, the Group provides the society with safe and reliable medical products and services, improves its own environmental performance, creates a comfortable working environment, protects the legitimate rights and interests of employees and actively fulfils its social responsibility, bringing positive impacts and contributions to the society. We have set up a three-level ESG governance structure comprising the Board of Directors ("the Board"), senior management and ESG working group. Their respective ESG governance functions are defined to achieve top-down supervision of ESG-related issues and ensure the smooth operation of the ESG work of the Group.

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

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

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

Stakeholder Engagement

We maintain close contact with governments and regulators, shareholders and investors, employees, customers, suppliers, communities and other stakeholders. Through the establishment of effective communication channels, we keep abreast of the demands and expectations of stakeholders, discuss and respond to their concerns about ESG issues, to determine our sustainable development direction.

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

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

Materiality Assessment

The Group regularly reviews the ESG management priorities and adjusts ESG management strategies and long-term objectives to better respond to the expectations of stakeholders towards the Group's ESG issues. We conduct the materiality assessment through the following steps:

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

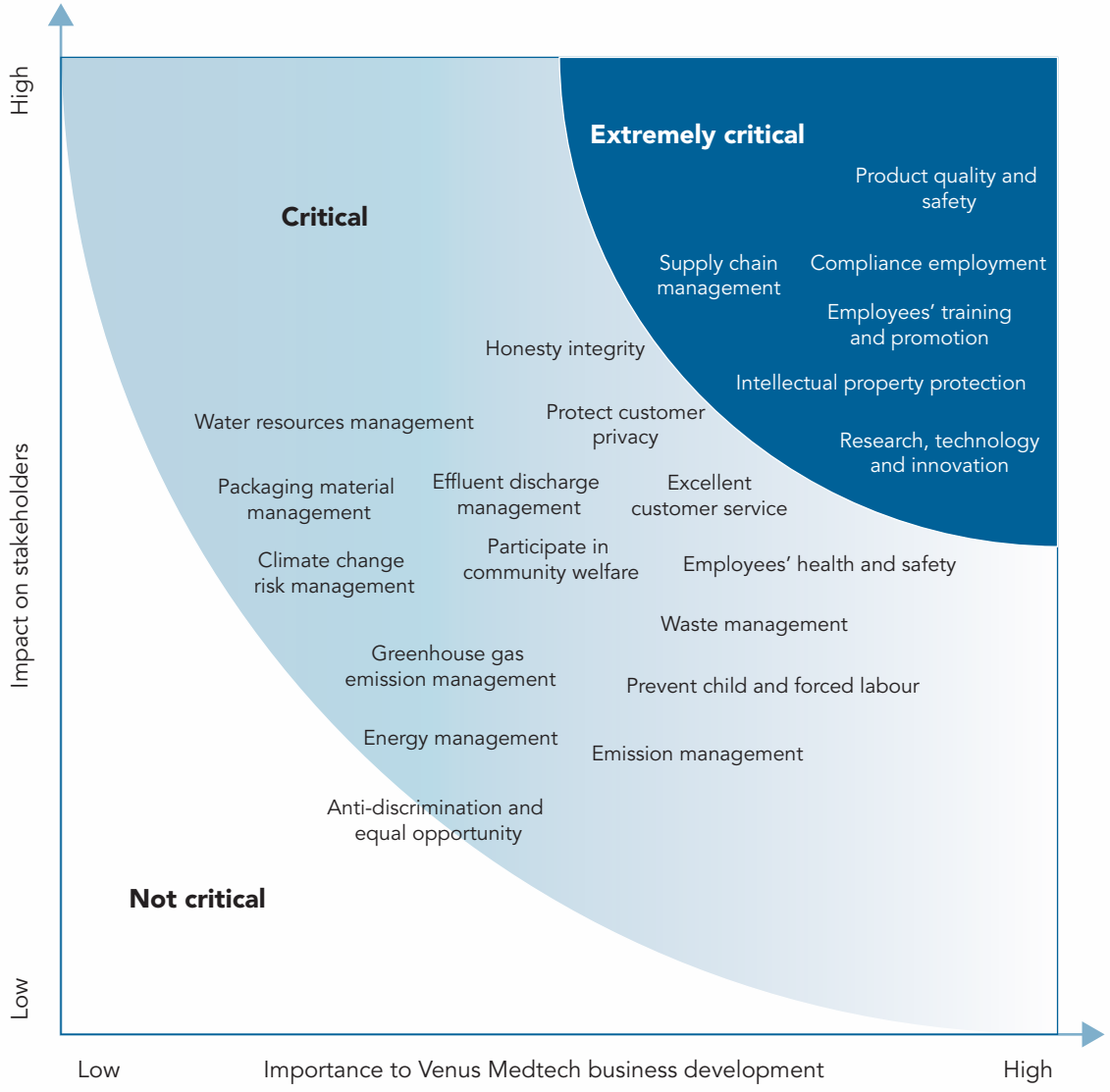
Social issues	Economic issues	Environmental issues
• Employees' training and promotion • Employees' health and safety • Compliance employment • Anti-discrimination and equal opportunity • Prevent child and forced labour • Participate in community welfare	• Supply chain management • Product quality and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

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

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

In 2020, we continued to use the previous materiality assessment results given that our business and related operating environment have not changed significantly compared to the previous fiscal year.

Materiality Assessment Matrix



Business Ethics Management

The Group is committed to creating a clean and upright working environment to conduct businesses in a sound and ethical manner. We strictly follow the *Criminal Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery, Anti-Money Laundering Law of the People's Republic of China* and other laws and regulations and adopts a "zero tolerance" policy for any actions related to corruption, bribery and anti-money laundering. In 2020, the Group was not involved in any violation incidents related to corruption, bribery, extortion, fraud or money laundering.

We have formulated the *Anti-Corruption and Anti-Commercial Bribery Policy and the Anti-Money Laundering Management Regulations*, focusing on the supervision and management of key links that are prone to frequent corruption, such as business entertaining, business conferences, funding, sponsorship and donation. The business departments of the Group are responsible to identify and record high-value transactions that are clearly inconsistent with its operations, and report them to the Legal Compliance Department for investigation. Employees of the Group are required to sign the *Employee Anti-Corruption Policy Certification* to regulate their behavior and thereby developing an honest and fair working environment.

The Group has established a reporting email hegui@venusmedtech.com, encouraging internal and external personnel of the Group to report any misconduct discovered. The Group's Legal Compliance Department conducts investigation on relevant reports and submits investigation results to the Board Audit Committee. If a report is verified to be true, the responsible person will face disciplinary actions depending on the severity of the circumstances, such as notification of criticism, recording of demerit and dismissal, and they will also be required to pay economic compensation as appropriate. If the case constitutes a crime, they will be transferred to judicial authorities and be prosecuted according to the law.

In terms of partners, we have formulated the *Distributor/Agent Anti-Corruption Compliance Policy*, under which all employees, managers or directors of the distributors are prohibited from obtaining business advantage through improper conduct. In the course of cooperation with the Group, distributors, agents and their sub-distributors are required to sign the *Confirmation Letter of Compliance Commitment for Distributors* to ensure compliance with the Group's anti-corruption policies in writing.

In order to further improve the legal and compliance system of the Group, enhance employees' professional ethics and foster employees' compliance awareness, we held a seminar themed by "Legal Compliance Promotion and Education" involving all employees on 6 October 2020. We invited the leaders of Hangzhou Binjiang District Public Security Sub-bureau to share economic crime investigation cases with us, and expound economic crime cases involving job-type economic crime, trade secrets, corruption, etc. that employees may be involved in as well as give some warnings and propaganda. On 17 December 2020, we invited members of the Board and some employees to participate in the corporate compliance and development exchange meeting, and discussed in depth the management and development of corporate compliance with the Federation of Industry and Commerce of Binjiang District of Hangzhou, the Corporate Criminal Compliance Promotion Association of Binjiang District, and the Economic Crime Investigation Department of Binjiang District Public Security Sub-bureau.

RESPONSIBLE FOR ENVIRONMENT

Venus Medtech actively fulfils its responsibility for environmental protection and is committed to integrating the concept of sustainable development into the Group's daily operations. On the basis of following relevant laws and regulations, including the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and *Regulations on the Safety Administration of Dangerous Chemicals*, the Group has established an environment, health and safety ("EHS") system composed of representatives of EHS managers, head of the Safety Management Department, heads of other departments and safety managers. According to the principle of "environment management in production management", it has also formulated a series of internal policies, including the *EHS Performance Evaluation Management Policy*, the *Identification and Assessment Management Procedure of Environmental Factors* and the *Control Procedure of Environmental Monitoring and Measurement*, to offer guidance on environmental issues, such as the use of resources, emissions management and pollution prevention and control. For office areas, we have formulated the *Office Area Management Policy*, specifying the responsibilities of different departments for management of related equipment and areas, to strengthen the management of office areas and create an orderly office environment. We also take environmental protection as an important part in employee training and continue to raise the awareness of energy conservation and environmental protection of all employees in the Group, helping the Group achieve a green, healthy and sustainable development.

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

Environmental protection objectives

- Achieve monitoring of whole process of collection, sorting and harmless treatment of solid waste in 2021
- Electricity and water consumption per unit product in 2021 would be the same as that or lower than that in 2020

Use of Resources

In response to the call of "energy conservation, environmental protection and low carbon", we regularly evaluate the efficiency of resource use in daily operation, improve the efficiency of resource use, and advocate the reduction of resource consumption according to the *Control Procedure of Energy and Resource Conservation*.

- Optimize operating procedures, organize production according to the plan, and avoid midway production stoppages;
- Use ultrasonic cleaning in manufacturing technique to realize the recycling of water resources, thereby achieving the purpose of saving water;
- Control the opening and closing time and temperature settings of air conditioners to save energy;
- Choose office equipment that meets environmental protection requirements;
- Install single-tube energy-saving lamps in public areas of new production workshops in the factory, and complete regional electricity distribution in the design phase to achieve the goal of controlling the total electricity;
- Establish an online sharing platform for hazardous chemicals to realize real-time sharing between departments and avoid over-purchasing, overstock and waste;

- Put up obvious signs of saving electricity and ask the staff to turn off the power in time after work;
- Put up obvious signs of water conservation and conduct regular checks on water valves to avoid leakage;
- Check the fuel used in commercial vehicles, and ask for re-check in case of the fuel consumption exceeding the standard;
- Implement paper-saving measures such as planned paper use, double-sided use of paper, and management by specific personnel.

In 2020, the Group's KPIs in Aspect: Use of Resources:

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

Notes:

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

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

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

Emissions

We have formulated procedures and documents such as the *Hazardous Waste Management Policy and the Management Procedure of Sewage and Waste Gas Emissions and Noise Control* to strictly regulate the emissions generated in the course of operations, and implemented a series of measures to minimize the impacts on environment:

- The Group's production and household effluent are collected separately through two sewage pipelines, which are strictly separated from rainwater pipelines, and are finally incorporated into the designated sewage pipeline network system in the industrial park for unified disposal and discharge as required.

- The Group collects and classifies hazardous waste generated in the production process and waste liquid generated by the disinfectant configuration at designated locations and regularly sends them to the hazardous waste warehouse for temporary storage. The waste is then harmlessly processed by a qualified third-party environmental protection company on a regular basis. We entrust the medical waste disposal companies to handle the waste generated in the production process, such as petri dishes and test boxes.

- The Group places domestic waste and hazardous waste collection bins in the office areas and raises employees' awareness of waste sorting through waste sorting promotion activities.

In 2020, the Group's KPIs in Aspect: Emissions:

Type of emissions	2020	2019
Emission of NO_x (in kg) [1]	21.70	10.98
Emission of SO_2 (in kg) [1]	0.50	0.19
Emission of PM (in kg) [1]	1.60	0.81
Effluent in total (in tonnes)	7,374	6,336
Hazardous waste emissions in total (in tonnes) [2]	266.90	194.44
Intensity of hazardous waste emissions (in tonnes per unit)	0.06	0.08
Non-hazardous waste emissions in total (in tonnes) [3]	0.86	0.45
Intensity of non-hazardous waste emissions (in kg per unit)	0.20	0.19
Greenhouse gas emissions in total (Scope 1 and Scope 2) (in tCO_{2e}) [4]	2,365.39	2,114.96
Direct greenhouse gas emission (Scope 1) (in tCO_{2e})	72.37	26.97
Including: gasoline (in tCO_{2e})	72.37	26.97
Energy indirect greenhouse gas emission (Scope 2) (in tCO_{2e})	2,293.02	2,087.99
Including: purchased electricity (in tCO_{2e})	2,293.02	2,087.99
Intensity of greenhouse gas emissions (in tCO_{2e} per unit)	0.55	0.89

Notes:

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

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

3. The non-hazardous wastes generated by the Group mainly include packaging waste left during the production processes.

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

Noise Control

In strict accordance with *the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise*, we have formulated the *Management Procedure of Sewage and Waste Gas Emissions and Noise Control*. We regularly monitor the noise status and conduct sound insulation and vibration isolation for equipment with large noise to ensure that the noise generated in our production workshops and workplaces is lower than the allowable noise level specified in the Noise Hygienic Standard for Industrial Enterprises.

Environmental and Natural Resources

In addition to the above disclosures, we will not cause other significant environmental impacts or make heavy use of other environmental and natural resources in our operations.

Climate Change

Climate change has become a major common challenge facing the international community today. Based on our assessment, we believe that the occurrence of extreme weather events such as typhoons and floods will have an impact on the Group's normal business operations. Therefore, we formulated special anti-typhoon and flood prevention emergency plans, which are included in the Emergency Plan for Work safety Accidents, and arranged the staff of the command center, material support team, emergency relief team, publicity and information team and defined their responsibilities, so as to ensure that we can take measures timely to deal with any abnormalities, and prevent the Group operation and employee health from being impacted by extreme weather.

RESPONSIBLE FOR EMPLOYEE

The Group regards employees as its most valuable resources. We stick to labor standards, fully respect the rights and interests of each employee, and create a healthy and harmonious working environment. We have established and improved the reward and punishment mechanism, providing employees with various incentives, benefits and promotion channels. We give our employees the hope of future development and improve the training system to give full play to the value and potential of each employee.

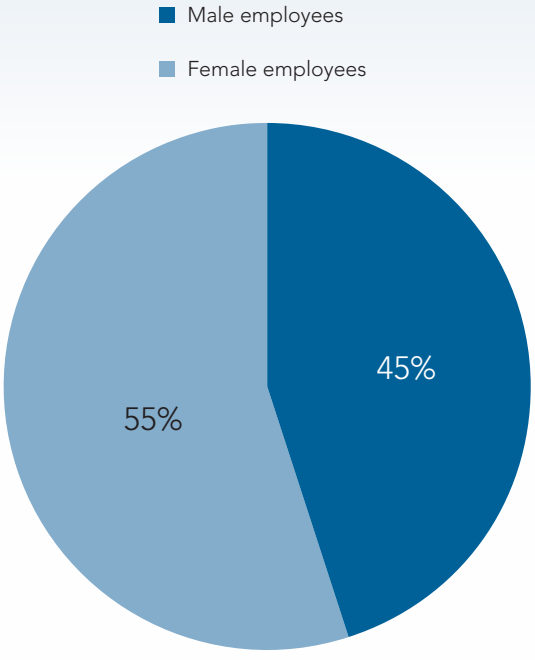
In strict compliance with relevant laws and regulations, including the *Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China* and the *Provisions on the Prohibition of Using Child Labor*, the Group standardizes the employee management and protects the legitimate rights and interests of employees through internal policies, such as the Employee Manual, the *Employee Remuneration and Performance Management Policy and the Measures for the Management of Attendance, Leave and Working Overtime*.

Recruitment and Dismissal

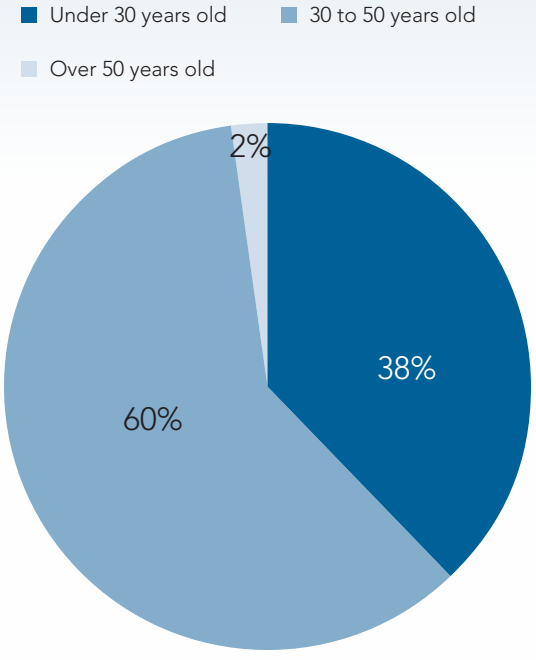
We use online recruitment, head-hunting, campus recruitment, internal recruitment and other recruitment channels to achieve an efficient talent aggregation to meet the human resource demands of business development. We carry out the recruitment following the principle of "open recruitment and merit-based recruitment; appointing people by abilities and objective assessment; giving priority to internal candidates over external ones under the same conditions". To ensure the candidates meet the Group's job requirements, we conduct interviews, written tests, background checks and other assessments in an open and fair recruitment process. The employment of child labor is forbidden, and we check valid identifications during the recruitment process to eliminate such incidents.

By the end of 2020, the Group had 472 employees with specific proportions as follows:

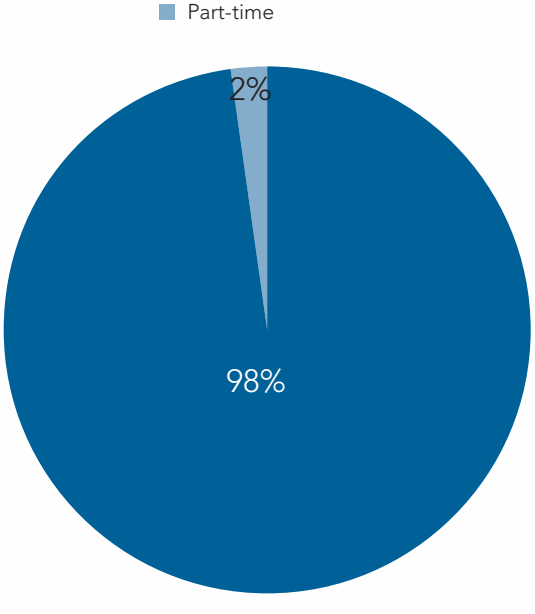
Proportion of employees by gender



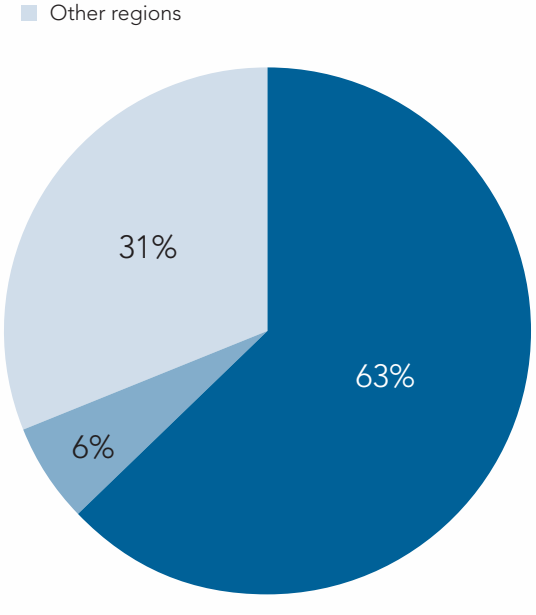
Proportion of employees by age group



Proportion of employees by employment type



Proportion of employees by geographical region



Remuneration and Benefits

The Group has established a competitive remuneration and benefit system for employees to continuously stimulate their enthusiasm. The remuneration of an employee is determined by the importance and complexity of the work, working competence, performance, qualifications and working conditions. An employee's wage consists of basic salary and performance bonus. We assess the performance of our staff on a regular basis and motivate employees with outstanding performance in order to attract and retain outstanding talents.

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

Working Hours and Holidays

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

Anti-discrimination, Diversity and Equal Opportunities

Strictly abiding by laws and regulations of the state and local governments, the Group treats every employee equally in employment, remuneration and benefits and promotion. There is no tolerance in any discrimination against any employee due to personal characteristics such as race, gender, color, age, family background, national tradition, religion, physical attribute and original nationality. We also advocate a relationship of "mutual respect, solidarity and cooperation, willing to offer help, patience and sincerity" between colleagues. We hope colleagues can help each other and create a harmonious and non-discriminatory working environment.

Safety Management

Venus Medtech attaches importance to the health and safety of employees, and has prepared a series of regulations and procedures on work safety to further safeguard the health and safety of all employees, in strict compliance with the laws and regulations on occupational health and safety such as the *Work Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases:*

i) *Management Procedures for Occupational Health*

ii) *Occupational Hazards Notifying and Warning Policy*

iii) *Special Equipment Management Policy*

iv) *Hazardous Chemicals Control Policy*

v) *Management Procedures for the Work Safety Inspection*

vi) *Management Procedures for the Identification and Handling of Potential Safety Hazard*

vii) *Procedures for Management of Work-related Injury Insurance*

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

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

- **Occupational disease protection:** We provide our employees with personal protective equipment in line with national and industrial standards, improve workers' self-protection capability, and conduct occupational health examination before work, during work and before leaving work for workers engaged in operation exposed to occupational hazard. The special personnel of the Safety Management Department is responsible for the monitoring of occupational hazard factors in the workplace, and a third party organization with professional qualifications is entrusted to conduct the monitoring of occupational hazard factors at least once a year. Corresponding occupational health records for employees are established and reported to the local work safety supervision organization. The 2020 Test Report on Occupational Hazard Factors indicated that there were no harmful factors beyond the occupational exposure limit in the inspected environment of the Group, and no occupational disease has been found in employees in the on-the-job physical examination.

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

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

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

In order to effectively prevent the occurrence of all kinds of safety accidents, we carry out daily inspection, comprehensive inspection, professional (electrical, fire control, chemicals, etc.) inspection, seasonal and pre-holiday safety inspection. For unpredictable accidents, we have formulated the *Management Procedures for Safety Accidents*, and the safety management team will timely organize investigation on the accident and offer suggestions on solutions when an accident occurs. Employees subjected to work-related injuries will be provided with work-related injury insurance benefit according to the *Implementation Measures of Zhejiang Province for the Regulations on Work-Related Injury Insurance*.

In addition, various safety trainings are regularly carried out to enhance employees' safety awareness:

- New employees must go through safety education and training at company level, department level and team level and pass the tests before starting work.

- Trainings on knowledge of occupational disease prevention and relevant laws and regulations and lectures about recent accidents and incidents are also launched to motivate employees' in-depth learning and discussion.

- We invite external professional institutions to carry out comprehensive safety training activities on first aid, firefighting and special operations to continuously improve employees' safety awareness and ability. In 2020, we invited external fire protection specialists to deliver two lectures about fire safety, improving employees' awareness of fire protection and creating a sound fire protection environment.

Work safety month

Fire safety training

Occupational health training

Fight against COVID-19

In 2020, in order to strengthen the prevention and control of novel coronavirus pneumonia epidemic (COVID-19), we actively cooperated with the government, established an emergency response leader team and an emergency office in the first time, and formulated the COVID-19 Contingency Plan to guide our epidemic prevention work. The Group's Safety Management Department and Human Resource and Administration (HR&Admin) Department were responsible for collecting and publishing relevant information, such as spread of COVID-19, gathering and reporting employees' health condition, and formulating COVID-19 prevention and control measures. We also bought medical insurance covering COVID-19 for employees in high-risk positions such as sales. After work resumption, employees were required to complete nucleic acid testing and return to office in batches, taking temperature tests twice a day. HR&Admin Department provided employees with daily meal delivery services and arranged commuting buses for employees to avoid crowds. We also promptly disinfected office areas, dormitories and meeting rooms, and opened doors and windows for natural ventilation at regular time to improve indoor air quality.

From the date of incorporation to the end of the reporting period, no work-related fatalities were noted.

Employee Training

The sustainable development of talents is at the core of Venus Medtech's strategy. The Group releases the *Training Management Policy* to continuously improve the training mechanism and help employees realize their potential and make contributions to the future growth of the Group. We set up the annual employee training plan at the beginning of each year, arrange resources including training lecturers, teaching materials and venues, and establish personal training files to record employees' training and evaluation records, and qualification certificates and track their capabilities and development. We have the following types of trainings:

- **Orientation training:** During onboarding, new employees are provided with orientation training about the Group's profile, rules and regulations, quality system, code of conduct, which helps new employees improve their understanding of the Group's corporate culture and working environment and get a jump start on their work. New employees need to pass the comprehensive assessment before becoming regular workers.

- **On-the-job training:** We carry out regular job training and annual training to ensure that employees master necessary knowledge and skills during their employment;

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

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

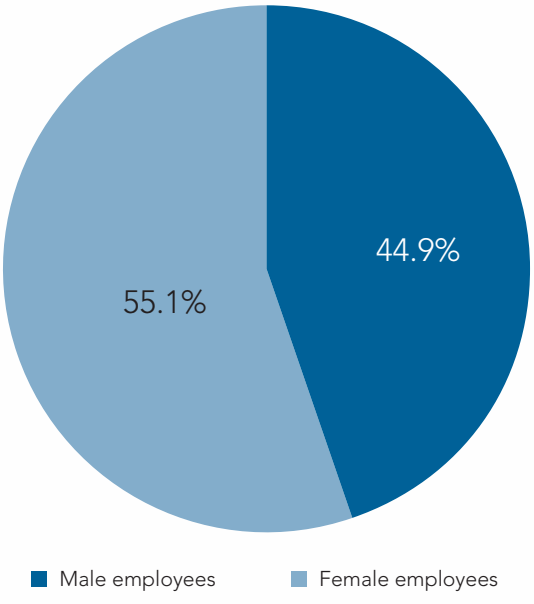
- **Online learning platform:** In order to increase the flexibility of training and expand the scope of training, we have launched an online learning platform that provides live broadcasts and replays of various courses, and records the employees' progress of courses.

We have formulated the *Internal Trainer Management Policy* to fully mobilize the enthusiasm of internal trainers for knowledge inheritance and experience sharing and improve their influence and sense of honor. We conduct qualification review and check on internal trainers twice a year, as well as quarterly and annual evaluations for excellence selection. Excellent internal trainers will receive corresponding allowances and commendations.

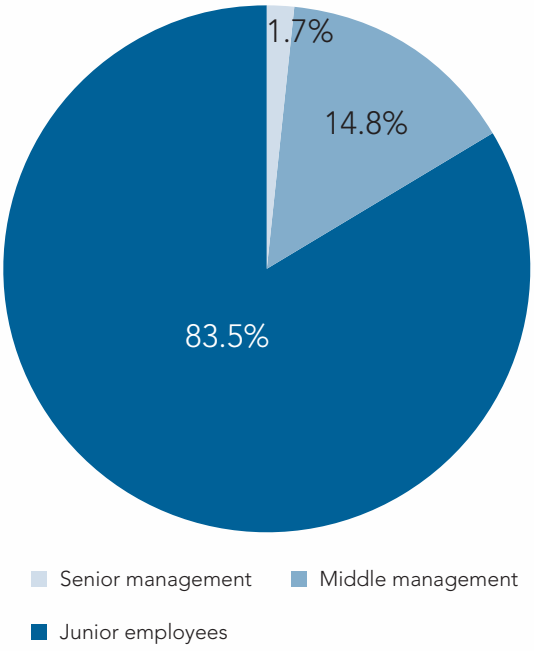
Orientation training

In 2020, the percentage of employees trained in the Group is 100% and the total training hours of the whole year were 2,739.

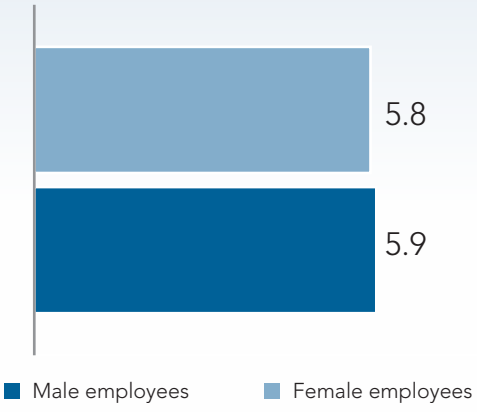
The percentage of employees trained by gender



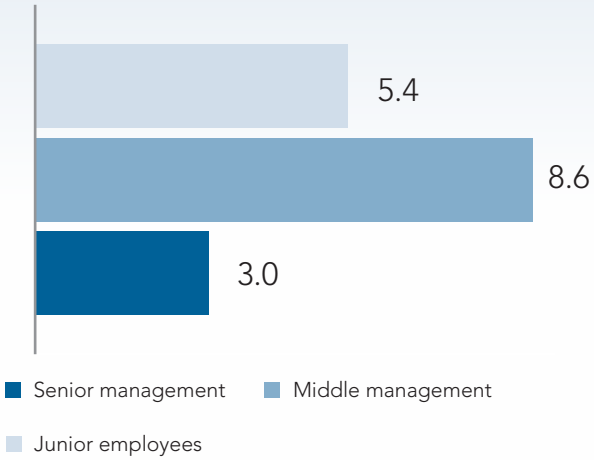
The percentage of employees trained by employee category



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



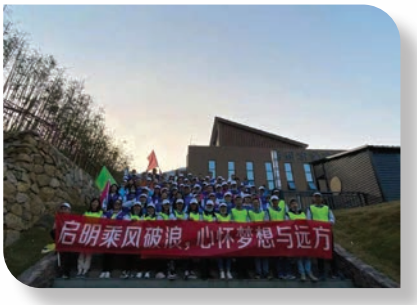
The average training hours completed per employee by employee category (Unit: hours/person)



Staff Care

Through internal communication platforms, such as WeChat, Ding Talk, complaint box and email, and annual satisfaction survey, we listen to employees' voice and reply to them in a timely manner, so as to improve the management system in all respects and employees' work enthusiasm. To better strengthen democratic communication, we set up the labor union, which plays a vital role in the protection of employees' rights and interests, staff care and celebration and recreational activities, provides employees with holiday and birthday allowances, and sends regards and offers assistance to workers in difficulties.

In 2020, we organized various sports competitions, team building, annual meeting of the Group and other activities to enhance employees' sense of belonging to the Group.



Team building activities


Badminton game


Football game

RESPONSIBLE FOR OPERATION

Supplier Management

Our suppliers mainly include suppliers of raw materials, machinery and third-party service providers (such as contract research organizations, animal laboratories and market agents), which are divided into Category A/B/C/D for management based on the product categories they provide. Venus Medtech stipulates the evaluation, selection and monitoring activities of suppliers through guidance documents, such as the *Procedure of Procurement Control*, Control *Procedures of Supplier Management* and *Regulations of Suppliers Audit Management*. Meanwhile, we convey the concept of environmental protection and social responsibility to suppliers.

For new suppliers, we review their qualifications, sample quality, delivery time and price and quality system through document review, sample review, on-site review and other methods. For suppliers of animal-derived raw materials, we will review their relevant qualification certificates, animal quarantine certificates, quarantine standards they have implemented and other materials, and carry out extended investigation on, if necessary, breeding conditions, fodders, storage and transportation and control on potentially infective viruses and infectious pathogens. Suppliers reviewed as qualified will be included in the List of Qualified Suppliers.

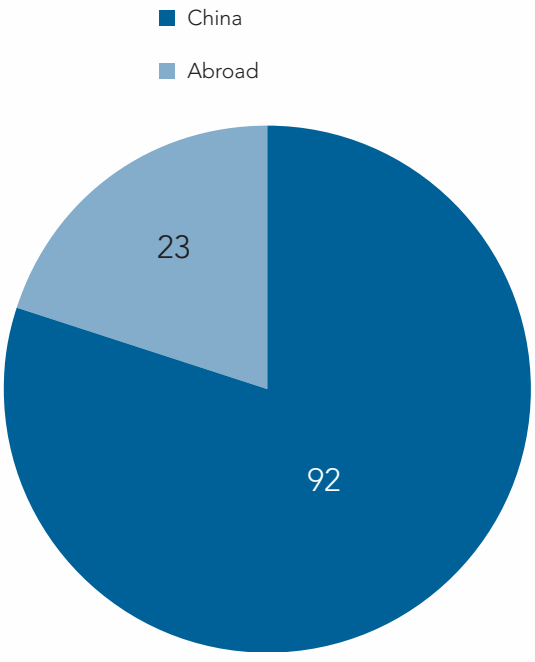
For existing suppliers, we evaluate them regularly through annual routine evaluation and quality system evaluation, to continuously track the quality of products and services. Suppliers with excellent scores will be given priority for cooperation. Suppliers with poor scores will be issued with a notice of rectification. They are required to make rectification within a definite period and those who fail in the re-examination will be removed from the list.

In the reporting period, we have conducted annual reviews of 110 suppliers, of which 5 suppliers were dismissed because they did not meet our evaluation requirements.

In terms of environmental protection and social responsibility management, according to the *Control Procedure of Relevant Parties' Environment, Safety and Health*, we conduct an investigation on the status and capabilities in environmental protection and occupational health management and capabilities of production materials suppliers, engineering contractors and transportation contractors. For example, when choosing a supplier of production materials, we will check whether it has obtained ISO 14001/ISO 45001 certification, whether its pollution discharge exceeds the standard, and whether a work injury or environmental accident occurred. In addition, we publicize the Group's environmental/occupational health and safety policy to suppliers and require the environmental improvement in their activities, such as encouraging suppliers to recycle packaging materials as far as possible. In 2020, we collected disposable plastic boxes used by the screw suppliers to pack the screws and returned them to the suppliers for reuse. Meanwhile, we required these suppliers to use plastic turnover boxes instead of cartons for transportation packaging to achieve the purpose of reuse. In the end, we saved a total of about 4,000 disposable plastic boxes and 25 shipping cartons.

As of 31 December 2020, we had 115 suppliers, 92 of which were from China.

Number of suppliers by geographical region



Product Quality

Venus Medtech strives to become "a global leader in the development and commercialization of transcatheter solutions for structural heart diseases". We strictly abide by the laws and regulations of China, the United States and the European Union, including the *Product Quality Law of the People's Republic of China, Measures for the Supervision and Administration of Medical Device Production, and Good Manufacturing Practices for Medical Devices*, etc. Meanwhile, we have established a comprehensive quality management system based on the ISO13485 Medical Device-Quality Management System, which passes independent third party system certification, and is in compliance with the regulations of good manufacture practices for medical products of China, the United States and the European Union. The CEO of the Group is ultimately responsible for the operation of the quality management system. Meanwhile, the senior management of different departments of the Group should fully cooperate with the director of the quality management department to oversee the operation of the quality management system, so as to ensure that the system can be operated in an effective way.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Certificate of Registration

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

ISO13485
System Certificate

- ***Quality Assurance (QA)***

  We have formulated a quality policy for all employees: "quality first, meet the requirements of applicable regulations, rely on the quality management awareness of all employees to continuously improve the quality system, provide customers with safe and excellent products and services in an effective manner".

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

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

We identify and monitor laws and regulations, international, national and industry standards, and general specifications related to product and quality system to ensure that our quality system and product design and development meet the requirements of relevant laws and standards. We also invite internal and external industry quality management experts to have professional training to improve employees' theoretical and practical capabilities. On 7 June 2020, 30 internal auditors participated in the ISO13485:2016 training carried out by the British Standards Institution to enhance the capabilities of our internal audit team and ensure the effectiveness of its audit.

ISO13485:2016 training

In 2020, we further implemented the enterprise resource planning (ERP) system to achieve the entire process management of procurement, production, quality, warehouse, sales and other processes. Meanwhile, in order to respond to the country's attention to post-marketing surveillance and service of innovative medical products, we have independently developed a smart medical module for post-marketing surveillance, monitoring the whole process from product delivery to post-implantation use and summarizing and analyzing use of a product from multiple dimensions, so as to understand the use of the product after its marketing in real time.

- **Quality Control (QC)**

We have an independent quality control system as well as a dedicated quality control team.

According to the Product and Process Monitoring and Measurement Control Procedure, the quality control team conducts quality inspections and audits on raw materials, pre-inventory, design and development, production process, transportation and after-sales services to ensure that products meet relevant quality requirements, and besides, timely records are made to make each step traceable.

Procurement phase
- Conduct background checks, sample inspections and field visits to production facilities to suppliers
- For main suppliers of raw materials, conduct necessary on-site audits and off-site data assessments. Qualified suppliers must sign a quality assurance agreement to ensure that the products meet our quality requirements

Product design and development process
- Strictly adhere to relevant control policies and procedures to ensure that design and development meet applicable laws and regulations

Production process
- Regular on-site inspections to ensure that the entire production process complies with applicable regulatory and industry standards
- Conduct strict sample testing of work in progress, semi-finished products and final products, and timely dispose of or destroy products that fail to meet quality standards

Product storage and transportation
- Carry out strict quality management on the storage and transportation of raw materials and products as required by relevant quality regulations

In terms of sample testing, in order to better ensure the quality of laboratory testing results, the Group has established a laboratory management policy and developed relevant management manuals in accordance with the *Accreditation Criteria for the Competence of Testing and Calibration Laboratories* (CNAS-CL01: 2018) to ensure activities of laboratories can meet the requirements of China National Accreditation Service for Conformity Assessment (CNAS).

Protecting Customers' Rights and Interests

- ***Marketing Compliance***

  Abiding by laws and regulations with special agreement on advertising of medical devices, such as the *Advertising Law of the People's Republic of China*, the *Regulation on the Supervision and Administration of Medical Devices* and *Criterions for the Examination and Publication of Medical Apparatus Advertisements*, the Group strictly controls the marketing information published on the website, packaging, and brochures, ensuring the legality and compliance of the publicity information and avoiding exaggerated publicity and the output of advertising materials cheating and misleading consumers.

  In 2020, we added the *Regulations for European Conformity (CE) Marking Management* and other related policies for medical devices placed on the EU market to ensure that product labels, instructions and embedded cards are in compliance with relevant requirements of the *EU Medical Device Regulations* (MDR) and better convey information about product safety and performance to users. Meanwhile, we have established a unique code for each product to realize the unique identification of medical devices (UDI), general query and identification during the whole product chain, and strengthen the product management during its full life cycle.

- ***Responding to Customers' Demands***

  In strict compliance with laws and regulations such as *the Law of the People's Republic of China on the Protection of Consumer Rights and Interests* and the *Product Quality Law of the People's Republic of China*, we listen to customers' opinions with an open mind to improve the quality of our products and services. We have formulated the *Feedback Control Procedures and Complaint Handling and Control Procedures* to ensure that customers' feedback can be correctly identified and effectively handled. During the reporting period, we received no major complaints related to products and services.

  Any employee who receives external feedback from users, patients, economic operators, regulators, etc., shall give feedback to the Quality Department. The Quality Department will record, judge and organize relevant departments to conduct investigation on complaints, and finally taking corrective actions according to relevant measures, keeping tracking the follow-up activities, and offering feedback to ensure that customer complaints are resolved in a satisfactory manner.

  Complaint channels:

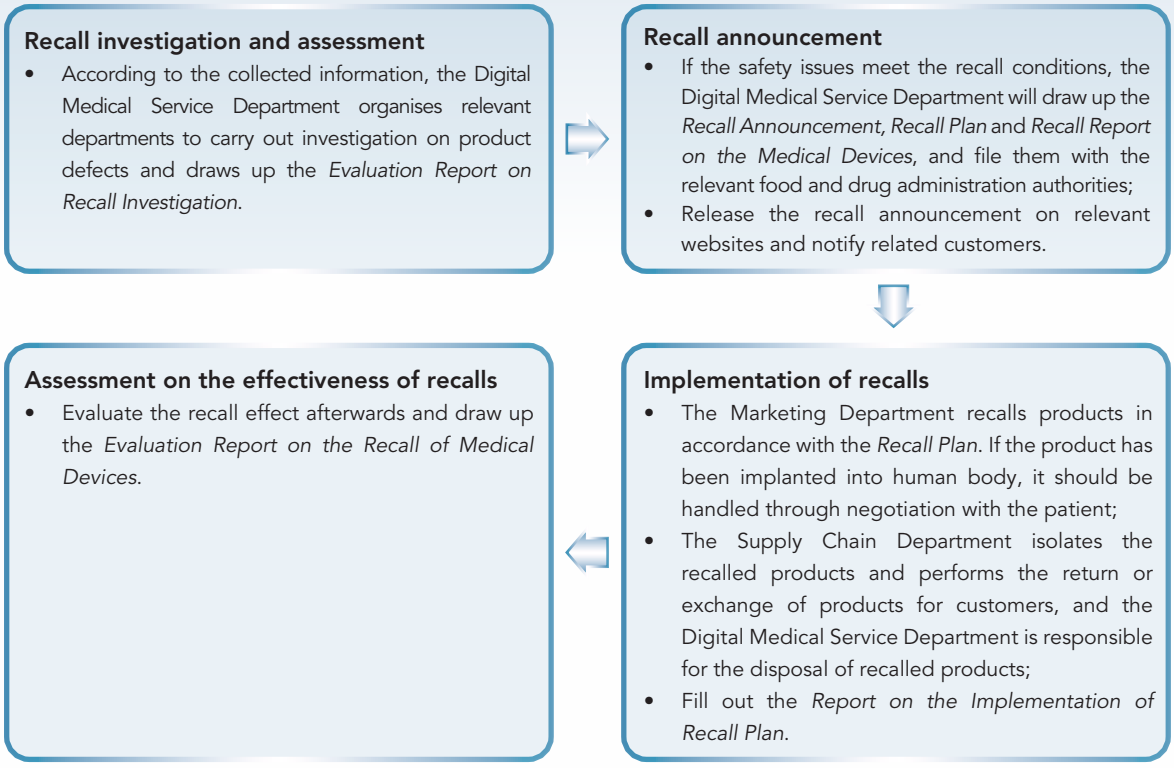
  – Complaint hotline: 0571-87772180

  – Complaint email: pms@venusmdtech.com

- ***Product Recall***

  In order to ensure the interests of users who use our products, the Group has established various guidance documents like *Recall Control Procedure in China* according to the *Measures for the Recall Management of Medical Devices* and the *Measures for the Monitoring and Revaluation Management of Adverse Events on Medical Devices* to standardize the product recall management process. If there are deficiencies on one medical device on the market and the device needs to be checked, repaired, or destroyed, a recall procedure will be initiated. We divide the recall level of medical devices into three levels and implement corresponding response measures according to the severity of hidden danger to security and health caused by medical devices.

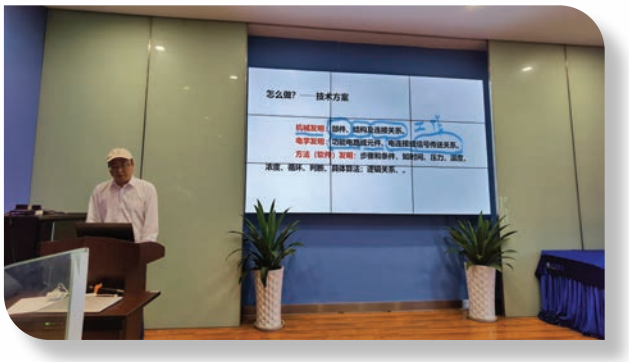
In 2020, the Group was not involved in any product recall due to safety and health reasons.



- ***Intellectual Property and Privacy Protection***

We have formulated the *General Provisions of Intellectual Property Management* according to relevant laws and regulations, including the *Patent Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China* and the *Anti-Unfair Competition Law of the People's Republic of China*, to strengthen the fine management of the Group's intellectual property and safeguard the legal rights and interests of the Group's intangible assets. In 2020, in order to encourage employees to participate in technological innovation and actively put forward reasonable suggestions, we formulated the *Venus Innovation Incentive Policy*, evaluating and giving rewards for employees' proposals of "inventions", "innovations", and "renovations".

The Intellectual Property Department of the Group, responsible for intellectual property management, coordinates the intellectual property management within the Group, reviews the intellectual property application and file management of the Business Department, and deals with the external application and litigation of intellectual property. The Intellectual Property Department is also responsible for the formulation of the annual staff training and publicity plans to strengthen the promotion of intellectual property protection. In 2020, we organized three trainings about intellectual property, with themes included basic patent knowledge\patent technology information retrieval and patent literature reading, patent infringement analysis, and writing of technical disclosure for patent applications. We also provided employees with practical exercises to help them better master relevant knowledge and skills.



Training on writing of technical disclosure for patent applications

As of December 31, 2020, we had 265 authorized patents.

The Group attaches great importance to the protection of customers' and employees' privacy information. According to the *Regulations of the People's Republic of China on Protecting the Safety of Computer Information Systems* and relevant laws and regulations, we have formulated the *Management Policy of Changes in Information System, Management Policy of Information System Accounts, Management Procedures for Important Information Backup* and *Contingency Plans for Information System Security* to effectively strengthen the protection of network operation security and information security. In practical operation, we cooperate with third-party professional institutions to ensure that customer data is protected and desensitized to prevent the disclosure of sensitive information. Meanwhile, we conduct information security campaigns through emails, promotional videos and other ways to raise employees' awareness of information security.

Contribution to Industry Development

The innovation and development of an industry cannot be separated from the joint efforts from scientific research institutes, regulators, and enterprises. While developing itself, Venus Medtech actively participates in the compilation of relevant international and domestic regulations and standards for medical device industry, cooperates with regulators to carry out industry-related activities for the exchange of experience about quality management, and shares its practices of excellent quality management, to promote the development of medical industry.

- ***Assistance in the Formulation of Industry Standards***

  In 2020, as a participant, the Group, together with the National Institutes for Food and Drug Control and the Centre for Medical Device Evaluation, National Medical Products Administration (NMPA), compiled the *Cardiovascular Implants-Cardiac Valve Prostheses Part I: General Requirements* (ISO5840-1:2015). The formulation of this document will help ensure product quality, help doctors choose artificial heart valves, facilitate their intraoperative operations, and ultimately reduce the risks associated with patients and other device users.

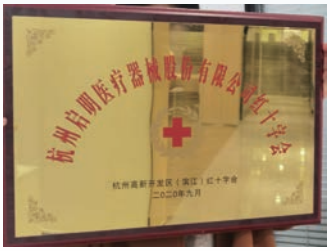
- ***Industry Exchange***

  In October and December 2020, leaders from the China Food and Drug Administration and the National Centre for Adverse Reaction Monitoring, China visited the and conducted research on the post market surveillance of medical equipment. We also shared our international leading valve technology and self-developed medical intelligence system platform.

RESPONSIBLE FOR PUBLIC WELFARE

"Dedication of love begins from ourselves" is the Group's concept and consensus of public welfare. For a long time, Venus Medtech has been actively fulfilling its corporate social responsibility through organizing various voluntary activities like charity donation and voluntary blood donation, striving to be a practitioner of public welfare undertakings.

In order to better repay the society, we became a member of the Red Cross Society of China Hangzhou Branch in September 2020 and established the Red Cross Society of Venus Medtech, giving full play to the active role of the Red Cross Society in building a harmonious socialist society by participating in and promoting various forms of humanitarian assistance and social service activities and spreading the love of the Group.



Fight against COVID-19

In 2020, facing the sudden COVID-19, we timely took measures for internal prevention and control, and actively carried out external donations. We donated RMB1 million to Wuhan through the Red Cross Society. We donated protection suits, face masks, respirators and other materials to the Second Affiliated Hospital of Zhejiang University School of Medicine through Zhejiang Sunshine Education Foundation, totaling approximately RMB95,400 (USD14,001.8), and donated anti-epidemic materials to West China Hospital of Sichuan University, totaling RMB44,000 (USD6,807).

Cultivation of Innovation Projects

In October 2020, Venus Medtech, as a founder, established the charitable trust of Zhang Xingdong Biomedical Engineering Award Fund and donated RMB10 million. The fund aims to support and encourage students, young teachers and scientific workers in the field of biomedical engineering through bonuses and other forms, cultivate outstanding talents in biomedical engineering for China, and promote the cultivation of innovation projects.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Venus Medtech (Hangzhou) Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 136 to 256, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and purchased intellectual property	
The Group had goodwill of RMB487,317,000 in the consolidated financial statements and intellectual property of RMB213,254,000 as disclosed in note 15 to the financial statements as at 31 December 2020. Intellectual property is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life. The Group is required to perform impairment test of goodwill at least on an annual basis, and to perform impairment test of intellectual property when an indication of impairment exists. The impairment test is based on the recoverable amount of the cash-generating unit to which the goodwill is allocated, and the recoverable amount of each individual asset, which is applicable. The recoverable amount is the higher of the cash-generating unit's or asset's value in use and its fair value less costs of disposal. This matter was significant to our audit because the impairment test process was complex and involved significant judgements and estimates.	We evaluated management's identification of the cash-generating units and the allocation of goodwill within the Group, and reviewed management's future forecasted cash flows and key assumptions used in the value-in-use calculation by comparing to the Group's development plan, budget and financial projections and analysis on the industry. We involved our valuation specialist to assist us in evaluating the key valuation parameters such as the discount rate calculation, the terminal growth rate applied and the valuation model with forecasted cash flows. We also focused on the adequacy of the disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter (continued)	How our audit addressed the key audit matter (continued)
Impairment assessment of goodwill and purchased intellectual property (continued)	
The Group's disclosures about the impairment test of goodwill and intellectual property are included in note 2.4 Summary of significant accounting policies, note 3 Significant accounting judgements and estimates, note 14 Goodwill and note 15 Other intangible assets.	
Cut-off of research and development costs	
The Group incurred significant research and development ("R&D") costs of RMB167,251,000 in the consolidated financial statements for the year ended 31 December 2020, which mainly consist of clinical trial expenses and service fees paid to outsourced service providers, staff costs and others. The research and development activities with these service providers are typically performed over an extended period. This matter was significant to our audit because the amount of research and development costs was significant and allocation of these costs to the appropriate reporting period based on the progress of the research and development projects involved judgement. The Group's disclosure about R&D costs is included in note 2.4 Summary of significant accounting policies and note 3 Significant accounting judgements and estimates.	We reviewed the key terms set out in agreements with the outsourced service providers. We evaluated the progress of the research and development projects based on inquiry with project managers, inspection of supporting documents and obtaining confirmations from the outsourced service providers, on a sample basis, to determine whether these costs were recorded in the appropriate reporting period. We have also performed search for unrecorded liabilities procedure subsequent to the year ended 31 December 2020.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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. When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to report that fact.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**276,047**	233,272
Cost of sales		**(48,767)**	(38,607)
Gross profit		**227,280**	194,665
Other income and gains	5	**118,160**	15,384
Selling and distribution expenses		**(134,572)**	(124,567)
Research and development costs		**(167,251)**	(200,531)
Administrative expenses		**(104,064)**	(197,608)
Other expenses		**(121,844)**	(44,794)
Impairment losses on financial assets, net		**50**	(2,172)
Finance costs	7	**(4,172)**	(21,920)
Share of profits of associates		**570**	–
LOSS BEFORE TAX	6	**(185,843)**	(381,543)
Income tax credit	10	**2,975**	778
LOSS FOR THE YEAR		**(182,868)**	(380,765)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(52,524)**	7,197
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(30,346)**	256
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(82,870)**	7,453
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(265,738)**	(373,312)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Loss attributable to:			
Owners of the parent		**(181,989)**	(380,723)
Non-controlling interests		**(879)**	(42)
		(182,868)	(380,765)
Total comprehensive loss attributable to:			
Owners of the parent		**(264,859)**	(373,270)
Non-controlling interests		**(879)**	(42)
		(265,738)	(373,312)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB(0.45)**	RMB(1.22)

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**100,005**	60,381
Goodwill	14	**487,317**	479,626
Other intangible assets	15	**233,004**	185,145
Investments in associates	16	**37,995**	–
Deferred tax assets	30	**1,156**	2,800
Equity investments designated at fair value through other comprehensive income	17	**6,525**	29,740
Financial assets at fair value through profit or loss	22	**64,473**	–
Prepayments, other receivables and other assets	20	**27,319**	6,665
Total non-current assets		**957,794**	764,357
CURRENT ASSETS			
Inventories	18	**59,904**	24,789
Trade receivables	19	**231,031**	162,200
Prepayments, other receivables and other assets	20	**34,984**	303,462
Due from related parties	37(c)	**22,500**	–
Financial assets at fair value through profit or loss	22	**44,128**	–
Pledged deposits	23	**259,716**	746
Cash and cash equivalents	23	**2,708,170**	2,413,254
Total current assets		**3,360,433**	2,904,451
CURRENT LIABILITIES			
Trade payables	24	**5,295**	1,452
Lease liabilities	25	**11,092**	8,992
Other payables and accruals	26	**358,487**	396,590
Due to a related party	37(c)	**–**	685
Interest-bearing bank borrowings	27	**–**	120,000
Government grants, current	28	**14,046**	24,046
Contract liabilities	29	**2,442**	2,392
Refund liabilities	5	**14,155**	12,362
Tax payable		**–**	1,939
Total current liabilities		**405,517**	568,458
NET CURRENT ASSETS		**2,954,916**	2,335,993
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,912,710**	3,100,350

Consolidated Statement of Financial Position

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,912,710**	3,100,350
NON-CURRENT LIABILITIES			
Lease liabilities	25	**21,671**	17,312
Deferred tax liabilities	30	**32,942**	37,292
Government grants, non-current	28	**1,062**	–
Total non-current liabilities		**55,675**	54,604
Net assets		**3,857,035**	3,045,746
EQUITY			
Equity attributable to owners of the parent			
Share capital	31	**422,969**	404,469
Reserves	32	**3,392,455**	2,632,509
		3,815,424	3,036,978
Non-controlling interests		**41,611**	8,768
Total equity		**3,857,035**	3,045,746

Mr. Min Frank Zeng
Director

Mr. Zhenjun Zi
Director

Mr. Lim Hou-Sen (Lin Haosheng)
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

	Attributable to owners of the parent								
	Share capital RMB'000 (note 31)	Share premium* RMB'000 (note 32)	Other reserves* RMB'000 (note 32)	Fair value reserve* RMB'000 (note 32)	Exchange fluctuation reserve* RMB'000 (note 32)	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	300,000	199,672	138,490	(724)	8,137	(184,011)	461,564	8,810	470,374
Loss for the year	–	–	–	–	–	(380,723)	(380,723)	(42)	(380,765)
Other comprehensive income for the year:									
Exchange differences related to foreign operations	–	–	–	–	7,197	–	7,197	–	7,197
Changes in fair value of equity investment at fair value through other comprehensive income/ (loss), net of tax	–	–	–	256	–	–	256	–	256
Total comprehensive loss for the year	–	–	–	256	7,197	(380,723)	(373,270)	(42)	(373,312)
Capital contribution by shareholders	14,151	294,492	–	–	–	–	308,643	–	308,643
Issue of shares from initial public offering	90,318	2,588,203	–	–	–	–	2,678,521	–	2,678,521
Share issue expenses	–	(159,185)	–	–	–	–	(159,185)	–	(159,185)
Equity-settled share award expense	–	–	120,705	–	–	–	120,705	–	120,705
At 31 December 2019	404,469	2,923,182	259,195	(468)	15,334	(564,734)	3,036,978	8,768	3,045,746

	Attributable to owners of the parent								
	Share capital RMB'000 (note 31)	Share premium* RMB'000 (note 32)	Other reserves* RMB'000 (note 32)	Fair value reserve* RMB'000 (note 32)	Exchange fluctuation reserve* RMB'000 (note 32)	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	404,469	2,923,182	259,195	(468)	15,334	(564,734)	3,036,978	8,768	3,045,746
Loss for the year	–	–	–	–	–	(181,989)	(181,989)	(879)	(182,868)
Other comprehensive loss for the year:									
Exchange differences related to foreign operations	–	–	–	–	(52,524)	–	(52,524)	–	(52,524)
Changes in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	(30,346)	–	–	(30,346)	–	(30,346)
Total comprehensive loss for the year	–	–	–	(30,346)	(52,524)	(181,989)	(264,859)	(879)	(265,738)
Waiver from a non-controlling shareholder	–	–	–	–	–	–	–	(8,778)	(8,778)
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	42,500	42,500
Issue of placing shares	18,500	1,028,449	–	–	–	–	1,046,949	–	1,046,949
Share issue expenses	–	(12,644)	–	–	–	–	(12,644)	–	(12,644)
Equity-settled share award expense	–	–	9,000	–	–	–	9,000	–	9,000
At 31 December 2020	422,969	3,938,987	268,195	(30,814)	(37,190)	(746,723)	3,815,424	41,611	3,857,035

* These reserve accounts comprise the consolidated reserves of RMB3,392,455,000 (2019: RMB2,632,509,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(185,843)**	(381,543)
Adjustments for:			
Finance costs	7	**4,172**	21,920
Bank interest income	5	**(34,667)**	(6,163)
Fair value gain on a derivative financial instrument	5	**(44,128)**	–
Loss on disposal of property, plant and equipment	6	**560**	35
Waiver from a non-controlling shareholder upon liquidation of a subsidiary	5	**(8,073)**	–
Impairment of trade and other receivables, net		**(50)**	2,172
Depreciation of property, plant and equipment		**10,633**	7,946
Depreciation of right-of-use assets		**10,285**	7,977
Amortisation of other intangible assets	15	**16,794**	12,983
Equity-settled share award expense		**9,000**	120,705
Impairment of inventories	18	**2,512**	592
Share of profits of associates		**(570)**	–
Fair value gains, net:			
Financial assets at fair value through profit or loss – mandatorily classified as such	5	**(1,310)**	–
Foreign exchange differences, net		**96,455**	(11,389)
		(124,230)	(224,765)
Increase in inventories		**(37,627)**	(8,696)
Increase in trade receivables		**(68,755)**	(83,719)
Decrease/(increase) in prepayments and other assets		**397**	(10,797)
Increase in other receivables		**(2,049)**	(3,470)
Decrease in amounts due from related parties		**–**	90
Increase in trade payables		**3,843**	469
Increase in an amount due to a related party		**–**	4
(Decrease)/increase in other payables and accruals		**(26,793)**	20,595
Increase in contract liabilities		**50**	10
Increase in refund liabilities		**1,793**	6,882
(Decrease)/increase in government grants		**(8,938)**	1,233
Decrease in pledged time deposits		**(1,753)**	–
Cash used in operations		**(264,062)**	(302,164)
Interest received		**32,530**	3,876
Net income tax paid		**(5,473)**	(5,003)
Net cash flows used in operating activities		**(237,005)**	(303,291)

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(49,782)**	(15,709)
Purchases of other intangible assets	**(74,265)**	(8,820)
Investments in associates	**(39,525)**	–
Purchases of equity investments designated at fair value through other comprehensive income	**(7,131)**	–
Purchases of financial assets at fair value through profit or loss	**(63,163)**	–
Proceeds from disposal of items of property, plant and equipment	**32**	3
Loans to a third party	**(149,857)**	–
Repayments of loans to a third party	**140,358**	–
Acquisition of a subsidiary	**(54,610)**	(6,443)
Net cash flows used in investing activities	**(297,943)**	(30,969)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution from non-controlling shareholders	**20,000**	–
Capital contribution from shareholders	**–**	308,643
Proceeds from issue of placing shares	**1,034,305**	–
Proceeds from initial public offering	**–**	2,678,521
Share issue expenses	**–**	(154,593)
Loans to a related party	**–**	(12,970)
Repayments of loans to related parties	**–**	13,227
Deposit for a guarantee of a loan facility	**(266,577)**	(272,691)
Proceeds from a deposit for a guarantee of a loan facility	**274,074**	–
Proceeds from bank borrowings	**–**	120,000
Repayment of bank borrowings	**(120,000)**	(80,000)
Principal portion of lease payments	**(9,567)**	(7,691)
Interest portion of lease liabilities	**(1,654)**	(1,256)
Interest paid	**(671)**	(7,722)
Payment for a deferred finance charge for a guarantee	**(2,159)**	(6,113)
Net cash flows from financing activities	**927,751**	2,577,355
NET INCREASE IN CASH AND CASH EQUIVALENTS	**392,803**	2,243,095
Cash and cash equivalents at beginning of year	**2,413,254**	164,914
Effect of foreign exchange rate changes, net	**(97,887)**	5,245
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,708,170**	2,413,254
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,423,054**	622,440
Non-pledged time deposits	**285,116**	1,790,814
Cash and cash equivalents as stated in the statements of cash flows and statements of financial position	**2,708,170**	2,413,254

1. CORPORATE INFORMATION

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

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

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

Information about subsidiaries

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

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Venus Medtech of America ("Venus America")	United States of America ("USA") 31 August 2012	United States dollars ("US$") 10,000,000	100% (direct)	Research and development
Jilin Venus Haoyue Medtech Limited ("Haoyue")* 吉林启明皓月生物科技有限公司	PRC/ Mainland China 14 October 2020	US$10,000,000/ US$1,500,000	15% (indirect)**	Research and development
JVH of America ("JVH")	USA 30 October 2020	US$1,000,000	15% (indirect)***	Research and development
Keystone Heart Ltd. ("Keystone")	Israel 17 November 2004	Nil	100% (indirect)	Research and development and manufacturing
Keystone Heart US, Inc.	USA 15 June 2016	US$102,000	100% (indirect)	Research and development
510 Kardiac Devices, Inc. ("510 Kardiac")	Israel 5 February 2015	USD2,166,364	100% (indirect)	Research and development

1. CORPORATE INFORMATION (Continued)

Information about subsidiaries (Continued)

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

** Haoyue is accounted for as a subsidiary of the Group even though the Group has only a 15% equity interest in this company, with 60% of voting rights based on the contractual arrangement, as further detailed in note 37 (b) to the financial statements.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include all standards and interpretations approved by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) 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 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or 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 Conceptual Framework for Financial Reporting 2018 and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) Amendment to IFRS 16 provides a 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. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group as the Group's lease payments did not have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases.

(e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

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

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The Group had no interest-bearing bank or other borrowings as at 31 December 2020.

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

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

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

Amendments to IAS 1 define that 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. The amendments specify that in assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. The amendments also clarify that although a transaction, other event or condition to which the accounting policy information relates may be material, it does not necessarily mean that the corresponding accounting policy information is material to the entity's financial statements. On the other hand, the amendments highlight that other disclosures required by IFRSs may be material despite the corresponding accounting policy information being immaterial. The amendments are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 8 define accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments clarify that an accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty, which means that the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such cases, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Accounting estimates typically involve the use of judgements or assumptions based on the latest available reliable information. The amendments further clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The amendments are effective for annual 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 IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents machinery and office equipment under installation, and leasehold improvements under construction, which are stated at cost less any impairment losses, and are 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.

Intangible assets (other than goodwill)

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

Intellectual property

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

Software

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(a) Right-of-use assets

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

Office premises	2 to 6 years
Motor vehicles	3 years

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

(b) Lease liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(b) Lease liabilities (Continued)

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

(c) Short-term leases

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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).

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a government grant account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Sale of medical devices

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

Some contracts for the sale of medical devices provide customers with rights of sales rebates. The rights of sales rebates give rise to variable consideration.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Sale of medical devices (Continued)

(i) Sales rebates

The Group may provide retrospective sales rebates to certain distributors based on their purchase amount, which are recognised as basic sales rebates, and may also provide additional sales rebates when distributors meet their performance requirements, such as sales targets, as agreed in the distribution agreements between the Group and the distributors. Rebates are offset against amounts payable by the distributor arising from its purchase. The expected value method is used to estimate the amount of the additional sales rebates. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(ii) Contract liabilities

A contract liability is the obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

(iii) Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees and non-employees is measured by reference to the fair value at the date at which they are granted. The fair value is measured at the market value of the shares, adjusted for the exclusion of expected dividends to be received in the vesting period, further details of which are given in note 33 to these financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency, as the major operations of the Group are within Mainland China. The functional currency of certain subsidiaries incorporated outside Mainland China is the US$ and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of certain overseas subsidiaries, which use currencies other than the RMB as their functional currencies, are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in these 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 to technical feasibility of completing the intangible asset, future economic benefits and so forth.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the historical observed default rates from listed companies in the same sector. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the medical industry sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast 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 19 to these financial statements.

Fair value of unlisted investment

The Group has used the discount cash flow method for the valuation of the unlisted debt investments and an unlisted equity investment, investment cost method (valued based on a recent transaction valuation) for valuation of an unlisted equity investment, and valuation techniques similar to forward pricing for the valuation of a derivative financial instrument to determine the fair value of these financial assets at the end of year as detailed in note 39 to these financial statements. These valuations require the Group to make estimates about scenario probabilities, risk free rate, discount rate and forward exchange rate, and hence, they are subject to uncertainty. In addition, the Group makes estimates about the discount cash flow for a unlisted equity investment. The Group classifies the fair value of these investments as Level 2 and Level 3. The fair values of the unlisted investments were RMB115,126,000 (2019: RMB29,740,000). Further details are included in notes 17 and 22 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents transferred from third parties. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. If the Group's estimate of the duration of the sale of a product is shorter than the patent life, then the shorter period is used. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at the end of each reporting period based on changes in circumstances.

Impairment of non-financial assets (other than goodwill)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the year in which it arises in those expense categories consistent with the function of the impaired asset.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires estimations of the recoverable amount of the cash-generating unit to which the goodwill is allocated, which is the higher of the cash-generating unit's value in use and its fair value less costs of disposal using cash flow projections based on a financial budget. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill was RMB487,317,000 (2019: RMB479,626,000). Further details are given in note 14 to these financial statements.

Estimating variable consideration for sales rebates

The Group estimates variable consideration to be included in the transaction price for the sale of medical devices with rights of sales rebates.

The Group's expected sales rebates are analysed on a per distributor basis for contracts that are subject to distributors' performance requirements such as sales targets. Determining whether a distributor will be likely entitled to rebate will depend on the distributor's historical rebates entitlement and accumulated purchases to date. Any significant changes in experience as compared to historical purchasing patterns and sales rebate entitlements of distributors will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected sales rebates quarterly and refund liabilities are adjusted accordingly. Estimates of expected sales rebates are sensitive to changes in circumstances and the Group's past experience regarding sales rebate entitlements may not be representative of distributors' actual sales rebate entitlements in the future. As at 31 December 2020, the amount recognised as refund liabilities for the expected sales rebates was RMB14,155,000 (2019: RMB12,362,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Further details are included in note 30 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
Mainland China	**272,010**	231,704
Others	**4,037**	1,568
	276,047	233,272

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

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	2020 RMB'000	2019 RMB'000
Mainland China	**170,734**	62,231
USA	**59,086**	20,572
Israel	**166,157**	168,216
	395,977	251,019

The non-current asset information above is based on the locations of the assets and excludes goodwill, deferred tax assets and financial instruments.

Information about major customers

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

	2020 RMB'000	2019 RMB'000
Customer A	**30,705**	N/A*
Customer B	**30,269**	36,509
Customer C	**N/A***	39,092
Customer D	**N/A***	25,296

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

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers		
Sale of medical devices	**276,047**	233,272

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Geographical markets		
Mainland China	**272,010**	231,704
Others	**4,037**	1,568
Total revenue from contracts with customers	**276,047**	233,272
Timing of revenue recognition		
Goods transferred at a point in time	**276,047**	233,272

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations

There was no revenue recognised during the year that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 RMB'000	2019 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**2,442**	2,392

The amounts of transaction prices allocated to the performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(c) Refund liabilities

	2020 RMB'000	2019 RMB'000
Refund liabilities arising from sales rebates	**14,155**	12,362

	Note	2020 RMB'000	2019 RMB'000
Other income			
Government grants	(a)	**29,749**	9,189
Bank interest income		**34,667**	6,163
Others		**233**	32
		64,649	15,384
Gains			
Fair value gains, net:			
Financial assets at fair value through profit or loss – mandatorily classified as such		**1,310**	–
Fair value gain on a derivative financial instrument		**44,128**	–
Waiver from a non-controlling shareholder upon liquidation of a subsidiary		**8,073**	–
		53,511	–
Other income and gains		**118,160**	15,384

Note:

(a) The government grants mainly represent incentives received from the local governments for the purpose of compensation for expenditure arising from research activities and clinical trial activities and awards for new valve product development and expenditure incurred on certain projects.

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2020 RMB'000	2019 RMB'000
Cost of inventories sold*		**46,236**	35,884
Research and development costs**		**167,251**	200,531
Depreciation of property, plant and equipment		**10,633**	7,946
Depreciation of right-of-use assets		**10,285**	7,977
Amortisation of other intangible assets***	15	**16,794**	12,983
Impairment of trade receivables, net	19	**(76)**	2,165
Impairment of other receivables	20	**26**	7
Impairment of inventories	18	**2,512**	592
Auditor's remuneration		**3,871**	2,068
Government grants		**(29,749)**	(9,189)
Bank interest income		**(34,667)**	(6,163)
Donation		**58,377**	32,525
Listing expenses		**–**	24,587
Loss on disposal of items of property, plant and equipment, net		**560**	35
Lease payments not included in the measurement of lease liabilities		**942**	939
Waiver from a non-controlling shareholder upon liquidation of a subsidiary		**(8,073)**	–
Fair value gain on a derivative financial instrument		**(44,128)**	–
Fair value gains, net:			
Financial assets at fair value through profit or loss			
– mandatorily classified as such		**(1,310)**	–
Foreign exchange differences, net		**60,145**	11,087
Employee benefit expenses (excluding directors', supervisors' and chief executive's remuneration (note 8)):			
Wages and salaries		**133,342**	135,787
Pension scheme contributions		**1,165**	1,838
Staff welfare expenses		**15,290**	13,826
Equity-settled share award expense		**–**	91,764
		149,797	243,215

6. LOSS BEFORE TAX (Continued)

* The cost of inventories sold includes RMB23,734,000 (2019: RMB19,493,000) relating to employee benefit expenses, depreciation and amortisation, which is also included in the respective total amounts disclosed above for each type of expenses.

** The research and development costs include RMB62,679,000 (2019: RMB63,743,000) relating to employee benefit expenses, depreciation and amortisation, which are also included in the respective total amounts disclosed above for each type of expenses. It also included share award expense for a specialist of RMB9,000,000 (2019:RMB2,346,000) during the year.

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

^ Waiver from a non-controlling shareholder upon liquidation of a subsidiary is included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 RMB'000	2019 RMB'000
Interest on bank loans	**505**	7,758
Interest portion of lease liabilities	**1,654**	1,256
Finance charge for a guarantee	**2,013**	12,906
	4,172	21,920

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

Directors', supervisors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	**1,011**	402
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,229**	2,691
Pension scheme contributions	**6**	78
Equity-settled share award expense	**–**	26,595
	3,235	29,364
	4,246	29,766

(a) Independent non-executive directors

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

	2020 RMB'000	2019 RMB'000
Mr. Ting Yuk Anthony Wu	**337**	358
Mr. Wan Yee Joseph Lau	**337**	22
Mr. Chi Wai Suen	**337**	22
	1,011	402

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
2020					
Mr. Zhenjun Zi [1]	–	803	2	–	805
Mr. Lim Hou-Sen (Lin Haosheng)	–	1,243	2	–	1,245
Mr. Min Frank Zeng [2]	–	780	–	–	780
	–	2,826	4	–	2,830
2019					
Mr. Zhenjun Zi [1]	–	804	26	22,445	23,275
Mr. Lim Hou-Sen (Lin Haosheng)	–	883	26	4,003	4,912
Mr. Min Frank Zeng [2]	–	736	–	–	736
	–	2,423	52	26,448	28,923

During the year ended 31 December 2020, no director was granted share award (2019: Nil).

(1) Mr. Zhenjun Zi was also the general manager of the Company during the year.

(2) Mr. Min Frank Zeng was also the chairman of the board of directors of the Company during the year.

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(c) Chief executive

The Group did not appoint a chief executive, and the duty of chief executive was performed by the general manager.

(d) Non-executive directors

There were no fees and other emoluments payable to non-executive directors during the year (2019: Nil).

(e) Supervisors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share award expense RMB'000	Total remuneration RMB'000
2020					
Ms. Yan Xiao	–	403	2	–	405
Mr. Wei Wang	–	–	–	–	–
Ms. Lingling Yang	–	–	–	–	–
	–	403	2	–	405
2019					
Ms. Yan Xiao	–	268	26	147	441
Mr. Wei Wang	–	–	–	–	–
Ms. Lingling Yang	–	–	–	–	–
	–	268	26	147	441

There was no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2019: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the five (2019: remaining four) highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, bonuses, allowances and benefits in kind	**15,284**	40,034
Pension scheme contributions	**9**	26
Equity-settled share award expense	**–**	43,781
	15,293	83,841

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	
	2020	2019
Nil to HK$1,000,000	**–**	–
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,000,001 to HK$3,500,000	**2**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$9,500,001 to HK$10,000,000	**–**	1
HK$11,000,001 to HK$11,500,000	**–**	1
HK$27,500,001 to HK$28,000,000	**–**	1
HK$46,500,001 to HK$47,000,000	**–**	1
	5	4

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

In prior years, shares 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 33 to these financial statements. The fair value of such awarded shares, which has been recognised in profit or loss at one time or over the vesting period, was determined as at the date of grant and the amount included in these financial statements for the year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

PRC

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% on the taxable income. Preferential tax treatment is available to the Company, since it was recognised as a High and New Technology Enterprise on 4 December 2019, and was entitled to a preferential tax rate of 15% during the year (2019: 15%).

USA

Pursuant to the relevant tax laws of the USA, federal corporation income tax was levied at the rate of 21% (2019: 21%) on the taxable income arising in the USA during the year.

Israel

Pursuant to the relevant tax laws of Israel, the corporate income tax was levied at 23% (2019: 23%) on the taxable income arising in Israel during the year.

United Kingdom ("UK")

Pursuant to the relevant tax laws of the UK, the principal federal tax was levied at the rate of up to 19% (2019: up to 19%) on the taxable income arising in the UK during the year.

Netherlands – ("NL")

Pursuant to the relevant tax laws of the NL, the corporate income tax was levied at the rate of up to 25% on the taxable income arising in the NL during the year.

10. INCOME TAX (Continued)

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

	2020 RMB'000	2019 RMB'000
Current – USA		
(Credit)/charge for the year	**(461)**	1,704
Current – Israel		
Charge for the year	**235**	269
Current – UK		
Charge for the year	**110**	97
Current – NL		
Charge for the year	**55**	–
Deferred tax (note 30)	**(2,914)**	(2,848)
	(2,975)	(778)

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

	2020 RMB'000	2019 RMB'000
Loss before tax	**(185,843)**	(381,543)
Tax at the statutory tax rate	**(29,379)**	(71,977)
Expenses not deductible for tax	**5,905**	4,690
Income not subject to tax	**(178)**	–
Additional deductible allowance for research and development costs	**(5,506)**	(4,690)
Temporary differences and tax losses not recognised	**26,183**	71,199
Tax credit at the Group's effective tax rate	**(2,975)**	(778)

10. INCOME TAX (Continued)

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

	2020 RMB'000	2019 RMB'000
Tax losses	**997,367**	963,840
Deductible temporary differences	**197,182**	557,036
	1,194,549	1,520,876

The Group has tax losses arising in Mainland China of RMB332,627,000 (2019: RMB280,263,000) that will expire in one to ten years for offsetting against taxable profits.

The Group has tax losses arising in the USA of US$1,945,000 (equivalent to RMB13,418,000) (2019: US$1,246,000 (equivalent to RMB8,412,000)) that have no limitation for offsetting against future taxable profits.

The Group has tax losses arising in Hong Kong of US$973,000 (equivalent to RMB6,711,000) (2019: US$803,000 (equivalent to RMB5,408,000)) that have no limitation for offsetting against future taxable profits.

The Group has tax losses arising in Israel of US$93,454,000 (equivalent to RMB644,611,000) (2019: US$97,088,000 (equivalent to RMB669,757,000)) that have no limitation for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDEND

No dividend has been paid or declared by the Company during the year (2019: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 409,265,072 (2019: 311,037,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculation of basic loss per share is based on:

	2020 RMB'000	2019 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent	**(181,989)**	(380,723)

	Number of shares	
	2020	2019
Shares		
Weighted average number of shares in issue during the year	**409,265,072**	311,037,000

13. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Right-of-use assets: Office premises RMB'000	Right-of-use assets: Motor vehicles RMB'000	Total RMB'000
31 December 2020								
At 1 January 2020:								
Cost	28,813	7,366	1,456	13,961	842	35,208	1,102	88,748
Accumulated depreciation	(6,306)	(1,425)	(398)	(8,762)	–	(10,974)	(502)	(28,367)
Net carrying amount	22,507	5,941	1,058	5,199	842	24,234	600	60,381
At 1 January 2020, net of accumulated depreciation	22,507	5,941	1,058	5,199	842	24,234	600	60,381
Additions	2,563	5,951	175	4,958	31,661	16,017	803	62,128
Disposals	(532)	(20)	(40)	–	–	(426)	–	(1,018)
Depreciation provided during the year	(4,701)	(1,042)	(1,083)	(3,807)	–	(9,864)	(421)	(20,918)
Transfers	7,523	124	950	926	(9,523)	–	–	–
Exchange realignment	(64)	(167)	–	(104)	–	(216)	(17)	(568)
At 31 December 2020, net of accumulated depreciation	27,296	10,787	1,060	7,172	22,980	29,745	965	100,005
At 31 December 2020:								
Cost	37,968	13,197	2,538	19,097	22,980	38,039	1,559	135,378
Accumulated depreciation	(10,672)	(2,410)	(1,478)	(11,925)	–	(8,294)	(594)	(35,373)
Net carrying amount	27,296	10,787	1,060	7,172	22,980	29,745	965	100,005

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

						Right-of-use assets		
	Machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Office premises RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2019								
At 1 January 2019:								
Cost	19,739	3,048	1,090	11,417	329	23,291	336	59,250
Accumulated depreciation	(3,033)	(591)	(158)	(5,274)	–	(3,463)	–	(12,519)
Net carrying amount	16,706	2,457	932	6,143	329	19,828	336	46,731
At 1 January 2019, net of accumulated depreciation	16,706	2,457	932	6,143	329	19,828	336	46,731
Additions	7,812	3,224	366	1,244	4,302	11,804	760	29,512
Disposals	(27)	(11)	–	–	–	–	–	(38)
Depreciation provided during the year	(3,380)	(841)	(240)	(3,485)	–	(7,480)	(497)	(15,923)
Transfers	1,384	1,117	–	1,288	(3,789)	–	–	–
Exchange realignment	12	(5)	–	9	–	82	1	99
At 31 December 2019, net of accumulated depreciation	22,507	5,941	1,058	5,199	842	24,234	600	60,381
At 31 December 2019:								
Cost	28,813	7,366	1,456	13,961	842	35,208	1,102	88,748
Accumulated depreciation	(6,306)	(1,425)	(398)	(8,762)	–	(10,974)	(502)	(28,367)
Net carrying amount	22,507	5,941	1,058	5,199	842	24,234	600	60,381

14. GOODWILL

	RMB'000
Cost as at 1 January 2019	471,857
Exchange realignment	7,769
Impairment	–
Net carrying amount as at 31 December 2019	479,626
At 31 December 2019	
Cost	479,626
Accumulated impairment	–
Net carrying amount	479,626
Cost as at 1 January 2020	**479,626**
Acquisition of a subsidiary (note 34(b))	**42,322**
Exchange realignment	**(34,631)**
Impairment	**–**
Net carrying amount as at 31 December 2020	**487,317**
At 31 December 2020	
Cost	**487,317**
Accumulated impairment	**–**
Net carrying amount	**487,317**

14. GOODWILL (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Keystone cash-generating unit; and
- 510 Kardiac cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Keystone		510 Kardiac		Total	
	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**
Carrying amount of goodwill	479,626	**448,598**	–	**38,719**	479,626	**487,317**

Keystone cash-generating unit

The recoverable amount of the Keystone unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a 10-year period approved by senior management. Management considers that using a 10-year forecast period for a financial budget in the goodwill impairment test is appropriate because the useful lives of Keystone's relevant intellectual property are longer than ten years, and it generally takes longer for a medical device company to reach perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the market of such product is at an early stage of development with substantial growth potential. Hence, financial budgets covering a 10-year period were used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

14. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Keystone cash-generating unit (Continued)

Key assumptions used in the calculation are as follows:

	2020	2019
Revenue (% compound growth rate)	**48.64%**	45.65%
Gross margin (% of revenue)	**65.00% – 74.00%**	70.00% – 80.00%
Terminal growth rate	**0%**	0%
Pre-tax discount rate	**14.70%**	14.30%

Assumptions were used in the value-in-use calculation of the cash-generating unit as at 31 December 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch Keystone's product and also expectation of the future market. Keystone's product candidate, TriGUARD3 cerebral embolic protection device ("Keystone Product"), is at clinical trial stage, and management expects to file for Food and Drug Administration ("FDA") 510(k) clearance in the USA for Keystone Product in the third quarter of 2021. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch Keystone Product, increased for expected efficiency improvements and expected market development.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

14. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Keystone cash-generating unit (Continued)

If the pre-tax discount rate rose to 16.28%, the gross margin decreased to the range from 62.00% to 70.00%, or the compound growth rate of revenue decreased to 45.75% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of goodwill. Except for these, any reasonable possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment at 31 December 2020.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amount of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary.

The values assigned to the key assumptions on market development of related products and the pre-tax discount rate are consistent with external information sources.

510 Kardiac cash-generating unit

The recoverable amount of the 510 Kardiac unit has been determined based on a value-in-use calculation using cash flow projections based on a financial budget covering a 10-year period approved by senior management. Management considers that using a 10-year forecast period for a financial budget in the goodwill impairment test is appropriate because the useful lives of 510 Kardiac's relevant intellectual property are longer than ten years, and it generally takes longer for a medical device company to reach perpetual growth mode, compared to companies in other industries, especially when its product is still under clinical trial and the market of such product is at an early stage of development with substantial growth potential. Hence, financial budgets covering a 10-year period were used as management believes that a forecasted period longer than five years is feasible and reflects a more accurate entity value.

14. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

510 Kardiac cash-generating unit (Continued)

Key assumptions used in the calculation are as follows:

	2020
Revenue (% compound growth rate)	**39.26%**
Gross margin (% of revenue)	**58.99%-75.07%**
Terminal growth rate	**2.50%**
Pre-tax discount rate	**33.94%**

Assumptions were used in the value in use calculation of the cash-generating unit as at 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Revenue – The basis used to determine the budgeted revenue is based on management's expectation of when to launch 510 Kardiac's product and also expectation of the future market. The management has filed for FDA 510(k) clearance in the USA for 510 Kardiac Product in December 2020. The compound growth rate of revenue was estimated based on information available at the time of assessment, disregarding information that became available after the assessment. Such information includes current industry overview and estimated market development of related products.

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve in the year when to launch 510 Kardiac Product, increased for expected efficiency improvements and expected market development.

Terminal growth rate – The forecasted terminal growth rate is based on management expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

Pre-tax discount rate – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

14. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

510 Kardiac cash-generating unit (Continued)

If the pre-tax discount rate rose to 37.58%, the gross margin decreased to the range from 56.20% to 72.28%, the terminal growth rate decreased to 0.00% or the compound growth rate of revenue decreased to 35.07% (with other assumptions remaining unchanged), the recoverable amount of the cash-generating unit would be decreased to the carrying amount of goodwill. Except for these, any reasonable possible changes in the other key assumptions used in the value-in-use assessment model would not affect management's view on impairment at 31 December 2020.

Based on the impairment assessment conducted by the Group utilising the above key assumptions, the recoverable amount of the cash-generating unit estimated from the cash flow forecast exceeded the carrying amount of goodwill and no impairment was considered necessary.

The values assigned to the key assumptions on market development of related products and the after-tax discount rate are consistent with external information sources.

15. OTHER INTANGIBLE ASSETS

	Intellectual property RMB'000	Software RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	**180,157**	**4,988**	**185,145**
Additions	**47,193**	**16,464**	**63,657**
Acquisition of a subsidiary (note 34(b))	**14,748**	**–**	**14,748**
Exchange realignment	**(13,752)**	**–**	**(13,752)**
Amortisation during the year (note 6)	**(15,092)**	**(1,702)**	**(16,794)**
At 31 December 2020	**213,254**	**19,750**	**233,004**
At 31 December 2020:			
Cost	**245,695**	**22,851**	**268,546**
Accumulated amortisation	**(32,441)**	**(3,101)**	**(35,542)**
Net carrying amount	**213,254**	**19,750**	**233,004**
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	189,500	1,620	191,120
Additions	–	4,061	4,061
Exchange realignment	2,947	–	2,947
Amortisation during the year (note 6)	(12,290)	(693)	(12,983)
At 31 December 2019	180,157	4,988	185,145
At 31 December 2019:			
Cost	199,175	6,387	205,562
Accumulated amortisation	(19,018)	(1,399)	(20,417)
Net carrying amount	180,157	4,988	185,145

16. INVESTMENTS IN ASSOCIATES

	2020 RMB'000
Share of net assets	**37,995**

The Group's shareholding in these associates comprise equity shares held through a wholly-owned subsidiary of the Company. The Group's investments in associates are accounted for under the equity method of accounting because the Group has significant influence over these entities by way of representation on the board of directors or equivalent governing body of the investee and participation in the policy-making process, despite the fact that the Group's direct equity interest in these entities was lower than 20% for the year ended 31 December 2020.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2020 RMB'000
Share of the associates' profits for the year	**570**
Share of the associates' total comprehensive income	**570**
Aggregate carrying amount of the Group's investments in the associates	**37,995**

17. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Unlisted equity investments, at fair value		
Colibri Heart Valve LLC ("Colibri")	–	29,740
Opus Medical Therapies, LLC ("Opus")	**6,525**	–
	6,525	29,740

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

The fair value adjustment on the unlisted equity investment measured at fair value through other comprehensive income for the year was in amounts of losses of RMB30,346,000 (2019: an amount of gain of RMB256,000).

18. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	**30,667**	11,319
Work in progress	**8,616**	4,271
Finished goods	**24,444**	10,510
	63,727	26,100
Less: Provision for inventories	**(3,823)**	(1,311)
	59,904	24,789

18. INVENTORIES (Continued)

The movements in provision for impairment of inventories are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**1,311**	719
Provision (note 6)	**2,512**	592
At end of year	**3,823**	1,311

19. TRADE RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	**234,698**	166,002
Impairment	**(3,667)**	(3,802)
	231,031	162,200

The Group's trading terms with its customers are mainly on credit. The credit period is generally six months to one year. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2020 RMB'000	2019 RMB'000
Within 6 months	**180,606**	122,109
7 to 12 months	**39,658**	36,216
Over 12 months	**10,767**	3,875
	231,031	162,200

19. TRADE RECEIVABLES (Continued)

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

	2020 RMB'000	2019 RMB'000
At beginning of year	**3,802**	1,637
Impairment losses, net (note 6)	**(76)**	2,165
Amount written off as uncollectible	**(59)**	–
At end of year	**3,667**	3,802

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The expected credit loss rate was reviewed, and adjusted if appropriate, as at the end of the reporting period. The provision matrix is initially based on the historical observed default rates from listed companies in the same sector. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information.

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

	Less than 1 year RMB'000	1 to 2 years RMB'000	Total RMB'000
As at 31 December 2020			
Expected credit loss rate (%)	**0.99%**	**11.91%**	**1.56%**
Gross carrying amount	**222,475**	**12,223**	**234,698**
Expected credit losses	**2,211**	**1,456**	**3,667**
As at 31 December 2019			
Expected credit loss rate (%)	1.85%	17.42%	2.29%
Gross carrying amount	161,310	4,692	166,002
Expected credit losses	2,985	817	3,802

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2020 RMB'000	2019 RMB'000
Non-current:			
Prepayments for purchase of items of other intangible assets		**15,367**	4,759
Rental and other deposits		**2,346**	1,172
Prepayments for purchase of items of property, plant and equipment		**9,606**	734
		27,319	6,665
Current:			
Other receivables		**11,893**	9,830
Prepayments		**12,154**	11,494
Value-added tax recoverable		**10,194**	8,313
Prepaid rental expenses		**778**	200
Deposit for a guarantee of a loan facility	(a)	**–**	270,277
Interest receivables		**–**	2,287
Deferred finance charges for a guarantee		**–**	1,070
		35,019	303,471
Less: Impairment of other receivables		**(35)**	(9)
		34,984	303,462

Note:

(a) Deposit for a guarantee of a loan facility represents the collateral amounts paid to a financial institution for a guarantee, which is provided for the payment of contingent consideration related to the acquisition of Keystone. During the year, the Group had not renewed the contract after expiration and received all the deposits.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. For certain receivables for which the counterparty failed to make demanded repayment, the Group has made 100% provision ("default receivables"). For rental deposits included in other receivables, the balances were settled within 12 months and had no historical default. Except for the above balances, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2020 and 2019, except for the default receivables, the Group estimated that the expected credit loss rate for other receivables is minimal.

The movements in provision for impairment of other receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**9**	2
Impairment losses recognised (note 6)	**26**	7
At end of year	**35**	9

21. LOANS TO DIRECTORS

Loans to directors, 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 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2019 and 1 January 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2019 RMB'000	Security held
Horizon Scientific Corporation ("Horizon")	–	–	–	12,970	–	None
Hangzhou Mingnuo Investment Partnership (Limited Partnership) ("Mingnuo") 杭州明諾投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qifei Investment Partnership (Limited Partnership) ("Qifei") 杭州啟非投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qinuo Investment Partnership (Limited Partnership) ("Qinuo") 杭州啟諾投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qixin Investment Partnership (Limited Partnership) ("Qixin") 杭州啟心投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qilai Investment Partnership (Limited Partnership) ("Qilai") 杭州啟來投資合夥企業(有限合夥)*	–	–	–	10	10	None

21. LOANS TO DIRECTORS (continued)

Name	At 31 December 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2019 and 1 January 2020 RMB'000	Maximum amount outstanding during the year RMB'000	At 1 January 2019 RMB'000	Security held
Hangzhou Qihe Investment Partnership (Limited Partnership) ("Qihe") 杭州啟和投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qili Investment Partnership (Limited Partnership) ("Qili") 杭州啟立投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qichu Investment Partnership (Limited Partnership) ("Qichu") 杭州啟初投資合夥企業(有限合夥)*	–	–	–	10	10	None
Hangzhou Qisheng Investment Partnership (Limited Partnership) ("Qisheng") 杭州啟勝投資合夥企業(有限合夥)*	–	–	–	10	10	None
	–		–		90	

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

The loans granted to Mingnuo, Qifei, Qinuo, Qichu, Qixin, Qilai, Qihe, Qili and Qisheng, nine companies controlled by Mr. Zhenjun Zi, are unsecured, non-interest-bearing and repayable on demand.

The loan granted to Horizon, a company controlled by Mr. Min Frank Zeng, is unsecured, non-interest-bearing and repayable on demand.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Non-current:		
Unlisted debt investments, at fair value		
Pi-Cardia Ltd.	**29,630**	–
Opus Medical Therapies, LLC	**34,843**	–
	64,473	–
Current:		
Derivative financial instrument, at fair value	**44,128**	–
	108,601	–

The above unlisted debt investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The Group entered into a forward currency contract in order to manage the Group's foreign currency exposure in relation to HK$ against RMB. The forward currency contract is not designated for hedge purposes and is measured at fair value through profit or loss.

For the year ended 31 December 2020, a gain on a forward currency contract of RMB44,128,000 (2019: Nil) is included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income.

23. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	**2,423,054**	622,440
Time deposits	**544,832**	1,791,560
Less: Pledged deposits	**(259,716)**	(746)
Cash and cash equivalents	**2,708,170**	2,413,254
Denominated in:		
RMB	**1,288,479**	56,549
US$	**548,381**	70,093
HK$	**1,130,566**	2,287,357
Great Britain Pound ("GBP")	**460**	1
Total cash and bank balances, including pledged deposits	**2,967,886**	2,414,000

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The Group entered into an agreement of a deposit for a guarantee of a loan facility with a financial institution based on the request in the acquisition agreement of Keystone as further detailed in note 34(a) to the financial statements. As at 31 December 2020, the Group's pledged deposits of RMB257,217,000 (2019: Nil) were pledged to for this guarantee.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for periods of six and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

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

	2020 RMB'000	2019 RMB'000
Within 3 months	**4,034**	1,419
3 to 6 months	**375**	30
6 to 12 months	**815**	1
Over 12 months	**71**	2
	5,295	1,452

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

25. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and motor vehicles used in its operations. Leases of office premises generally have lease terms between 2 and 5 years, while motor vehicles generally have lease terms of 3 years. Other office premises generally have lease terms of 12 months or less. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are disclosed in note 13 to the financial statements.

25. 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:

	2020 RMB'000	2019 RMB'000
Carrying amount as at 1 January	**26,304**	21,314
New leases	**16,820**	12,564
Full termination of the lease for lease modifications	**(409)**	–
Accretion of interest recognised during the year	**1,654**	1,256
Exchange differences, net	**(385)**	117
Payment	**(11,221)**	(8,947)
Carrying amount as at 31 December	**32,763**	26,304
Analysed into:		
Current portion	**11,092**	8,992
Non-current portion	**21,671**	17,312

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

25. LEASES (Continued)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	**1,654**	1,256
Depreciation charge of right-of-use assets	**10,285**	7,977
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses)	**942**	939
Total amount recognised in profit or loss	**12,881**	10,172

(d) The total cash outflow for leases is disclosed in note 35 (c) to the financial statements.

26. OTHER PAYABLES AND ACCRUALS

	Note	2020 RMB'000	2019 RMB'000
Payable for acquisition of a subsidiary	(a)	**246,260**	263,293
Other payables		**74,732**	102,196
Payroll payable		**37,495**	29,719
Payable for finance charge for a guarantee		**–**	1,216
Interest payable		**–**	166
		358,487	396,590

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

Note:

(a) The balance represents the contingent payment of considerations related to the acquisition of Keystone. Further details are included in note 34 (a) to these financial statements.

27. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	2020 RMB'000	2019 RMB'000
Current – unsecured				
Bank loans	5.44	2020	–	20,000
Current – secured				
Bank loans (note a)	4.35	2020	–	100,000
			–	120,000
Analysed into:				
Bank loans repayable within one year			–	120,000

Note:

(a) The Group's bank loans amounting to RMB100,000,000 are guaranteed by a third party company and secured by Mr. Zhenjun Zi's 9,000,000 shares in the Company.

28. GOVERNMENT GRANTS

	2020 RMB'000	2019 RMB'000
Government grants		
Current	**14,046**	24,046
Non-current	**1,062**	–
	15,108	24,046

The movements in government grants during the year are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	**24,046**	27,763
Grants received	**2,112**	1,233
Recognised as income	**(11,050)**	(4,950)
At end of year	**15,108**	24,046
Current	**14,046**	24,046
Non-current	**1,062**	–
	15,108	24,046

The grants are related to the subsidies received from the local government for the purpose of compensation for expenses arising from research activities and clinical trials, and awards for new valve product development and capital expenditure incurred on certain projects.

29. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities:

	2020 RMB'000	2019 RMB'000
Current	**2,442**	2,392

Contract liabilities represented the obligations to transfer goods to customers for which the Group has received consideration. No revenue recognised related to contract liabilities which were carried forward.

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

2020

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2020	**37,292**	**4,182**	**41,474**
Deferred tax (credited)/charged to profit or loss during the year (note 10)	**(2,238)**	**1,898**	**(340)**
Acquisition of a subsidiary (note 34(b))	**3,355**	**–**	**3,355**
Exchange differences	**(2,577)**	**(225)**	**(2,802)**
Gross deferred tax liabilities at 31 December 2020	**35,832**	**5,855**	**41,687**

30. DEFERRED TAX (Continued)

2020 (Continued)

Deferred tax assets

	Accrued expenses RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	**2,581**	**4,401**	**6,982**
Deferred tax credited to profit or loss during the year (note 10)	**528**	**2,046**	**2,574**
Acquisition of a subsidiary (note 34(b))	**860**	**–**	**860**
Exchange differences	**(281)**	**(234)**	**(515)**
Gross deferred tax assets at 31 December 2020	**3,688**	**6,213**	**9,901**

2019

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2019	38,726	4,860	43,586
Deferred tax (credited)/charged to profit or loss during the year (note 10)	(2,049)	658	(1,391)
Exchange differences	615	24	639
Effect of tax concessions	–	(1,360)	(1,360)
Gross deferred tax liabilities at 31 December 2019	37,292	4,182	41,474

30. DEFERRED TAX (Continued)

2019 (Continued)

Deferred tax assets

	Accrued expenses RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	2,711	4,860	7,571
Deferred tax credited to profit or loss during the year (note 10)	579	878	1,457
Exchange differences	(709)	23	(686)
Effect of tax concessions	–	(1,360)	(1,360)
Gross deferred tax assets at 31 December 2019	2,581	4,401	6,982

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 RMB'000	2019 RMB'000
Net deferred tax assets recognised in consolidated statement of financial position	**1,156**	2,800
Net deferred tax liabilities recognised in consolidated statement of financial position	**32,942**	37,292

31. SHARE CAPITAL

Shares

	2020 RMB'000	2019 RMB'000
Issued and fully paid: 422,968,943 (2019: 404,468,943) ordinary shares of RMB1.00 each	**422,969**	404,469

31. SHARE CAPITAL (Continued)

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

	Notes	Numbers of ordinary shares	Share capital RMB'000
At 1 January 2019		300,000,000	300,000
Issue of ordinary shares	(a)	14,150,943	14,151
Issue of shares from initial public offering	(b)	90,318,000	90,318
At 31 December 2019 and 1 January 2020		404,468,943	404,469
Issue of shares upon placement of shares	(c)	18,500,000	18,500
As at 31 December 2020		**422,968,943**	**422,969**

Notes:

(a) In May 2019, the Company issued 14,150,943 shares in total with a par value of RMB1.00 each to Jiangsu Zhaoyin Modern Production Shareholding Investment Fund Phase I (Limited Partnership), Shenzhen Zhaoyin Gongying Shareholding Investment Partnership (Limited Partnership), Taizhou Huitianjin Investment Partnership (Limited Partnership), Start New Limited and Huzhou Muxin Health Production Investment Partnership (Limited Partnership). Proceeds of RMB308,643,000 were received during the year, with approximately RMB14,151,000 and RMB294,492,000 credited to the Company's share capital and share premium, respectively.

(b) In connection with the Company's initial public offering (including the full exercise of the over-allotment option), 90,318,000 shares of RMB1.00 each were issued at a price of HK$33.00 per share for a total cash consideration, before expenses, of approximately HK$2,980,494,000 (equivalent to RMB2,678,521,000). Dealings in these shares on the Stock Exchange commenced in December 2019.

(c) On 10 September 2020, the Company placed, through the placing agent, 18,500,000 shares at a price of HK$64.19 per placing share for a total cash consideration, before expenses, of approximately HK$1,187,515,000 (equivalent to RMB1,046,949,000). The share issue expense was approximately HK$14,341,000 (equivalent to RMB12,644,000).

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the Group.

a) Share premium

The share premium of the Group represents the share premium contributed by the shareholders of the Company after its conversion into a joint stock company in November 2018.

b) Other reserves

Other reserves of the Group represent the share premium contributed by the shareholders of the Company before its conversion into a joint stock company in November 2018, and also the share-based compensation reserve due to equity-settled share awards.

c) Fair value reserve

The fair value reserve represents the fair value of equity investments at fair value through other comprehensive income.

d) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

33. SHARE AWARD

The Company adopted a share award scheme (the "Scheme") for certain personnel in order to recognise and reward the contribution of certain specialists to the growth and development of the Group, and retain certain eligible employees for the continual operation and development of the Group through an award of the Company's shares in prior years. During the year, the Company did not adopt any new share award scheme.

Share award expense of RMB9,000,000 (2019: RMB120,705,000) was charged to profit or loss, which included expenses for a specialist of RMB9,000,000 (2019: for specialists and one director of RMB2,346,000).

34. BUSINESS COMBINATIONS

(a) Acquisition of Keystone

On 23 May 2018, the Company entered into a share purchase agreement with Keystone and acquired 13,994,000 preferred D shares in Keystone at a consideration of US$2,500,000 (equivalent to RMB16,036,000). Upon completion of this transaction, the Group acquired a 4.61% equity interest in Keystone. The Group elected to classify irrevocably its equity investment as equity investment designated at fair value through other comprehensive income.

On 22 September 2018, Venus Medtech (Hong Kong) Limited, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the rest of the equity interests in Keystone at a consideration of US$72,360,000 (equivalent to RMB496,618,000)

The acquisition was completed on 26 December 2018 when the Group obtained control of the operating and financial activities of Keystone.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the occurrence of milestone events, with respect to the Keystone Product, authorisation and clearance by the FDA to market and sell the Keystone Product in the USA. At the date of approval of the financial statements, no further significant changes to the consideration are expected. The total contingent consideration is guaranteed by the Hongkong and Shanghai Banking Corporation Limited.

34. BUSINESS COMBINATIONS (Continued)

(a) Acquisition of Keystone (Continued)

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

Time for the occurrence of milestone events	Third quarter of 2021

(b) Acquisition of 510 Kardiac

On 1 June 2020, the Group acquired a 100% equity interest in 510 Kardiac, which is a private company incorporated in the United States engaged in the design, development, and commercialisation of medical devices, at a consideration of US$7,933,000 (equivalent to RMB56,628,000).The acquisition was made as part of the Group's strategy to further improve the Group's research and development business and expand the business of the Group's medical services.

The acquisition was completed on 1 June 2020 when the Group obtained control of the operating and financial activities of 510 Kardiac.

34. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of 510 Kardiac (Continued)

The fair values of the identifiable assets and liabilities of 510 Kardiac as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Cash and cash equivalents		2,018
Prepayments		14
Other intangible assets	15	14,748
Deferred tax assets	30	860
Other payables and accruals		21
Deferred tax liabilities	30	(3,355)
Total identifiable net assets at fair value		14,306
Goodwill on acquisition	14	42,322
		56,628
Satisfied by cash		56,628

There were no trade receivables or other receivables of 510 Kardiac as at the date of acquisition.

The Group incurred transaction costs of RMB2,443,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

The goodwill of RMB42,322,000 recognised above is due to the new markets entered into by the Group to achieve product and business diversification. The above factor is neither separable nor contractual and therefore does not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

34. BUSINESS COMBINATIONS (Continued)

(b) Acquisition of 510 Kardiac (Continued)

As part of the purchase agreement, contingent consideration is payable, which is dependent on the occurrence of FDA clearance of 510 Kardiac's product. On 15 December 2020, 510 Kardiac received the FDA clearance and all the considerations related to the purchase of 510 Kardiac were paid as at 31 December 2020.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(56,628)
Cash and bank balances acquired	2,018
Net outflow of cash and cash equivalents included in cash flows from investing activities	(54,610)
Transaction costs of the acquisition included in cash flows from operating activities	(2,443)
	(57,053)

Since the acquisition, 510 Kardiac has not contributed any revenue to the Group and has caused RMB3,797,000 to the consolidated loss for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year, the revenue of the Group and the loss of the Group for the year would have been RMB276,047,000 and RMB192,273,000, respectively.

35. 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 RMB16,820,000 and RMB16,820,000, respectively, in respect of lease arrangements for office premises and motor vehicles (2019: RMB12,564,000 and RMB12,564,000).

(b) Changes in liabilities/assets arising from financing activities

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

2020

	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Deposit for a guarantee of a loan facility RMB'000
At 1 January 2020	120,000	166	26,304	270,277
Changes from financing cash flows				
– Repayment of bank and other borrowings	(120,000)	–	–	–
– Interest paid	–	(671)	–	–
– Principal portion of lease payments	–	–	(9,567)	–
– Interest portion of lease liabilities	–	–	(1,654)	–
– Repayment of a deposit	–	–	–	(274,074)
Interest on bank loans	–	505	–	–
Interest portion of lease liabilities	–	–	1,654	–
New leases	–	–	16,820	–
Exchange differences, net	–	–	(385)	3,797
Full termination of the lease for lease modifications	–	–	(409)	–
At 31 December 2020	–	–	32,763	–

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

(b) Changes in liabilities/assets arising from financing activities (Continued)

2019

	Interest-bearing bank borrowings RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Amounts due from related parties RMB'000	Deposit for a guarantee of a loan facility RMB'000
At 1 January 2019	80,000	130	21,314	90	–
Changes from financing cash flows					
– Proceeds from bank borrowings	120,000	–	–	–	–
– Repayment of bank and other borrowings	(80,000)	–	–	–	–
– Interest paid	–	(7,722)	–	–	–
– Principal portion of lease payments	–	–	(7,691)	–	–
– Interest portion of lease liabilities	–	–	(1,256)	–	–
– Loans to a related party	–	–	–	12,970	–
– Repayments of loans to a related party	–	–	–	(13,227)	–
– Deposit for a guarantee of a loan facility	–	–	–	–	272,691
Interest on bank loans	–	7,758	–	–	–
Interest portion of lease liabilities	–	–	1,256	–	–
New leases	–	–	12,564	–	–
Exchange differences, net	–	–	117	257	(2,414)
Payment on behalf of related parties classified as operating cash flows	–	–	–	(90)	–
At 31 December 2019	120,000	166	26,304	–	270,277

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

(c) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating activities	**942**	939
Within financing activities	**11,221**	8,947
	12,163	9,886

36. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	**11**	89
Purchases of intangible assets	**2,790**	–
	2,801	89

37. RELATED PARTY TRANSACTIONS

Name	Relationship with the Company
Mr. Zhenjun Zi	Director
Mr. Min Frank Zeng	Director
Horizon	An entity controlled by Mr. Min Frank Zeng
Mingnuo*	An entity controlled by directors*
Qifei*	An entity controlled by directors*
Qinuo*	An entity controlled by directors*
Qichu*	An entity controlled by directors*
Qixin*	An entity controlled by directors*
Qilai*	An entity controlled by directors*
Qihe*	An entity controlled by directors*
Qili*	An entity controlled by directors*
Qisheng*	An entity controlled by directors*
Colibri**	An entity which owns the non-controlling interests of a subsidiary**
ACM (HK) 02 Limited ("ACM")	An entity which owns the non-controlling interests of a subsidiary
Reactor Two (HK) Limited ("Reactor")	An entity which owns the non-controlling interests of a subsidiary

* As of 27 November 2017, the general partner of Mingnuo, Qifei, Qinuo, Qichu, Qixin, Qilai, Qihe, Qili and Qisheng was Hangzhou Nuoxin Investment Management Limited, of which Mr. Min Frank Zeng was the sole shareholder. On 26 September 2018, Mr. Min Frank Zeng transferred his shareholding in Hangzhou Nuoxin Investment Management Limited to Mr. Zhenjun Zi at nil consideration to optimise the corporate structure of the Company.

** On 2 November 2020, the Company entered into an agreement with Colibri to liquidate Venibri Medtech Inc. ("Venibri"), a partly-owned subsidiary of the Company. The liquidation of Venibri was completed on 14 December 2020 and thus Colibri was no longer a related party of the Group since then.

37. RELATED PARTY TRANSACTIONS (Continued)

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

	2020 RMB'000	2019 RMB'000
Loans to:		
Horizon	–	12,970
Repayment of loans:		
Horizon	–	13,227
Repayments of payments on behalf of related parties:		
Mingnuo	–	10
Qifei	–	10
Qinuo	–	10
Qichu	–	10
Qixin	–	10
Qilai	–	10
Qihe	–	10
Qili	–	10
Qisheng	–	10
	–	90

The loans advances to the related parties are unsecured, interest-free and repayable on demand.

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

On 14 October 2020, the Group entered into an agreement with third parties for setting up a partly-owned subsidiary, Haoyue, in which the Group has a 60% equity interest, and the Group paid the corresponding consideration of RMB30,000,000. On 4 November 2020, the Group entered into an agreement of selling 38.33% and 6.67% of equity interests of Haoyue to ACM and Reactor with considerations of RMB19,167,000 and RMB3,333,000, respectively. Since Haoyue has not formally begun operation before December 2020, the Group sold the equity interests at the original price. The related considerations remained unpaid as at 31 December 2020. Meanwhile, the Group entered into a contract with ACM and Reactor for the delegation of ACM and Reactor's corresponding voting rights in Haoyue to the Group. Under this contractual arrangement, the Group has 60% of voting right and therefore, the Group accounted for Haoyue as a subsidiary.

(c) The Group had following outstanding balances with related parties:

	2020 RMB'000	2019 RMB'000
Due from related parties*:		
ACM	**19,167**	–
Reactor	**3,333**	–
	22,500	–

During the year ended 31 December 2019, the Group had an outstanding balance due to Colibri of RMB685,000, which was trade in nature.

The balances with related parties are unsecured, interest-free and repayable on demand.

* The balances are non-trade in nature.

37. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Salaries, bonuses, allowances and benefits in kind	**10,843**	41,634
Pension scheme contributions	**9**	103
Equity-settled share award expense	**–**	53,399
Total compensation paid to key management personnel	**10,852**	95,136

Further details of directors', supervisors' and the chief executive's emoluments are included in note 8 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2020

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss: Mandatorily classified as such RMB'000	Financial assets at fair value through other comprehensive income: Equity instruments RMB'000	Total RMB'000
Equity investments designated at fair value through comprehensive income	–	–	6,525	6,525
Financial assets at fair value through profit or loss	–	108,601	–	108,601
Trade receivables	231,031	–	–	231,031
Financial assets included in prepayments, other receivables and other assets	14,204	–	–	14,204
Due from related parties	22,500	–	–	22,500
Pledged deposits	259,716	–	–	259,716
Cash and cash equivalents	2,708,170	–	–	2,708,170
	3,235,621	108,601	6,525	3,350,747

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020 (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	**5,295**
Financial liabilities included in other payables and accruals	**320,992**
Lease liabilities	**32,763**
	359,050

2019

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	29,740	29,740
Trade receivables	162,200	–	162,200
Financial assets included in prepayments, other receivables and other assets	283,557	–	283,557
Pledged deposits	746	–	746
Cash and cash equivalents	2,413,254	–	2,413,254
	2,859,757	29,740	2,889,497

38. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2019 (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	1,452
Financial liabilities included in other payables and accruals	366,871
Lease liabilities	26,304
Due to a related party	685
Interest-bearing bank borrowings	120,000
	515,312

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair values

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

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The financial department reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance controller. The valuation process and results are discussed with the directors twice a year for interim and annual financial reporting.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair values (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial assets included in prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all required significant inputs to fair value of an instrument are observable, the instruments are included in Level 2. If one or more of the significant inputs are not based on observable market data, the instruments are included in Level 3.

The Group enters into a derivative financial instrument with a counterparty, a financial institution with a AAA credit rating. The derivative financial instrument, being a forward currency contract, is measured using valuation techniques similar to forward pricing. The models incorporate various market observable inputs including the forward exchange rate and discount rate. The carrying amount of the forward currency contract is the same as its fair value. The Group has also invested in an unlisted equity investment which fair value is determined on a recent transaction valuation. The Group classifies the fair value of these investments as Level 2.

For Level 3 financial assets, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include discount cash flow method for unlisted debt investments measured as financial assets at fair value through profit or loss, and an unlisted equity investment measured as a financial asset at fair value through other comprehensive income. The fair value measurement of these financial instruments may involve unobservable inputs such as risk free rate and discount rate. The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial assets in Level 3.

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair values (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis:

2020

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to the fair value
Financial assets at fair value through profit or loss	Discount cash flow method	Risk-free rate	1.36%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/increase in fair value by RMB(1,109,000)/RMB1,174,000
		Discount rate	12.00%	5% increase/(decrease) in the discount rate would result in a (decrease)/increase in fair value by RMB(1,905,000)/RMB2,453,000
Financial assets at fair value through profit or loss	Discount cash flow method	Risk-free rate	0.27%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/increase in fair value by RMB(731,000)/RMB770,000
		Discount rate	13.10%	5% increase/(decrease) in the discount rate would result in a (decrease)/increase in fair value by RMB(1,716,000)/RMB2,147,000

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair values (Continued)

2019

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to the fair value
Equity investments designated at fair value through other comprehensive income	Hybrid method	Time to exit event	3 years	1 year increase/(decrease) in time to an exit event would result in a (decrease)/increase in fair value by RMB(552,000)/RMB404,000
		Risk-free rate	1.62%	1% increase/(decrease) in the risk-free rate would result in a (decrease)/increase in fair value by RMB(154,000)/RMB160,000)
		Equity volatility	24.32%	10% increase/(decrease) in the equity volatility would result in a (decrease)/increase in fair value by RMB(852,000)/RMB1,025,000)
		Discount for lack of marketability	4.50-15.50%	5% increase/(decrease) in the DLOM would result in a (decrease)/ increase in fair value by RMB(1,612,000)/RMB1,618,000

DLOM represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

39. 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			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	6,525	–	6,525
Financial assets at fair value through profit or loss				
Unlisted debt investment	–	–	64,473	64,473
Derivative financial instrument	–	44,128	–	44,128
	–	50,653	64,473	115,126

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	–	29,740	29,740

The movements in fair value measurements within Level 3 during the year are as follows:

	2020 RMB'000	2019 RMB'000
Equity investment at fair value through other comprehensive income		
As at 1 January	**29,740**	29,484
Total gains recognised in other comprehensive income	**(29,740)**	256
As at 31 December	**–**	29,740
Financial assets at fair value through profit or loss		
As at 1 January	**–**	–
Purchase	**63,163**	–
Total gains recognised in profit or loss included in other income	**1,310**	–
As at 31 December	**64,473**	–

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 and 2019.

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 (2019: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures mainly arise from investing and financing activities of the Company and purchasing activities of operating entities in currencies other than the entities' functional currencies. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax and the Group's equity. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in loss before tax RMB'000	Increase/ (decrease) in equity RMB'000
2020			
If RMB weakens against US$	**5**	**17,313**	**17,313**
If RMB strengthens against US$	**(5)**	**(17,313)**	**(17,313)**
If RMB weakens against HK$	**5**	**56,482**	**56,482**
If RMB strengthens against HK$	**(5)**	**(56,482)**	**(56,482)**
2019			
If RMB weakens against US$	5	(224)	(224)
If RMB strengthens against US$	(5)	224	224
If RMB weakens against HK$	5	114,270	114,270
If RMB strengthens against HK$	(5)	(114,270)	(114,270)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	234,698	234,698
Financial assets included in prepayments, other receivables and other assets					
– Normal**	14,239	–	–	–	14,239
Pledged deposits					
– Not yet past due	259,716	–	–	–	259,716
Cash and cash equivalents					
– Not yet past due	2,708,170	–	–	–	2,708,170
	2,982,125	–	–	234,698	3,216,823

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	166,002	166,002
Financial assets included in prepayments, other receivables and other assets					
– Normal**	283,566	–	–	–	283,566
Pledged deposits					
– Not yet past due	746	–	–	–	746
Cash and cash equivalents					
– Not yet past due	2,413,254	–	–	–	2,413,254
	2,697,566	–	–	166,002	2,863,568

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets and due from related parties 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".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

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 2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	1,261	4,034	–	–	–	5,295
Financial liabilities included in other payables and accruals	320,992	–	–	–	–	320,992
Lease liabilities	–	3,315	8,778	23,082	1,440	36,615
	322,253	7,349	8,778	23,082	1,440	362,902

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	As at 31 December 2019				
	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	33	1,419	–	–	1,452
Financial liabilities included in other payables and accruals	366,871	–	–	–	366,871
Lease liabilities	–	2,553	7,673	19,047	29,273
Due to a related party	685	–	–	–	685
Interest-bearing bank borrowings	–	120,485	–	–	120,485
	367,589	124,457	7,673	19,047	518,766

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure, which includes equity attributable to owners of the parent, and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

	2020 RMB'000	2019 RMB'000
Interest-bearing bank borrowings	–	120,000
Lease liabilities	**32,763**	26,304
Total debt	**32,763**	146,304
Total equity	**3,857,035**	3,045,746
Gearing ratio	**1%**	5%

41. EVENT AFTER THE REPORTING PERIOD

On 22 January 2021, the Company entered into a placing agreement with Goldman Sachs (Asia) L.L.C. and UBS AG Hong Kong Branch (as the placing agents), pursuant to which the Company conditionally agreed to place 18,042,500 new H shares at the placing price of HK$80.08 per placing share to no less than six professional, institutional and/or individual investors which are not connected persons of the Company (the "January 2021 Placing"). The completion of the January 2021 Placing took place on 29 January 2021 and an aggregate of 18,042,500 new H shares have been successfully allotted and issued by the Company at the placing price of HK80.08 per placing share on the same day. The aggregate gross proceeds from the January 2021 Placing amounted to approximately HK$1,444,843,000 and the aggregate net proceeds from the January 2021 Placing amounted to approximately HK$1,427,394,000 after deducting the expenses of the January 2021 Placing.

42. 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:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**73,748**	49,624
Other intangible assets	**33,696**	6,701
Deferred tax assets	**230**	212
Investments in subsidiaries	**1,372,009**	754,487
Financial assets at fair value through profit or loss	**64,473**	–
Prepayments, other receivables and other assets	**18,437**	6,466
Total non-current assets	**1,562,593**	817,490
CURRENT ASSETS		
Inventories	**51,415**	19,076
Trade receivables	**229,569**	162,002
Prepayments, other receivables and other assets	**30,024**	23,955
Due from related parties	**22,500**	–
Due from subsidiaries	**251,282**	280,846
Financial assets at fair value through profit or loss	**44,128**	–
Pledged deposits	**257,217**	–
Cash and cash equivalents	**2,083,502**	2,361,835
Total current assets	**2,969,637**	2,847,714
CURRENT LIABILITIES		
Trade payables	**4,432**	1,264
Lease liabilities	**7,464**	6,718
Other payables and accruals	**83,543**	106,802
Interest-bearing bank borrowings	**–**	120,000
Government grants, current	**14,046**	24,046
Contract liabilities	**2,442**	2,392
Refund liabilities	**14,155**	12,362
Due to subsidiaries	**198,894**	179,180
Total current liabilities	**324,976**	452,764
NET CURRENT ASSETS	**2,644,661**	2,394,950
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,207,254**	3,212,440

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,207,254**	3,212,440
NON-CURRENT LIABILITIES		
Lease liabilities	**8,552**	13,245
Government grants, non-current	**1,062**	–
Total non-current liabilities	**9,614**	13,245
Net assets	**4,197,640**	3,199,195
EQUITY		
Share capital	**422,969**	404,469
Reserves (note)	**3,774,671**	2,794,726
Total equity	**4,197,640**	3,199,195

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019	199,672	138,490	(181,119)	157,043
Total comprehensive loss for the year	–	–	(206,532)	(206,532)
Capital contribution by shareholders	294,492	–	–	294,492
Issue of shares from initial public offering	2,588,203	–	–	2,588,203
Share issue expenses	(159,185)	–	–	(159,185)
Equity-settled share award expense	–	120,705	–	120,705
At 31 December 2019	2,923,182	259,195	(387,651)	2,794,726
At 31 December 2019 and 1 January 2020	2,923,182	259,195	(387,651)	2,794,726
Total comprehensive loss for the year	–	–	(44,860)	(44,860)
Issue of placing shares	1,028,449	–	–	1,028,449
Share issue expenses	(12,644)	–	–	(12,644)
Equity-settled share award expense	–	9,000	–	9,000
At 31 December 2020	3,938,987	268,195	(432,511)	3,774,671

43. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

Definitions

"510 Kardiac"	510 Kardiac Devices, Inc.
"AGM"	annual general meeting of the Company to be held on Friday, May 21, 2021
"Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"CE Marking"	a certification mark that indicates conformity with health, safety, and environmental protection standards for products sold within the European Economic Area
"CEP"	cerebral embolic protection, the function of the devices designed to capture or deflect emboli traveling to the brain during TAVR procedures in order to protect the supra-aortic vessels from embolic debris
"China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan
"Company" or "Venus Medtech"	Venus Medtech (Hangzhou) Inc. (杭州啓明醫療器械股份有限公司), a limited liability company incorporated in the PRC on July 3, 2009 and converted into a joint stock limited liability company incorporated in the PRC on November 29, 2018, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 2500)
"COO"	Chief Operating Officer
"Corporate Governance Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules

Definitions

"COVID-19"	an infectious disease caused by a newly discovered coronavirus, the outbreak of which began in December 2019
"CTO"	Chief Technology Officer
"DCS"	delivery catheter system, a catheter system of our products with a pushing handle, outer sheath and a tip to freely pass through guide catheter to deliver the valve to the designated position
"Directors"	the director(s) of the Company
"Domestic Share(s)"	the issued ordinary share(s) of the Company with a par value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"Edwards Lifesciences"	a U.S. medical equipment company specializing in artificial heart valves and hemodynamic monitoring
"Employee Incentive Scheme"	the employee incentive scheme of our Company approved and adopted by our Board on March 10, 2017, a summary of the principal terms of which is set forth in "Appendix VI – Statutory and General Information – Further information about our Directors, management and substantial shareholders – 5. Employee Incentive Scheme" of the Prospectus
"EU"	the European Union
"FDA"	U.S. Food and Drug Administration
"FDA 510(k)"	section 510(k) of the Food, Drug and Cosmetic Act, which requires device manufacturers who must register, to notify the FDA of their intent to market a medical device at least 90 days in advance

"FIM"	First-In-Man
"GMP"	good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification
"Group", "We" or "us"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require)
"H Share(s)"	the overseas listed foreign shares with a nominal value of RMB1.0 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in Hong Kong dollars
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IDE"	Investigational Device Exemption
"InterValve"	InterValve Medical Inc., a company incorporated in Delaware, the United States on November 18, 2016 and is indirectly wholly-owned by our Company as of the date of report
"Independent Third Party(ies)"	person(s) who, to the best knowledge of the Directors having made all reasonable enquiries, are not connected person(s) (as defined under the Listing Rules) of the Company
"Keystone"	Keystone Heart and its subsidiaries
"KOLs"	Acronym for Key Opinion Leaders who are doctors that influence their peers' medical practice, including but not limited to prescribing behavior

Definitions

"Listing"	the listing of the H Shares on the Main Board of the Stock Exchange on December 10, 2019
"Listing Date"	December 10, 2019, being the date on which the shares were listed on the Main Board
"Listing Rules"	the Rules governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the Nomination Committee of the Board
"Offshore Employee Entities"	Mars Holding Limited, Blue Summit Management Limited, Mercury Holding Limited and Jupiter Holding Limited, which are limited liability companies incorporated in the Cayman Islands and the beneficial interests of which are offered to certain key employees of our Company pursuant to the Employee Incentive Scheme
"Prospectus"	the prospectus published by the Company on November 28, 2019 in relation to its Hong Kong public offering

"PRC Employee Entities"	Hangzhou Qichu Investment Partnership (Limited Partnership) (杭州啓初投資合夥企業(有限合夥)), Hangzhou Mingnuo Investment Partnership (Limited Partnership) (杭州明諾投資合夥企業(有限合夥)), Hangzhou Qifei Investment Partnership (Limited Partnership) (杭州啓非投資合夥企業(有限合夥)), Hangzhou Qihe Investment Partnership (Limited Partnership) (杭州啓和投資合夥企業(有限合夥)), Hangzhou Qilai Investment Partnership (Limited Partnership) (杭州啓來投資合夥企業(有限合夥)), Hangzhou Qili Investment Partnership (Limited Partnership) (杭州啓立投資合夥企業(有限合夥)), Hangzhou Qinuo Investment Partnership (Limited Partnership) (杭州啓諾投資合夥企業(有限合夥)), Hangzhou Qisheng Investment Partnership (Limited Partnership) (杭州啓勝投資合夥企業(有限合夥)) and Hangzhou Qixin Investment Partnership (Limited Partnership) (杭州啓心投資合夥企業(有限合夥)), the beneficial interests of which are offered to certain key employees of the Company pursuant to the Employee Incentive Scheme
"R&D"	research and development
"Reporting Period"	the one-year period from January 1, 2020 to December 31, 2020
"Remuneration and Assessment Committee"	the Remuneration and Assessment Committee of the Board
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of China
"RVOT"	right ventricular outflow tract, an infundibular extension of the ventricular cavity which connects to the pulmonary artery

Definitions

"RVOTD"	the dysfunction of RVOT
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holders of shares of the Company
"Share Pledge"	meaning the pledge of 9,000,000 shares provided by Mr. Zhenjun Zi, one of the Company's controlling shareholders at the time of the Prospectus to Hangzhou Gaoxin Technology Innovation Services Ltd. (杭州高新科技創業服務有限公司), on January 30, 2019
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"SPVR"	surgical pulmonary valve replacement, a treatment of RVOTD through open-chest surgery
"Supervisor(s)"	member(s) of the supervisory committee of the Company
"TAP treatment"	Transannular patching, a type of treatment for ToF that involves closing the ventricular septal defect and placing atransannular patch (a patch across the pulmonary valve connective tissue to enlarge the pulmonary annulus), which helps blood flow from the pulmonary valve
"TAV8"	TAV8 Balloon Aortic Valvuloplasty Catheter, one of our balloon transluminal aortic valvuloplasty catheter system products

"TAVR"	transcatheter aortic heart valve replacement, a catheter-based technique to implant a new aortic valve in a minimally invasive procedure that does not involve openchest surgery to correct severe aortic stenosis
"TMVR"	transcatheter mitral valve replacement, catheter-based technique to implant a new mitral valve in a minimally invasive procedure that does not involve open-chest surgery
"ToF"	tetralogy of fallot, a congenital abnormality of the heart characterized by pulmonary stenosis, an opening in the interventricular septum, malposition of the aorta over both ventricles, and hypertrophy of the right ventricle
"TPVR"	transcatheter pulmonary valve replacement, a catheter-based technique to implant a new pulmonary valve in a minimally invasive procedure that does not involve open-chest surgery
"TriGUARD3"	TriGUARD3 Cerebral Embolic Protection Device, our CEP product
"TTVR"	transcatheter tricuspid valve replacement, a catheter-based technique to implant a new tricuspid valve in a minimally invasive procedure that does not involve open-chest surgery
"Unlisted Foreign Share(s)"	the issued ordinary share(s) of the Company with a par value of RMB1.00 issued to overseas investors, which are subscribed for and paid up in currencies other than Renminbi and not listed on any stock exchange

Definitions

"U.S."	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"US$"	United States dollars, the lawful currency of the United States of America
"V8"	V8, one of our balloon transluminal aortic valvuloplasty catheter system products
"Venus PowerX"	Venus PowerX Valve, one of our TAVR product candidates
"Venus Vitae"	Venus Vitae Valve, one of our TAVR product candidates
"VenusA-Plus"	VenusA-Plus System, one of our TAVR products
"VenusA-Pro Valve"	VenusA-Pro Valve, one of our TAVR product candidates
"VenusA-Valve"	VenusA-Valve System, one of our TAVR products
"VenusP-Valve"	VenusP-Valve System, our TPVR product candidate

In this report, the terms "associate", "connected transaction", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.