The following is the text of a report set out on pages I-1 to I-61, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MICROPORT CARDIOFLOW MEDTECH CORPORATION AND J.P. MORGAN SECURITIES (FAR EAST) LIMITED, CITIGROUP GLOBAL MARKETS ASIA LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of MicroPort CardioFlow Medtech Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-61, which comprises the consolidated statements of financial position of the Group as at December 31, 2018 and 2019 and July 31, 2020 and the statements of financial position of the Company as at December 31, 2019 and July 31, 2020 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended December 31, 2018 and 2019 and the seven months ended July 31, 2020 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-61 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated January 26, 2021 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

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

Reporting accountants' responsibility

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

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

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

Opinion

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

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the seven months ended July 31, 2019 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

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

Adjustments

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

Dividends

We refer to Note 27(b) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
January 26, 2021

HISTORICAL FINANCIAL INFORMATION

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

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

Consolidated statements of profit or loss

(Expressed in Renminbi)

		Years ended December 31,		Seven months ended July 31,	
	Note	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	4	–	21,502	–	48,440
Cost of sales		–	(15,200)	–	(27,455)
Gross profit		–	6,302	–	20,985
Other net income/(loss)	5	972	5,064	434	(1,518)
Research and development costs		(44,746)	(96,701)	(51,724)	(38,185)
Distribution costs		(9,381)	(26,105)	(12,610)	(23,088)
Administrative expenses		(6,097)	(10,853)	(6,302)	(34,577)
Fair value changes in financial instruments	28(e)	–	(8,649)	(11,264)	(28,107)
Other operating costs	6(c)	(12)	(1,057)	–	(17,657)
Loss from operations		(59,264)	(131,999)	(81,466)	(122,147)
Finance costs	6(a)	(999)	(12,523)	(2,033)	(70,481)
Loss before taxation	6	(60,263)	(144,522)	(83,499)	(192,628)
Income tax	7(a)	–	–	–	–
Loss for the year/period		(60,263)	(144,522)	(83,499)	(192,628)
Loss attributable to equity shareholders of the Company		(60,263)	(144,522)	(83,499)	(192,628)
Loss per share	10				
Basic and diluted (RMB)		(0.04)	(0.08)	(0.05)	(0.11)

Consolidated statements of profit or loss and other comprehensive income
(Expressed in Renminbi)

	Years ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Loss for the year/period	(60,263)	(144,522)	(83,499)	(192,628)
Other comprehensive income for the year/period, net of nil tax				
Items that will not be reclassified to profit or loss:				
Exchange differences on translation of financial statements of the Company	–	(12,579)	–	2,988
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of financial statements of foreign subsidiaries	–	6,352	–	8,854
Other comprehensive income for the year/period	–	(6,227)	–	11,842
Total comprehensive income for the year/period	(60,263)	(150,749)	(83,499)	(180,786)
Total comprehensive income for the year/period attributable to equity shareholders of the Company	(60,263)	(150,749)	(83,499)	(180,786)

Consolidated statements of financial position

(Expressed in Renminbi)

	Note	December 31, 2018	December 31, 2019	July 31, 2020
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	11	34,085	42,767	42,698
Intangible assets	12	196,415	222,491	226,227
Interest in a joint venture	13	35,084	35,579	35,622
Other financial assets	14	41,275	51,673	53,627
Other non-current assets	16	17,925	9,661	4,633
		324,784	362,171	362,807
Current assets				
Inventories	15	17,080	49,224	71,936
Trade and other receivables	16	9,523	24,917	31,220
Pledged and time deposits		325	325	325
Cash and cash equivalents	17	50,418	109,263	698,166
		77,346	183,729	801,647
Current liabilities				
Interest-bearing borrowings	18	–	20,000	–
Trade and other payables	19	110,954	35,331	43,269
Contract liabilities	20	–	3,567	12
Lease liabilities	21	4,258	7,249	7,559
Derivative financial liabilities	25	–	–	26,782
Other financial liabilities	25	–	321,594	1,290,295
		115,212	387,741	1,367,917
Net current liabilities		(37,866)	(204,012)	(566,270)
Total assets less current liabilities		286,918	158,159	(203,463)
Non-current liabilities				
Lease liabilities	21	12,059	11,380	7,459
Deferred income	23	1,480	3,480	2,775
Derivative financial liabilities	24	–	11,455	14,498
		13,539	26,315	24,732
NET ASSETS/(LIABILITIES)		273,379	131,844	(228,195)
CAPITAL AND RESERVES				
Share capital	27	13,410	62	60
Reserves		259,969	131,782	(228,255)
TOTAL EQUITY/(DEFICIT)		273,379	131,844	(228,195)

Statements of financial position

(Expressed in Renminbi)

	Note	December 31, 2019	July 31, 2020
		RMB'000	RMB'000
Non-current asset			
Investment in a subsidiary	31	538,475	1,234,213
Current assets			
Other receivables		–	6
Cash and cash equivalents	17	699	30,749
		699	30,755
Current liabilities			
Other payables	19	–	19,077
Derivative financial liabilities	25	–	26,782
Other financial liabilities	25	321,594	1,290,295
		321,594	1,336,154
Net current liabilities		(320,895)	(1,305,399)
Total assets less current liabilities		217,580	(71,186)
NET ASSETS/(LIABILITIES)		217,580	(71,186)
CAPITAL AND RESERVES	27		
Share capital		62	60
Reserves		217,518	(71,246)
TOTAL EQUITY/(DEFICIT)		217,580	(71,186)

Consolidated statements of changes in equity

(Expressed in Renminbi)

	Note	Ordinary share capital	Preferred share capital	Share premium	Exchange reserve	Capital reserve	Accumulated losses	Total equity/ (deficit)
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2018		12,794	–	255,445	–	3,573	(38,932)	232,880
Changes in equity for 2018:								
Loss for the year and total comprehensive income		–	–	–	–	–	(60,263)	(60,263)
Issuance of ordinary shares	27(c)(i)	616	–	95,737	–	–	–	96,353
Deemed contribution by a related party	21	–	–	–	–	2,391	–	2,391
Equity-settled share-based transactions	6(b)	–	–	–	–	2,018	–	2,018
Balance at December 31, 2018 and January 1, 2019		13,410	–	351,182	–	7,982	(99,195)	273,379
Changes in equity for 2019:								
Loss for the year		–	–	–	–	–	(144,522)	(144,522)
Other comprehensive income		–	–	–	(6,227)	–	–	(6,227)
Total comprehensive income		–	–	–	(6,227)	–	(144,522)	(150,749)
Issuance of ordinary shares	27(c)(ii)	45	–	212,939	–	–	–	212,984
Deemed distributions to the shareholder upon the restructuring	27(c)(iii)	(13,410)	–	(351,182)	–	(321,420)	–	(686,012)
Issuance of series B preferred shares	27(c)(iv)	–	17	480,605	–	–	–	480,622
Equity-settled share-based transactions	6(b)	–	–	–	–	1,620	–	1,620
Balance at December 31, 2019 and January 1, 2020		45	17	693,544	(6,227)	(311,818)	(243,717)	131,844
Changes in equity for the seven months ended July 31, 2020:								
Loss for the period		–	–	–	–	–	(192,628)	(192,628)
Other comprehensive income		–	–	–	11,842	–	–	11,842
Total comprehensive income		–	–	–	11,842	–	(192,628)	(180,786)
Reclassification and re-designation to series D preferred shares	27(c)(v)	(2)	–	(211,707)	–	–	–	(211,709)
Equity-settled share-based transactions	6(b)	–	–	–	–	32,456	–	32,456
Balance at July 31, 2020		43	17	481,837	5,615	(279,362)	(436,345)	(228,195)
Balance at January 1, 2019		13,410	–	351,182	–	7,982	(99,195)	273,379
Changes in equity for the seven months ended July 31, 2019 (Unaudited):								
Loss for the period and total comprehensive income (Unaudited)		–	–	–	–	–	(83,499)	(83,499)
Equity-settled share-based transactions (Unaudited)	6(b)	–	–	–	–	1,002	–	1,002
Balance at July 31, 2019 (Unaudited)		13,410	–	351,182	–	8,984	(182,694)	190,882

Consolidated statements of cash flows

(Expressed in Renminbi)

	Note	Years ended December 31, 2018 RMB'000	Years ended December 31, 2019 RMB'000	Seven months ended July 31, 2019 RMB'000 (Unaudited)	Seven months ended July 31, 2020 RMB'000
Operating activities					
Loss before taxation		(60,263)	(144,522)	(83,499)	(192,628)
Adjustment for:					
Amortization and depreciation	6(d)	2,812	13,760	4,409	13,971
Finance costs	6(a)	900	12,423	1,984	70,373
Interest income	5	(1,081)	(60)	(29)	(953)
Exchange gain in relation to the capital contribution		–	(3,951)	–	–
Fair value changes in financial instruments		–	8,649	11,264	28,107
Equity-settled share-based payment	6(b)	2,018	1,620	1,002	31,578
Changes in working capital:					
Increase in inventories		(11,982)	(32,144)	(10,089)	(21,834)
Increase in trade and other receivables		(7,415)	(14,633)	(4,444)	(5,468)
Increase in trade and other payables		9,233	2,290	27,494	409
Increase/(decrease) in deferred income		–	2,000	880	(705)
(Increase)/decrease in other non-current receivables		(4,440)	8,264	(3,908)	5,028
Increase/(decrease) in contract liabilities		–	3,567	–	(3,555)
Net cash used in operating activities		(70,218)	(142,737)	(54,936)	(75,677)
Investing activities					
Payments for the purchase of property, plant and equipment		(4,077)	(7,364)	(5,537)	(5,732)
Payments for intangible assets		(61,389)	(41,335)	(37,494)	(12,430)
Interest received		911	60	29	518
Payments for the investments in a joint venture and other financial assets		(76,359)	(7,030)	–	–
Loans to a related party		(50,000)	–	–	–
Loans repaid by a related party		50,000	–	–	–
Net cash used in investing activities		(140,914)	(55,669)	(43,002)	(17,644)
Financing activities					
Capital element of lease payments	17(b)	(824)	(3,660)	(2,635)	(4,150)
Interest element of lease payments	17(b)	(224)	(958)	(606)	(476)
Loans from related parties	17(b)	76,359	118,605	95,924	–
Repayments of loans from related parties	17(b)	–	(193,852)	(75,433)	–
Proceeds from interest-bearing borrowings	17(b)	–	70,000	34,500	–
Repayments of interest-bearing borrowings	17(b)	–	(50,000)	–	(20,000)
Interest paid for interest-bearing borrowings and loans from related parties	17(b)	–	(1,968)	(737)	(1,913)
Capital contribution from ordinary shareholders	27(c)(i)&(ii)	96,353	212,984	–	–
Deemed distributions to the shareholders upon the restructuring	27(c)(iii)	–	(686,012)	–	–
Proceeds from issuance of series B preferred shares	27(c)(iv)	–	480,622	–	–
Proceeds from issuance of series C preferred shares	25	–	317,398	–	–
Proceeds from issuance of series D preferred shares	25	–	–	–	705,713
Net cash generated from financing activities		171,664	263,159	51,013	679,174
Net (decrease)/increase in cash and cash equivalents		(39,468)	64,753	(46,925)	585,853
Cash and cash equivalents at the beginning of the year/period		89,886	50,418	50,418	109,263
Effect of foreign exchange rate changes		–	(5,908)	–	3,050
Cash and cash equivalents at the end of the year/period		50,418	109,263	3,493	698,166

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

MicroPort CardioFlow Medtech Corporation (the "Company") was incorporated in the Cayman Islands on January 10, 2019 as an exempted company with limited liability under the Companies Act (as amended) of the Cayman Islands.

The Company has not carried out any business since the date of its incorporation save for the group restructuring below. The Company and its subsidiaries (together, "the Group") are principally engaged in the research and development, manufacturing and sale of medical devices treating valvular heart diseases.

During the Relevant Periods, the Group's business was conducted through Shanghai MicroPort CardioFlow Medtech Co., Ltd. ("MP CardioFlow") (上海微創心通醫療科技有限公司). As part of the group restructuring (the "Restructuring''), as detailed in the section headed ''History, Development and Corporate Structure'' of the Prospectus, the Group obtained control of MP CardioFlow in 2019.

Upon the completion of the Restructuring in 2019, the Company became the holding company of the Group. The Restructuring principally involved inserting certain investment holding companies with no substantive operations as the new holding companies of MP CardioFlow. There were no changes in the economic substance of the ownership and the business of the Group before and after the Restructuring. Accordingly, the Historical Financial Information has been prepared and presented as a continuation of the financial information of the business with the assets and liabilities recognized and measured at their historical carrying amounts prior to the Restructuring. Intra-group balances, transactions and unrealized gain/loss on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

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

As at the date of this report, no audited financial statements have been prepared for the Company and MicroPort CardioFlow Limited, Derryhill Global Limited, Beijing Chenxue Enterprise Management Co., Ltd. (北京琛雪企業管理有限公司) and Chengdu Xintuo Biotechnology Co., Ltd. (成都心拓生物科技有限公司), as they either was newly set up in 2020, or have not carried out any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to the entities in the countries in which they were incorporated and/or established.

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

Name of company	Place and date of incorporation/ establishment	Particulars of registered and paid-up capital	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by the subsidiary	Principal activities
MP CardioFlow* (上海微創心通醫療科技有限公司) (Note)	The People's Republic of China (the "PRC") May 21, 2015	RMB840 million	–	100%	Research and development, and the manufacturing and sale of medical devices treating valvular heart diseases

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

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

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

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

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

The adoption of HKFRS 16 does not have significant impact on the Group's net assets/(liabilities) and financial performance throughout the Relevant Periods when compared to those that would have been presented under HKAS 17, *Leases*.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Going concern

The Historical Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding that the Group recorded net liabilities of RMB228,195,000 as at July 31, 2020, which is primarily due to series C preferred shares and series D preferred shares totaling RMB1,290,295,000 are classified as other financial liabilities (see Note 25). The Group also recorded net current liabilities of RMB37,866,000, RMB204,012,000 and RMB566,270,000 as at December 31, 2018 and 2019 and July 31, 2020, respectively. The directors are of the opinion that the Group could achieve the Business Commitments (as defined and detailed in Note 25), and therefore the holders of the series C preferred shares and series D preferred shares will not request the Company to redeem these preferred shares within the next twelve months from July 31, 2020. The Group will have sufficient working capital, to meet its financial liabilities and obligations as and when they fall due and to sustain its operations for the next 12 months from July 31, 2020.

(b) Basis of measurement

As the Group's operation are primarily located in the PRC and most of the Group's transactions are conducted and denominated in Renminbi ("RMB"), which is the functional currency of MP CardioFlow, the Historical Financial Information is presented in RMB, rounded to the nearest thousand, unless otherwise stated. The functional currency of the Company is United States dollars ("US$") other than RMB.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investments in equity securities (see Note 2(f)); and
- derivative financial instruments (see Note 2(g))

(c) Use of estimates and judgments

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

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

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

(d) Subsidiaries

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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

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

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

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or a joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 2(k)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year/period are recognized in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (see Note 2(k)(i)).

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and a joint venture, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 28(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

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

- fair value through other comprehensive income ("FVOCI")—recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVPL, if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as at FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in Note 2(v)(ii).

(g) Derivative financial instruments

Derivative financial instruments are recognized at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

(h) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(j)) are stated at cost less accumulated depreciation and impairment losses (see Note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)).

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

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

- Leasehold improvements are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being 3 to 5 years from the date of completion;

- Equipment and machinery	5 to 10 years
- Office equipment, furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(x)). Capitalized development costs are stated at cost less accumulated amortization and impairment losses (see Note 2(k)(ii)). Other development expenditure is recognized as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

- Software	3 years
- Capitalized development costs	10 years

The useful life of capitalized development costs is estimated based on the expected life cycle of the underlying product since the commercialization. Both the period and method of amortization are reviewed annually.

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

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

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

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

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

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

The lease liability is remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease term contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Lease.* In such cases, the Group took advantage of the practical expedient set out in paragraph 46B of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

The Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the consolidated statement of financial position.

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognizes a loss allowance for ECLs on financial assets measured at amortized cost (including cash and cash equivalents, pledged deposits and trade and other receivables);

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

Measurement of ECLs

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

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

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

- variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

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

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

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

Significant increase in credit risk

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

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

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

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognized in accordance with Note 2(v)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

Evidence that a financial asset is credit-impaired includes the following observable events:

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

Write-off policy

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

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment, including right-of-use assets;
- intangible assets;
- investments in a joint venture; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the moving weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Contract assets and contract liabilities

A contract asset is recognized when the Group recognizes revenue (see Note 2(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(k) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(n)).

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see Note 2(v)). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see Note 2(n)).

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

(n) Trade and other receivables

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

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see Note 2(k)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(k).

(p) Preferred shares

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

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

Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred). The liability is recognized and mentioned in accordance with the Group's policy for interest-bearing borrowings set out in Note 2(q) and accordingly dividends thereon are recognized on an accrual basis in profit or loss as part of finance costs.

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Employee benefits

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

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

(ii) Share-based payments

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

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

(iii) Termination benefits

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

(t) Income tax

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

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(u) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

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

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of medical devices

Revenue is recognized when the customer takes possession of and accepts the products. If the products are a partial fulfillment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(iv) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

(w) Translation of foreign currencies

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

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

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

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

(x) Borrowing costs

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

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

(y) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

(z) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

There is no significant effect on the amounts recognized in the Historical Financial Information arising from the judgments, apart from those involving estimations, made by management in the process of applying the Group's accounting policies. The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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.

(a) Impairment of capitalized development costs

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

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible development assets not available for use can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of (i) timing of commercialisation, productivity and market size; (ii) revenue compound growth rate; (iii) costs and operating expenses; and (iv) the selection of discount rates to reflect the risks involved.

(b) Recognition of deferred tax assets

Deferred tax assets are recognized for deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(c) Fair value of unlisted equity investments and derivative financial liabilities

The Group has acquired unlisted equity investments and written options to third parties during the Relevant Periods as set out in Notes 14, 24 and 25, respectively. The Group classified these financial instruments as financial assets or liabilities at FVPL in which no quoted prices in an active market exist. The fair value of these financial instruments is established by using valuation techniques, including Black-Scholes model and equity allocation model. Valuation techniques are certified by an independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as possibilities under certain events, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the unlisted equity investments and derivative financial liabilities at FVPL.

4 REVENUE

(a) Revenue

The Group derives revenue principally from the sales of medical devices through appointed distributors.

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

(i) Disaggregation of revenue

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

	Year ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Revenue from contracts with customers within the scope of HKFRS 15				
Sales of medical devices — point in time	–	21,502	–	48,440

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

	Year ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Customer A	N/A	5,827	N/A	10,550
Customer B	N/A	3,781	N/A	N/A*
Customer C	N/A	N/A*	N/A	5,822

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

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

As at December 31, 2019 and July 31, 2020, none of the amount of the transaction price was allocated to the remaining performance obligation under the Group's existing contracts.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of medical devices that had an original expected duration of one year or less.

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, interest in a joint venture and other non-current financial assets ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in a joint venture and other non-current financial assets.

Revenue from external customers

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
The PRC (place of domicile)	–	21,502	–	48,440

Specified non-current assets

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
The PRC (place of domicile)	230,500	265,258	268,925
North America	41,275	51,673	53,627
Asia (excluding the PRC)	35,084	35,579	35,622
	306,859	352,510	358,174

5 OTHER NET INCOME/(LOSS)

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants (Note)	293	3,907	15	2,292
Interest income on bank deposits	911	60	29	953
Interest income on loans to a related party	170	–	–	–
Net foreign exchange (loss)/gain	(402)	1,097	390	(4,763)
	972	5,064	434	(1,518)

Government grants recognized in "other net income/(loss)" included unconditional grants of RMB293,000, RMB3,707,000, RMB15,000 and RMB2,257,000 for the years ended December 31, 2018 and 2019 and for the seven months ended July 31, 2019 (unaudited) and 2020 respectively to compensate the Group for its research and development activities and conditional grants of RMB200,000 and RMB35,000 transferred from deferred income as the conditions attaching to the grant were achieved during the year ended December 31, 2019 and the seven months ended July 31, 2020, respectively (Note 23).

6 LOSS BEFORE TAXATION

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

(a) Finance costs

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest on interest-bearing borrowings	–	1,407	238	39
Interest on loans from related parties	–	2,404	1,107	–
Interest on other financial liabilities (Notes 17(b) & 25)	–	7,575	–	69,841
Interest on lease liabilities (Note 17(b))	900	1,037	639	493
Others	99	100	49	108
	999	12,523	2,033	70,481

(b) Staff costs#

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Total equity-settled share-based payment cost	2,018	1,620	1,002	32,456
Less: capitalized into cost of inventories	–	–	–	(878)
Equity-settled share-based payment expenses recognized in consolidated statement of profit or loss (Note 26)	2,018	1,620	1,002	31,578
Defined contribution retirement plans (Note)	3,386	5,102	3,025	896
Salaries, wages and other benefits	17,088	39,425	18,851	27,830
	22,492	46,147	22,878	60,304

Note: As stipulated by the labor regulations of the PRC, the Group also participates in various defined contribution retirement plans organized by provincial and municipal governments for its employees. The Group is required to make contributions to the retirement plans at approximately 16% of the eligible employees' salaries during the Relevant Periods.

(c) Other operating costs

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Listing expenses	–	–	–	15,123
Other legal and professional fee	–	–	–	2,324
Restructuring expenses	–	1,057	–	–
Others	12	–	–	210
	12	1,057	–	17,657

(d) Other items

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Amortization of intangible assets (Note 12)	47	7,726	1,292	9,012
Depreciation charge# (Note 11)				
— owned property, plant and equipment	1,426	1,998	1,031	2,137
— right-of-use assets	3,819	5,523	3,222	3,311
	5,292	15,247	5,545	14,460
Less: Capitalized into intangible assets	(2,480)	(1,487)	(1,136)	(489)
	2,812	13,760	4,409	13,971
Research and development costs (other than amortization costs of intangible assets)	110,956	122,751	80,004	41,934
Less: Costs capitalized into intangible assets	(66,210)	(33,759)	(29,565)	(12,743)
	44,746	88,992	50,439	29,191
Cost of inventories# (Note 15(b))	9,144	36,857	13,066	40,039
Auditors' remuneration	11	63	–	2,317

Cost of inventories includes RMB4,103,000 and RMB11,765,000 relating to staff costs and depreciation charges, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses for the year ended December 31, 2019 and for the seven months ended July 31, 2020, respectively.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current tax — PRC Corporate Income Tax ("CIT")				
Provision for the year/period	–	–	–	–

(i) Cayman Islands and British Virgin Islands tax

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

(ii) Hong Kong profits tax

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

(iii) PRC CIT

Pursuant to the CIT Law of the PRC, all of the Company's PRC subsidiaries are liable to PRC CIT at a rate of 25%.

According to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018, effective for the period from January 1, 2018 to December 31, 2020, an additional 75% of qualified research and development expenses incurred is allowed to be deducted from the taxable income.

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

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

	Year ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Loss before taxation	(60,263)	(144,522)	(83,499)	(192,628)
Notional tax on loss before taxation, calculated at the rates applicable to profit in the countries concerned	(15,066)	(32,764)	(20,875)	(12,888)
Effect of other non-deductible expenses	2,329	9,474	2,234	1,475
Effect of additional deduction on research and development expenses (Note 7(a)(iii))	(6,094)	(12,353)	(5,594)	(4,174)
Effect of tax losses not recognized	18,831	36,198	24,235	15,587
Effect of non-taxable revenue	–	(555)	–	–
Actual tax expenses	–	–	–	–

8 DIRECTORS' EMOLUMENTS

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

	Year ended December 31, 2018					
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Equity-settled share-based payment**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Chairman and non-executive director						
Qiyi Luo (c)	–	–	–	–	–	–
Executive directors						
Guoming Chen (e)	–	536	348	–	427	1,311
Luying Yan (e)	–	430	172	–	53	655
Guojia Wu (e)	–	477	290	–	169	936
Non-executive directors						
Yu Li (b)	–	600	591	–	143	1,334
Yong Li (c)	–	–	–	–	–	–
Junjie Zhang (c)	–	–	–	–	–	–
Xia Wu (c)	–	–	–	–	–	–
	–	2,043	1,401	–	792	4,236

	Year ended December 31, 2019					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and non-executive director						
Qiyi Luo (c)	–	–	–	–	–	–
Executive directors						
Shouyan Lee (a)	–	128	–	–	–	128
Guoming Chen (e)	–	575	493	–	222	1,290
Luying Yan (e)	–	606	330	–	45	981
Guojia Wu (e)	–	792	397	–	253	1,442
Non-executive directors						
Yu Li (b)	–	550	–	–	(45)	505
Yong Li (c)	–	–	–	–	–	–
Lei Jiang (d)	–	–	–	–	–	–
Zheng Wang (d)	–	–	–	–	–	–
Junjie Zhang (c)	–	–	–	–	–	–
Xia Wu (c)	–	–	–	–	–	–
	–	2,651	1,220	–	475	4,346

	Seven months ended July 31, 2020					
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Equity-settled share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and non-executive director						
Qiyi Luo (c)	–	–	–	–	7,302	7,302
Executive directors						
Shouyan Lee (a)	–	900	–	–	1,720	2,620
Guoming Chen (e)	–	337	389	–	968	1,694
Luying Yan (e)	–	363	260	–	733	1,356
Guojia Wu (e)	–	462	312	–	882	1,656
Non-executive directors						
Yong Li (c)	–	–	–	–	487	487
Lei Jiang (d)	–	–	–	–	487	487
Zheng Wang (d)	–	–	–	–	–	–
Junjie Zhang (c)	–	–	–	–	–	–
Xia Wu (c)	–	–	–	–	–	–
	–	2,062	961	–	12,579	15,602

	Seven months ended July 31, 2019 (Unaudited)					
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Equity-settled share-based payment**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Chairman and non-executive director . . .						
Qiyi Luo (c)	–	–	–	–	–	–
Executive directors						
Guoming Chen (e)	–	337	288	–	128	753
Luying Yan (e)	–	408	193	–	28	629
Guojia Wu (e)	–	462	231	–	148	841
Non-executive directors						
Yu Li (b)	–	353	–	–	41	394
Yong Li (c)	–	–	–	–	–	–
Junjie Zhang (c)	–	–	–	–	–	–
Xia Wu (c)	–	–	–	–	–	–
	–	1,560	712	–	345	2,617

Notes:

(a) Shouyan Lee ("Dr. Lee") was appointed as executive director of the Company on December 19, 2019. He was key management personnel of the Group since December 2019 and his remuneration disclosed above include those for services rendered by him as key management personnel. Subsequently, Dr. Lee resigned on September 7, 2020 and share options granted by the Company (see Note 26(a)) to Dr. Lee were lapsed accordingly.

(b) Yu Li was appointed as non-executive director of the Company on January 10, 2019 and resigned on December 19, 2019. She was key management personnel of the Group during the Relevant Periods and her remuneration disclosed above include those for services rendered by her as key management personnel. She was the director of MP CardioFlow before her resignation during the Relevant Periods.

(c) Qiyi Luo, Yong Li, Junjie Zhang and Xia Wu were appointed as non-executive directors of the Company on August 5, 2019 and Qiyi Luo was appointed as the chairman of the board of the Company on January 16, 2020. They were also the directors of MP CardioFlow during the Relevant Periods.

(d) Lei Jiang and Zheng Wang were appointed as non-executive directors of the Company on August 5, 2019. They were also appointed as the directors of MP CardioFlow since August 2019.

(e) Guoming Chen, Luying Yan and Guojia Wu were appointed as executive directors of the Company on September 29, 2020. They were also employees of the Group during the Relevant Periods and the Group paid emoluments to them in their capacity as the employees of the Group before their appointment as executive directors of the Company.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments of the Group for the years ended December 31, 2018 and 2019 and for the seven months ended July 31, 2019 (unaudited) and 2020, four, four, four and five individuals' emoluments are disclosed in Note 8 and the emoluments in respect of the remaining one, one, one and nil individuals during the Relevant Periods are as follows:

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other benefits	406	435	309	–
Discretionary bonuses	162	180	82	–
Equity-settled share-based payment	144	–	88	–
	712	615	479	–

The emoluments of the individuals with the highest emoluments are within the following bands:

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	Number of Individuals	Number of Individuals	Number of Individuals (Unaudited)	Number of Individuals
Nil to HK$1,000,000	1	1	1	–

10 LOSS PER SHARE

The calculation of the basic loss per share during the Relevant Periods is based on the loss for the year/period attributable to equity shareholders of the Company divided by the weighted average number of shares assumed to be in issue after taking into account the retrospective adjustments on the assumption that the Restructuring and the share subdivision as disclosed in Note 34 had been in effective on January 1, 2018, calculated as follows:

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

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Loss of the year/period attributable to equity shareholders of the Company	(60,263)	(144,522)	(83,499)	(192,628)

(ii) Weighted average number of shares

	Year ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	'000	**'000**	**'000**	**'000**
			(Unaudited)	
Issued shares at the beginning of the year/period for the purposes of basic loss per share:				
Number of ordinary shares for the purposes of basic loss per share	1,398,989	1,265,752	1,265,752	1,265,752
Number of series B preferred shares for the purposes of basic loss per share (Notes 27(c)(i)&(iv))	270,576	484,248	484,248	484,248
	1,669,565	1,750,000	1,750,000	1,750,000
Effect of capital contributions by shareholders (Note 27(c)(i))	2,865	–	–	–
Effect of reclassification and re-designation to series D preferred shares (Note 27(c)(v))	–	–	–	(23,771)
Weighted average number of shares at the end of the year/period for the purposes of basic loss per share	1,672,430	1,750,000	1,750,000	1,726,229

There were no dilutive potential ordinary shares for the year ended December 31, 2018 and, therefore, diluted loss per share are the same as the basic loss per share.

The calculation of diluted loss per share amount for the year ended December 31, 2019 and the seven months ended July 31, 2020 has not included the potential effects of the deemed conversion of the series C preferred shares, series D preferred shares and share options granted by the Company (see Note 26(a)) during the year/period, as they had an anti-dilutive effect on the basic loss per share amount for the year/period.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold improvements	Equipment and machinery	Office equipment, furniture and fixtures	Right-of-use assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At January 1, 2018	62	12,003	697	–	180	12,942
Transfer from construction in progress	103	815	534	–	(1,452)	–
Additions	–	–	–	19,636	8,607	28,243
Disposals	–	–	(5)	–	–	(5)
At December 31, 2018 and January 1, 2019	165	12,818	1,226	19,636	7,335	41,180
Transfer from construction in progress	838	5,889	1,201	–	(7,928)	–
Additions	–	–	–	6,274	9,929	16,203
Disposals	–	–	(2)	–	–	(2)
At December 31, 2019 and January 1, 2020	1,003	18,707	2,425	25,910	9,336	57,381
Transfer from construction in progress	9,415	1,518	138	–	(11,071)	–
Additions	–	–	–	857	4,686	5,543
Modification of lease terms	–	–	–	(164)	–	(164)
At July 31, 2020	10,418	20,225	2,563	26,603	2,951	62,760
Accumulated depreciation and amortization:						
At January 1, 2018	16	1,707	129	–	–	1,852
Charge for the year	15	1,278	133	3,819	–	5,245
Written back on disposals	–	–	(2)	–	–	(2)
At December 31, 2018 and January 1, 2019	31	2,985	260	3,819	–	7,095
Charge for the year	91	1,588	319	5,523	–	7,521
Written back on disposals	–	–	(2)	–	–	(2)
At December 31, 2019 and January 1, 2020	122	4,573	577	9,342	–	14,614
Charge for the period	724	1,147	266	3,311	–	5,448
At July 31, 2020	846	5,720	843	12,653	–	20,062
Net book value:						
At December 31, 2018	134	9,833	966	15,817	7,335	34,085
At December 31, 2019	881	14,134	1,848	16,568	9,336	42,767
At July 31, 2020	9,572	14,505	1,720	13,950	2,951	42,698

(b) Right-of-use assets

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

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Properties leased for own use, carried at depreciated cost	15,817	16,568	13,950

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

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:				
Properties leased for own use	3,819	5,523	3,222	3,311
Interest on lease liabilities (Note 6(a))	900	1,037	639	493
Expense relating to short-term leases (note 30(c))	371	–	–	93

During the years ended December 31, 2018 and 2019 and the seven months ended July 31, 2019 (unaudited) and 2020, additions to the right-of-use assets were RMB19,636,000, RMB6,274,000, RMB19,636,000 and RMB857,000, respectively. This amount included the capitalized lease payments payable under the new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 17(b) and 21, respectively.

The Group leases manufacturing plants, warehouses and office buildings under leases expiring in no more than three years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

12 INTANGIBLE ASSETS

	Capitalized development costs	Software	Total
	RMB'000	RMB'000	RMB'000
Cost			
At January 1, 2018	130,166	154	130,320
Additions	66,210	–	66,210
At December 31, 2018 and January 1, 2019	196,376	154	196,530
Additions	33,759	43	33,802
At December 31, 2019 and January 1, 2020	230,135	197	230,332
Additions	12,743	5	12,748
At July 31, 2020	242,878	202	243,080
Accumulated amortization and impairment:			
At January 1, 2018	–	68	68
Amortization charge for the year	–	47	47
At December 31, 2018 and January 1, 2019	–	115	115
Amortization charge for the year	7,709	17	7,726
At December 31, 2019 and January 1, 2020	7,709	132	7,841
Amortization charge for the period	8,994	18	9,012
At July 31, 2020	16,703	150	16,853
Net book value:			
At December 31, 2018	196,376	39	196,415
At December 31, 2019	222,426	65	222,491
At July 31, 2020	226,175	52	226,227

Included in intangible assets were an amount of RMB196,376,000, RMB75,959,000 and RMB88,705,000 that are not yet available for use as of December 31, 2018 and 2019 and July 31, 2020, respectively. These intangible assets were solely related to capitalized development costs.

Majority of amortization of intangible assets is recognized in research and development costs.

(a) Impairment test

As at December 31, 2018, the capitalized development costs not yet available for use were related to VitaFlow™ and VitaFlow™ II. The amortization of VitaFlow™ related capitalized development costs commenced in July 2019, when the registration certificate of VitaFlow™ was approved by the National Medical Products Administration.

The capitalized development costs not yet available for use as at December 31, 2019 and July 31, 2020 were both related to VitaFlow™ II.

The capitalized development costs not yet available for use are tested annually based on the recoverable amount of the cash generating unit to which the intangible asset is related. As these development costs support each of the product, their respective cash-generating unit ("CGU") is at the product level.

The recoverable amount of each CGU was determined based upon the value-in-use calculations.

The cash flow projections are based on the financial budgets approved by the directors of the Company. The revenue forecasts of VitaFlow™ and VitaFlow™ II were based on management's expectations of the timing of the commercialization, productivity and the market size of related products. Management estimates both VitaFlow™ and VitaFlow™ II will have a 10-year useful life commencing from the approval for commercialization with higher rates of revenue growth in the earlier years and declining revenue during the remaining years of the estimated useful life. Gross profit margin ratio is estimated based on the Group's current level, taking into account the impact of cost improvements. Management also considered the gross profit margin ratio of similar products from comparable companies in estimating the gross profit margin ratio in the forecast. The discount rates used are pre-tax and reflect specific risks relating to the relevant products.

The key assumptions used in the value-in-use calculations of each CGU are as follows:

	As at December 31, 2018
VitaFlow™	
Revenue from the commercialization to the peak sales (% annualized compound growth rate)	63%
Revenue for the remaining useful life (% annualized compound growth rate)	-25%
Gross profit margin ratio	35%-76%
Pre-tax discount rate	24.9%

	As at December 31,	
	2018	2019
VitaFlow™ II		
Revenue from the commercialization to the peak sales (% annualized compound growth rate)	65%	65%
Revenue for the remaining useful life (% annualized compound growth rate)	-32%	-32%
Gross profit margin ratio	69%-78%	69%-78%
Pre-tax discount rate	28.8%	29.3%

(b) Impact of possible changes in key assumptions

The recoverable amount of the CGU of VitaFlow™ II is estimated to exceed the carrying amount of the CGU at December 31, 2018 and 2019 by RMB425,685,000 and RMB451,543,000, respectively. The recoverable amount of the CGU of VitaFlow™ is estimated to exceed the carrying amount of the CGU at December 31, 2018 by RMB30,248,000.

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

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

	As at December 31, 2018
VitaFlow™	
Revenue from the commercialization to the peak sales (% annualized compound growth rate)	61%
Revenue for the remaining useful life (% annualized compound growth rate)	-27%
Gross profit margin ratio	32%-74%
Pre-tax discount rate	29.3%

	As at December 31,	
	2018	2019
VitaFlow™ II		
Revenue from the commercialization to the peak sales (% annualized compound growth rate)	50%	52%
Revenue for the remaining useful life (% annualized compound growth rate)	-57%	-55%
Gross profit margin ratio	39%-50%	44%-53%
Pre-tax discount rate	74.5%	80.3%

(c) Impairment assessment for the seven months ended July 31, 2020

In accordance with the Group's accounting policies, intangible assets not yet available for use are tested for impairment on an annual basis at each year end. As at July 31, 2020, the management is not aware of any significant adverse changes on the development of VitaFlow™ II, which indicate that the carrying amount of the CGU exceeds its recoverable amount. Consequently, no interim impairment assessment as of July 31, 2020 was performed.

13 INTEREST IN A JOINT VENTURE

The following list contains the particulars of a joint venture, which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal Activity
Rose Emblem Ltd. ("Rose Emblem")	Incorporated	British Virgin Islands	US$10,000,000	51%	–	51%	Investment holding

In September 2018, the Group and Witney Global Limited ("Witney"), entered into a subscription and shareholders agreement with Rose Emblem, pursuant to which, the Group and Witney subscribed 51% and 49% interests in Rose Emblem, at the consideration of US$5,100,000 (equivalent to RMB35,084,000) and US$4,900,000 (equivalent to RMB33,708,000), respectively. As the approval of the resolutions in relation to the relevant activities of Rose Emblem shall require both approval from the Group and the Witney, the directors of the Company determined that the investment in Rose Emblem is a joint venture, which is accounted for under the equity method.

The principal activity of Rose Emblem is investing in ValCare Inc. ("ValCare") via holding its preferred shares. ValCare is based in Israel and engaged in the development of the mitral valve repair devices. The investment in ValCare is classified as financial assets measured at FVPL on Rose Emblem's financial statements, the fair value of which is determined with reference to the latest subscription prices of the preferred shares issued by ValCare to its new investors in October 2019 of the same terms as Rose Emblem's.

In January 2019, MP CardioFlow granted a put option to Witney (the "Witney Put Option") in connection with Witney's investments in ValCare and 4C Medical Technologies, Inc. ("4C Medical", see Note 14). The Witney Put Option is considered as a derivative financial liability (see Note 24).

Summarized financial information of Rose Emblem and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Gross amounts of Rose Emblem			
Non-current assets	68,792	69,762	69,848
Equity	68,792	69,762	69,848
Profit for the year/period	–	–	–
Other comprehensive income	–	970	86
Total comprehensive income	–	970	86
Reconciled to the Group's interests in Rose Emblem			
Gross amounts of Rose Emblem's net assets	68,792	69,762	69,848
Group's effective interest	51%	51%	51%
Group's share of Rose Emblem's net assets and carrying amount of the Group's interest in Rose Emblem	35,084	35,579	35,622

14 OTHER FINANCIAL ASSETS

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Financial assets measured at FVPL			
– Unlisted equity securities outside Hong Kong	41,275	51,673	53,627

In September 2018, the Group and Witney, entered into a subscription and shareholders agreement with 4C Medical, pursuant to which, the Group and Witney subscribed and purchased preferred shares of 4C Medical, at the consideration of US$6,000,000 (equivalent to RMB41,275,000) and US$7,000,000 (equivalent to RMB48,154,000), respectively. 4C Medical is a research and development company engaged in the development of the mitral and tricuspid valve devices and the main operation is based in the United States. The investment in 4C Medical is classified as financial assets measured at FVPL. Valuation techniques and significant assumptions for determining the fair value of the investments in 4C Medical was set out in Note 28(e).

In January 2019, the Group granted the Witney Put Option in connection with Witney's investment in ValCare (see Note 13) and 4C Medical which is recognized as a derivative financial liability (see Note 24).

In 2019, the Group subscribed and purchased additional preferred shares of 4C Medical at the consideration of US$1,000,000 (equivalent to RMB7,030,000). The movements of carrying amount of the investment in 4C Medical is set out in Note 28(e).

15 INVENTORIES

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

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Raw materials	17,080	27,773	34,202
Work in progress	–	15,703	32,294
Finished goods	–	5,748	5,440
	17,080	49,224	71,936

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

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories sold	–	15,200	–	27,455
Write down of the inventories	–	200	–	3,786
Cost of inventories directly recognized as research and development costs and other expenses	9,144	21,457	13,066	8,798
	9,144	36,857	13,066	40,039

16 TRADE AND OTHER RECEIVABLES AND OTHER NON-CURRENT ASSETS

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Current trade and other receivables			
Trade receivables	–	–	3,155
Value-added tax recoverable	4,928	21,347	23,428
Other debtors	176	184	537
Deposits and prepayments	4,419	3,386	4,100
	9,523	24,917	31,220
Other non-current assets			
Value-added tax recoverable	17,376	9,058	4,004
Deposits	549	603	629
	17,925	9,661	4,633

All trade receivables are due from third party customers.

All of the current trade and other receivables are expected to be recovered or recognized as expense within one year.

As at December 31, 2018 and 2019 and July 31, 2020, value added tax recoverable amounting to RMB17,376,000, RMB9,058,000 and RMB4,004,000 respectively were recognized as other non-current assets as they are expected to be deducted from future value added tax payables arising on the Group's revenue which are not expected to be generated within the next 12 months from the end of each of the reporting period.

Aging analysis

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

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Within 1 months	–	–	3,155

17 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

The Group

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Cash at bank	50,418	109,263	698,166

As at December 31, 2018 and 2019 and July 31, 2020, cash and cash equivalents of the Group held in banks and financial institutions in the PRC amounted to RMB50,418,000, RMB90,922,000 and RMB660,722,000, respectively. The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The Company

As at December 31, 2019 and July 31, 2020, cash and cash equivalents represent cash at bank of RMB699,000 and RMB30,749,000, respectively.

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings	Loans from related parties	Other financial liabilities	Lease liabilities	Total
	RMB'000 (Note 18)	RMB'000 (Note 19)	RMB'000 (Note 25)	RMB'000 (Note 21)	RMB'000
At January 1, 2018	–	–	–	–	–
Changes from financing cash flows:					
Loans from related parties	–	76,359	–	–	76,359
Capital element of lease payments	–	–	–	(824)	(824)
Interest element of lease payments	–	–	–	(224)	(224)
Total changes from financing cash flows	–	76,359	–	(1,048)	75,311
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	19,636	19,636
Lease payments capitalized into intangible assets	–	–	–	(1,150)	(1,150)
Deemed contribution by a shareholder	–	–	–	(2,021)	(2,021)
Interest charge (Note 6(a))	–	–	–	900	900
	–	–	–	17,365	17,365
At December 31, 2018	–	76,359	–	16,317	92,676

	Interest-bearing borrowings	Loans from related parties	Other financial liabilities	Lease liabilities	Total
	RMB'000 (Note 18)	RMB'000 (Note 19)	RMB'000 (Note 25)	RMB'000 (Note 21)	RMB'000
At December 31, 2018	–	76,359	–	16,317	92,676
Changes from financing cash flows:					
Proceeds from interest-bearing borrowings	70,000	–	–	–	70,000
Repayments of interest-bearing borrowings	(50,000)	–	–	–	(50,000)
Loans from related parties	–	118,605	–	–	118,605
Repayments of loans from related parties	–	(193,852)	–	–	(193,852)
Interest paid for interest-bearing borrowings	(1,407)	(561)	–	–	(1,968)
Proceeds from issuance of preferred shares	–	–	317,398	–	317,398
Capital element of lease payments	–	–	–	(3,660)	(3,660)
Interest element of lease payments	–	–	–	(958)	(958)
Total changes from financing cash flows	18,593	(75,808)	317,398	(4,618)	255,565
Exchange adjustments	–	(1,081)	(3,379)	–	(4,460)
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	6,274	6,274
Lease payments capitalized into intangible assets	–	–	–	(381)	(381)
Interest charge (Note 6(a))	1,407	2,404	7,575	1,037	12,423
	1,407	2,404	7,575	6,930	18,316
At December 31, 2019	20,000	1,874	321,594	18,629	362,097

	Interest-bearing borrowings	Loans from related parties	Other financial liabilities	Lease liabilities	Total
	RMB'000 (Note 18)	RMB'000 (Note 19)	RMB'000 (Note 25)	RMB'000 (Note 21)	RMB'000
At December 31, 2019	20,000	1,874	321,594	18,629	362,097
Changes from financing cash flows:					
Repayments of interest-bearing borrowings	(20,000)	–	–	–	(20,000)
Interest paid for interest-bearing borrowings	(39)	(1,874)	–	–	(1,913)
Proceeds from issuance of preferred shares	–	–	705,713	–	705,713
Capital element of lease payments	–	–	–	(4,150)	(4,150)
Interest element of lease payments	–	–	–	(476)	(476)
Total changes from financing cash flows	(20,039)	(1,874)	705,713	(4,626)	679,174
Exchange adjustments	–	–	(9,420)	–	(9,420)
Other changes:					
Increase in lease liabilities from entering into new leases during the period	–	–	–	857	857
Modification of lease terms	–	–	–	(164)	(164)
Lease payments capitalized into intangible assets	–	–	–	(171)	(171)
Reclassification and re-designation from ordinary shares to series D preferred shares	–	–	211,709	–	211,709
Unpaid transaction costs in relation to series D financing	–	–	(9,142)	–	(9,142)
Interest charge (Note 6(a))	39	–	69,841	493	70,373
	39	–	272,408	1,015	273,462
At July 31, 2020	–	–	1,290,295	15,018	1,305,313

(c) Total cash outflow for leases

	Year ended December 31,		Seven months ended July 31,	
	2018	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Within investing cash flows	1,150	381	234	171
Within financing cash flows	1,048	4,618	3,241	4,626
	2,198	4,999	3,475	4,797

All these amounts relate to the lease rentals paid.

18 INTEREST-BEARING BORROWING

As of the end of each reporting period, the interest-bearing borrowing were repayable as follows:

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	–	20,000	–

As at December 31, 2019, the bank facility amounting to RMB50,000,000, which the Group withdrew loan in amount of RMB20,000,000 were unsecured and guaranteed by Shanghai MicroPort Medical (Group) Co., Ltd. ("Shanghai MicroPort Medical") (上海微創醫療器械(集團)有限公司), a fellow subsidiary of the Group. The interest-bearing borrowing of RMB 20,000,000 as of December 31, 2019 was fully repaid in January 2020. The above guarantee provided by Shanghai MicroPort Medical on the Group's interest-bearing borrowings has been released as of the date of this report.

19 TRADE AND OTHER PAYABLES

The Group

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	**RMB'000**	**RMB'000**
Trade payables due to			
– third party suppliers	6,988	11,647	12,143
– related parties	16,226	2,501	1,370
	23,214	14,148	13,513
Loans and interests due to related parties (Note 30)	76,359	1,874	–
Accrued payroll	5,748	10,638	9,923
Other payables and accrued charges	5,633	8,671	19,833
	110,954	35,331	43,269

All of the above balances classified as current liabilities are expected to be settled within one year.

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

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Within 1 month	18,441	13,449	13,405
Over 1 month but within 3 months	1,904	86	4
Over 3 months but within 6 months	2,807	377	15
Over 6 months but within 1 year	62	194	1
Over 1 year	–	42	88
	23,214	14,148	13,513

The Company

	December 31, 2019	July 31, 2020
	RMB'000	RMB'000
Amounts due to a subsidiary	–	6,776
Other accrued charges	–	12,301
	–	19,077

All of the above balances classified as current liabilities are expected to be settled within one year.

20 CONTRACT LIABILITIES

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Advanced receipts from customers for sales of medical devices	–	3,567	12

Movements in contract liabilities

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	–	–	3,567
Decrease in contract liabilities as a result of recognizing revenue during the year/period that was included in the contract liabilities at the beginning of the year/period	–	–	(3,567)
Increase in contract liabilities as a result of receiving advance payments during the year/period	–	3,567	12
At the end of the year/period	–	3,567	12

21 LEASE LIABILITIES

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

	December 31, 2018		December 31, 2019		July 31, 2020	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	4,258	4,361	7,249	7,397	7,559	7,770
After 1 year but within 2 years	4,232	4,566	5,839	6,301	6,027	6,560
After 2 years but within 5 years	7,827	9,133	5,541	6,301	1,432	1,611
	12,059	13,699	11,380	12,602	7,459	8,171
	16,317	18,060	18,629	19,999	15,018	15,941
Less: Total future interest expenses		(1,743)		(1,370)		(923)
Present value of lease liabilities		16,317		18,629		15,018

As at December 31, 2018 and 2019 and July 31, 2020, lease liabilities include the lease payable of RMB9,590,000, RMB13,299,000 and RMB10,680,000 due to Shanghai MicroPort Medical, respectively (see Note 30(b)(v)).

During the year ended December 31, 2018, the rental fee due to Shanghai MicroPort Medical amounting to RMB2,391,000 was waived by Shanghai MicroPort Medical and the corresponding amount was charged into capital reserve of the Group.

22 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(t), the Group has not recognized deferred tax assets in respect of cumulative tax losses attributable to a subsidiary of RMB119,955,000, RMB263,122,000 and RMB325,471,000 at December 31, 2018 and 2019 and July 31, 2020, respectively due to the unpredictability of future taxable profits in the relevant tax jurisdiction and entity.

The tax losses incurred by a PRC subsidiary of RMB5,000, RMB44,860,000, RMB75,090,000, and RMB143,167,000 will expire in 2021, 2022, 2023 and 2024 respectively.

23 DEFERRED INCOME

	Note	Government subsidies for research and development projects
		RMB'000
At January 1, 2018, December 31, 2018 and January 1, 2019		1,480
Additions		2,200
Government grant recognized as other income	5	(200)
At December 31, 2019 and January 1, 2020		3,480
Additions		120
Transfers to other payables		(790)
Government grant recognized as other income	5	(35)
At July 31, 2020		2,775

24 DERIVATIVE FINANCIAL LIABILITIES

In January 2019, the Group granted a put option to Witney (the "Witney Put Option") in connection with investments on ValCare (Note 13) and 4C Medical (Note 14) which the Group and Witney made together, pursuant to which, in certain events, including the sales of ValCare and 4C Medical to a third party at a price no less than three times of the original purchase price of ValCare and 4C Medical has not occurred before the fifth anniversary of closing of investments in ValCare and 4C Medical, Witney has the right to require the Group to purchase any or all of the investments in ValCare and 4C Medical held by Witney at a price equal to the original purchase price plus interests at the 3-month London Interbank Offered Rate ("LIBOR") in US$ plus 1% by cash.

Witney Put Option is recognized as a derivative financial liability. As at December 31, 2019 and July 31, 2020, the fair value of the Witney Put Option was RMB11,455,000 and RMB14,498,000 respectively. Valuation techniques and significant assumptions adopted for determining the fair value of the Witney Put Option was set out in Note 28(e).

25 OTHER FINANCIAL LIABILITIES

In 2019, the Company completed a series C financing and issued a total of 11,250,000 series C preferred shares to Qianyi Investment I L.P. at a cash consideration of US$45 million.

In April 2020, the Company completed a series D financing, pursuant to which, (i) the Company issued a total of 8,977,273 series D preferred shares at an aggregated cash consideration of US$100 million to several investors (the "2020 Pre-IPO Investors") and (ii) Shanghai MicroPort Limited ("SHBVI", the immediate controlling party of the Company) sold 2,693,182 ordinary shares of the Company to 2020 Pre-IPO Investors at a cash consideration of US$30 million. These 2,693,182 ordinary shares previously held by SHBVI were converted to Company's series D preferred shares upon the completion of the series D financing.

Significant terms of the series C preferred shares and series D preferred shares are outlined below:

Liquidation preference

In the event of any liquidation of the Company (such as liquidation, dissolution or winding up), the holders of the series C and series D preferred shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the ordinary shares, an amount equals to the original issue price.

Redemption rights

Series C preferred shares shall be redeemable by the Company upon the occurrence of certain contingent events, with the main conditions being: (i) a qualified public offering does not occur before October 18, 2023, or (ii) the Company fails to accomplish certain business commitments (the "Business Commitments"), at an amount equal to the original purchase price of series C preferred shares plus per annum interest of 15% calculated on a compound basis.

Series D preferred shares shall be redeemable by the Company upon the occurrence of certain contingent events, with the main conditions being: (i) a qualified public offering does not occur before October 18, 2023 or (ii) the Company has received the redemption requests from the holders of other preferred shares, at an amount equal to the original purchase price of series D preferred share plus per annum interest of 15% calculated on a compound basis.

Conversion feature

Each preferred share shall be convertible into such number of fully paid ordinary shares at any time at the option of the holder after the respective original issue date of series D preferred shares and series C preferred shares. The initial conversion ratio for series D preferred shares and series C preferred shares to ordinary shares is 1:1. Such initial conversion ratio shall be subject to adjustment (including but not limited to dividends, share splits and combinations, capital reorganization or reclassification).

Series D Adjustment

Pursuant to the shareholders' agreement in relation to the series D financing, under certain conditions, the Company shall issue additional series D preferred shares to the 2020 Pre-IPO Investors (the "Series D Adjustment"). This is a separate component from the conversion feature.

Presentation and Classification

The redemption obligations give rise to financial liabilities, which are measured at the highest of those amounts that could be payable, and on a present value basis. The conversion feature is recognized as an equity component as series C preferred shares and series D preferred shares can be converted into ordinary shares where the number of shares to be issued is fixed.

The financial liabilities arising from series C preferred shares and series D preferred shares are measured at the transaction price at initial recognition, and subsequently at amortized cost at an effective interest rate of 15%. There is no residual amount allocated to equity for the conversion feature.

The movements of other financial liabilities during the Relevant Periods are set out in Note 17(b).

As at July 31, 2020, considering that (i) achieving the Business Commitments is beyond the control of the Group; and (ii) series D preferred shares shall be redeemable by the Company if the Company has received the redemption requests from the holders of other preferred shares, the Company does not have an unconditional right to defer redemption of series C and series D preferred shares for at least twelve months after July 31, 2020. Therefore, the series C preferred shares and the series D preferred shares were both classified as current other financial liabilities in the consolidated statement of financial position.

The Series D Adjustment is recognized as a derivative financial liability and is measured at fair value through profit or loss. As at July 31, 2020, the fair value of the Series D Adjustment was RMB26,782,000, which was determined by reference to the subscription prices of the series D preferred shares of the Company and additional series D preferred shares expected to be issued.

26 EQUITY SETTLED SHARE-BASED TRANSACTION

(a) Share options granted by the Company (equity-settled)

In March 2020, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which, the board of the directors may authorize, at their discretion, the issuance of share options to (i) the executives and employees of the Group and (ii) the directors and employees of MicroPort Scientific Corporation ("MPSC", the ultimate controlling party of the Group) and its subsidiaries other than the Group who have contributed or will contribute to the development of the Group. Each option gives the holder the right to subscribe for one ordinary share of the Company.

(i) The terms, conditions and fair values at the grant date of the grants are as follows:

	Number of options	Fair value	Weighted average fair value per share option	Exercise price
		RMB'000	RMB	US$
Options granted to executives and employees of the Group	3,328,750	81,138	24.34	US$3.2
Options granted to directors and employees of MPSC and its subsidiaries	807,000	19,519	24.34	US$3.2
	4,135,750			

The above share options granted to the executives and employees of the Group are expected to vest in installments over an explicit vesting period of one to five years. Each installment is accounted for as a separate share-based compensation arrangement.

The above share options granted to the directors and employees of MPSC and its subsidiaries have no vesting conditions and the grant-date fair value of these share options were immediately recognized as share-based payment costs at the grant date.

The contractual life of above options is ten years.

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

During the seven months ended July 31, 2020, the Company granted a total of 4,135,750 share options with an average exercise price of US$3.2. All the share options granted are exercisable by the grantees upon vesting and will expire in a period from March 2021 through March 2030. As at July 31, 2020, the weighted average remaining contractual life for the share options granted under Share Option Scheme was 9.67 years.

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. Back-solve method was used to determine the equity fair value of the ordinary shares of the Company and the estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	March 31, 2020
Fair value at measurement dates	US$3.34 – US$3.56
Share price	US$6.01
Expected exercise price	US$3.20
Expected volatility	36.27%
Option life	10 years
Expected dividend yield	0.00%
Risk-free interest rate	0.68%

(b) Share options granted by the ultimate controlling party (equity-settled)

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

Up to July 31, 2020, MPSC has granted 1,022,000 share options in aggregation to the employee of the Group. These share options are vested in installments over an explicit vesting period of one to seven years. Each installment is accounted for as a separate share-based compensation arrangement. The contractual life of the options is ten years.

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

	December 31, 2018		December 31, 2019		July 31, 2020	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	RMB		RMB		RMB	
Outstanding at the beginning of the year/period	3.06	822,000	3.21	822,000	3.30	742,000
Exercised during the year/ period	–	–	–	–	3.08	(452,000)
Forfeited during the year/ period	–	–	3.12	(80,000)	–	–
Outstanding at the end of the year/period	3.21	822,000	3.30	742,000	3.70	290,000
Exercisable at the end of the year/period	2.83	102,000	3.30	742,000	3.70	290,000

All the share options granted are exercisable by the grantees upon vesting and will expire in a period from August 2020 through March 2026. As at December 31, 2018 and 2019 and July 31, 2020, the weighted average remaining contractual life for the share options granted was 4.55, 3.25 and 2.24 years, respectively.

(ii) Fair value of share options and assumptions

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

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

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

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

The total expenses recognized in the consolidated statement of profit or loss for the share options granted by ultimate controlling party are RMB221,000, RMB70,000, RMB118,000 and nil for the years ended December 31, 2018 and 2019 and for the seven months ended July 31, 2019 (unaudited) and 2020, respectively.

(c) Employee share purchase plan (the "ESPP") (equity-settled)

In 2015, the Group has adopted an ESPP, pursuant to which, the employee of the Group established an entity (the "Employee Entity"), which is to invest in the Group. The employee participated in the ESPP have purchased equity interests in the Employee Entity at the amounts specified in the relevant agreements, with service condition terms that require them to transfer out their equity interest in Employee Entity at a price no higher than their original investment amount should they terminate their employments with the Group within 3 years from the investment date. Accordingly, the Group granted equity instruments to its employees and accounted for it as equity-settled share-based payments.

The total expenses recognized in the consolidated statement of profit or loss for the ESPP granted to the Group's employees are RMB1,797,000, RMB1,550,000, RMB884,000 and RMB720,000 for the years ended December 31, 2018 and 2019 and for the seven months ended July 31, 2019 (unaudited) and 2020, respectively.

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

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of sales	–	152	–	157
Research and development costs	1,515	921	683	5,636
Distribution costs	339	395	230	2,183
Administrative expenses	164	152	89	23,602
	2,018	**1,620**	**1,002**	**31,578**

27 CAPITAL AND RESERVES

(a) Movements in components of equity

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

		Ordinary Share capital	Preferred share capital	Share premium	Capital reserve	Exchange reserve	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 10, 2019, date of the incorporation		–	–	–	–	–	–	–
Changes in equity for 2019:								
Loss and total comprehensive income		–	–	–	–	(12,579)	(7,574)	(20,153)
Issuance of ordinary shares	27(c)(ii)	45	–	212,939	–	–	–	212,984
Deemed distributions to the shareholder upon the reorganization		–	–	–	(455,873)	–	–	(455,873)
Issuance of series B preferred shares	27(c)(iv)	–	17	480,605	–	–	–	480,622
Balance at December 31, 2019 and January 1, 2020		45	17	693,544	(455,873)	(12,579)	(7,574)	217,580
Changes in equity for seven months ended July 31, 2020								
Loss and total comprehensive income		–	–	–	–	2,988	(111,781)	(108,793)
Reclassification and re-designation to series D preferred shares	27(c)(v)	(2)	–	(211,707)	–	–	–	(211,709)
Equity-settled share-based transactions		–	–	–	31,736	–	–	31,736
Balance at July 31, 2020		43	17	481,837	(424,137)	(9,591)	(119,355)	(71,186)

(b) Dividends

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

(c) Share capital

Authorized

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 10, 2019 with authorized share capital of US$50,000 divided into 500,000,000 ordinary shares with par value of US$0.0001 each.

On August 2, 2019, the authorized share capital of the Company was US$50,000 divided into (i) 463,287,617 ordinary shares with par value of US$0.0001 each, (ii) 24,212,383 series B preferred shares with par value of US$0.0001 each, and (iii) 12,500,000 series C preferred shares with par value of US$0.0001 each.

After several changes, as of July 31, 2020, the authorized share capital of the Company was US$50,000 divided into 500,000,000 shares with par value of US$0.0001 each, consisting of (i) 452,867,162 ordinary shares, (ii) 24,212,383 series B preferred shares, (iii) 11,250,000 series C preferred shares, and (iv) 11,670,455 series D preferred shares.

Issued and fully paid

	Note	Ordinary share		Series B preferred share	
		No. of share		No. of share	
		‘000	RMB'000	‘000	RMB'000
Balance at January 10, 2019, date of the incorporation		–	–	–	–
Issuance of ordinary shares	27(c)(ii)	63,288	45	–	–
Issuance of series B preferred shares	27(c)(iv)	–	–	24,212	17
Balance at December 31, 2019 and January 1, 2020		63,288	45	24,212	17
Reclassification and re-designation to series D preferred shares	27(c)(v)	(2,693)	(2)	–	–
Balance at July 31, 2020		60,595	43	24,212	17

For the purpose of this History Financial Information, the share capital in the consolidated statements of financial position as at January 1, 2018 and December 31, 2018 represented the issued share capital of MP CardioFlow. Upon the completion of the Restructuring on August 5, 2019, the Company became the holding company of the Group. The share capital as at December 31, 2019 and July 31, 2020 represented the issued share capital of the Company.

(i) In August 2017 and October 2017, the original shareholders of MP CardioFlow entered into capital subscription agreements with four investors (the "Series B Investors") respectively, pursuant to which, in December 2018, Series B Investors subscribed for 4.54% newly issued in the enlarged paid-in capital of MP CardioFlow at a total consideration of RMB96,353,000.

(ii) In July 2019, SHBVI subscribed for 56,625,716 shares issued by the Company at a total consideration of US$27,000,000 (equivalent to RMB191,374,000). The consideration was fully paid in August 2019.

In September 2019, the Company issued an aggregated 6,661,901 ordinary shares to certain shareholder at a total consideration of RMB21,610,000. Such capital contribution was designated by the Company to directly inject into MP CardioFlow. The difference between the share capital and the consideration is recognized in the capital reserve of the Group.

(iii) In April 2019 and August 2019, CardioFlow HK entered into an equity purchase agreement with the existing shareholders of MP CardioFlow to acquire the 100% of the equity interests in MP CardioFlow with a total consideration equivalent to RMB686,012,000.

(iv) In August 2019, the Company issued an aggregated 24,212,383 series B preferred shares at a total consideration of US$68,369,000 (equivalent to RMB480,622,000).

The series B preferred shares are considered as equity instruments because the redemption obligations included in the share purchase agreement are redeemed by SHBVI or other entities controlled by MPSC, while not by the Group.

(v) As disclosed in Note 25, SHBVI sold 2,693,182 ordinary shares of the Company to the 2020 Pre-IPO Investors and these ordinary shares were reclassified and re-designated to series D preferred shares. The difference between (i) the initial carrying amount of series D preferred shares in amount of US$30,000,000 (equivalent to RMB211,709,000) and (ii) the carrying amount of ordinary share capital transferred of RMB2,000 has been debited to the share premium of the Company.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Exchange reserve

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

(iii) Capital reserve

The capital reserve primarily comprises the following:

- the fair value of the actual or estimated number of unexercised share options granted to executives and employees of the Group in accordance with the accounting policy adopted for share-based payments in Note 2(s)(ii);

- the historical book value of the share capital and share premium of MP CardioFlow when the 100% equity interests of MP CardioFlow were transferred to the Group under the restructuring, less consideration the Group has paid to acquire the 100% equity interests of MP CardioFlow under the restructuring; and

- the liabilities of the Group waived by related parties.

(e) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group defines "capital" as including all components of equity and redeemable preferred shares recognized as financial liabilities as at the end of each of the reporting period and "debt" as including interest-bearing borrowings, loans from related parties and lease liabilities. On this basis, the amount of capital employed at December 31, 2018 and 2019 and July 31, 2020 was RMB273,379,000, RMB453,438,000 and RMB1,062,100,000, respectively and the debt-to-capital ratio is 33.9%, 8.5% and 1.4%, respectively.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

The management has assessed that during the Relevant Periods, trade and other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of each reporting date is adopted by management. The management of the Company expect the occurrence of losses from non-performance by the counterparties of trade and other receivables was remote and loss allowance provision for trade and other receivables was immaterial.

(b) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay:

	As at December 31, 2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	110,954	–	–	–	110,954	110,954
Lease liabilities	4,361	4,566	9,133	–	18,060	16,317
	115,315	4,566	9,133	–	129,014	127,271

	As at December 31, 2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	20,595	–	–	–	20,595	20,000
Trade and other payables	35,115	216	–	–	35,331	35,331
Lease liabilities	7,397	6,301	6,301	–	19,999	18,629
Other financial liabilities	346,128	–	–	–	346,128	321,594
	409,235	6,517	6,301	–	422,053	395,554

	As at July 31, 2020 Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	43,269	–	–	–	43,269	43,269
Lease liabilities	7,770	6,560	1,611	–	15,941	15,018
Other financial liabilities	1,494,474	–	–	–	1,494,474	1,290,295
	1,545,513	6,560	1,611	–	1,553,684	1,348,582

(c) Interest rate risk

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

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

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

	December 31, 2018		December 31, 2019		July 31, 2020	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
		RMB'000		RMB'000		RMB'000
Net fixed rate instruments:						
Deposits with banks	–	325	–	325	–	325
Lease liabilities	5.37%	(16,317)	5.37%	(18,629)	5.37%	(15,018)
Loans from related parties	–	(76,359)	–	–	–	–
Other financial liabilities	–	–	15.00%	(321,594)	15.00%	(1,290,295)
		(92,351)		(339,898)		(1,304,988)
Net variable rate instruments:						
Interest-bearing borrowings	–	–	4.35%	(20,000)	–	–
Cash at banks	0.3%-0.35%	50,418	0.1%-0.35%	109,263	0.1%-0.35%	698,166
		50,418		89,263		698,166
		(41,933)		(250,635)		(606,822)

(d) Currency risk

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

(i) Exposure to currency risk

The following table details the Group's exposure at the end of each reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in RMB)					
	December 31, 2018		December 31, 2019		July 31, 2020	
	Euros RMB'000	US$ RMB'000	Euros RMB'000	US$ RMB'000	Euros RMB'000	US$ RMB'000
Cash and cash equivalents	–	–	–	70,269	–	139,610
Trade and other payables	(3,015)	(6,480)	(2,576)	(854)	(3,179)	(2,222)
Loans from related parties	–	(76,359)	–	(1,134)	–	–
Derivative financial liabilities	–	–	–	(11,455)	–	(14,498)
Net exposure arising from recognized assets and liabilities	(3,015)	(82,839)	(2,576)	56,826	(3,179)	122,890

(ii) Sensitivity analysis

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

	Years ended December 31,				Seven months ended July 31,			
	2018		2019		2019 (Unaudited)		2020	
	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses
		RMB'000		RMB'000		RMB'000		RMB'000
Euros (against RMB)	3%	(90)	3%	(77)	3%	(83)	3%	(95)
	(3)%	90	(3)%	77	(3)%	83	(3)%	95
US$ (against RMB)	3%	(2,485)	3%	1,705	3%	(74)	3%	3,687
	(3)%	2,485	(3)%	(1,705)	(3)%	74	(3)%	(3,687)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of the entities into the Group's presentation currency. The analysis has been performed on the same basis for the Relevant Periods.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group has engaged Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an external valuer to perform valuations for the financial instruments, including unlisted equity securities and the Witney Put Option. A valuation report with analysis of changes in fair value measurement is prepared by the external valuer at each reporting date, and is reviewed and approved by the Group's management.

		Fair value measurements as at December 31, 2018 categorized into		
	Fair value at December 31, 2018	**Level 1**	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities (Note 14)	41,275	–	–	41,275

		Fair value measurements as at December 31, 2019 categorized into		
	Fair value at December 31, 2019	**Level 1**	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities (Note 14)	51,673	–	–	51,673
Financial liabilities:				
Derivative financial instruments				
- Witney Put Option (Note 24)	(11,455)	–	–	(11,455)

		Fair value measurements as at July 31, 2020 categorized into		
	Fair value at July 31, 2020	**Level 1**	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement				
Financial assets:				
Unlisted equity securities (Note 14)	53,627	–	–	53,627
Financial liabilities:				
Derivative financial instruments				
- Series D Adjustment (Note 25)	(26,782)	–	–	(26,782)
- Witney Put Option (Note 24)	(14,498)	–	–	(14,498)

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of each of the reporting period in which they occur.

Information about Level 3 fair value measurements

	December 31, 2018		December 31, 2019		July 31, 2020	
	Valuation techniques	**Significant unobservable inputs**	**Valuation techniques**	**Significant unobservable inputs**	**Valuation techniques**	**Significant unobservable inputs**
Series D Adjustment	N/A	N/A	N/A	N/A	Recent transaction price	fair value of the underlying series D preferred shares of the Company (Note a)
Unlisted equity securities	Recent transaction price	N/A	Equity allocation model	Expected probability of event of 50% and expected volatility of 32%, taking into account the historical volatility of the comparable companies (Note b)	Equity allocation model	Expected probability of event of 50% and expected volatility of 35%, taking into account the historical volatility of the comparable companies (Note b)
Witney Put Option	N/A	N/A	Black-Scholes model	Expected probability of event of 50% and expected volatility of 29%, taking into account the historical volatility of the comparable companies (Note c)	Black-Scholes model	Expected probability of event of 50% and expected volatility of 37%, taking into account the historical volatility of the comparable companies (Note c)

Note a As at July 31, 2020, it is estimated that with all other variables held constant, an increase/decrease in the fair value of the underlying series D preferred shares of the Company by 5% would have increased/decreased the Group's loss by RMB1,348,000/RMB1,348,000.

Note b As at December 31, 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have decreased/increased the Group's loss by RMB697,000/RMB801,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB926,000/RMB757,000.

As at July 31, 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 10% would have increase/decrease the Group's loss by RMB1,064,000/RMB1,064,000 and an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's loss by RMB26,000/RMB214,000.

Note c As at December 31, 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 5% would have increased/decreased the Group's loss by RMB1,145,000/RMB1,145,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB1,625,000/RMB1,635,000.

As at July 31, 2020, it is estimated that with all other variables held constant, an increase/decrease in the expected probability of event by 5% would have increased/decreased the Group's loss by RMB1,450,000/RMB1,450,000 and an increase/decrease in the expected volatility by 5% would have increased/decreased the Group's loss by RMB1,561,000/RMB1,577,000.

The movements during the Relevant Periods in the balance of these Level 3 fair value measurements are as follows:

	Financial assets	Financial liabilities
	RMB'000	RMB'000
At January 1, 2018	–	–
Additions	41,275	–
At December 31, 2018 and at January 1, 2019	41,275	–
Exchange adjustments	562	–
Additions	7,030	–
Changes in fair value recognized in profit or loss during the year	2,806	(11,455)
At December 31, 2019 and at January 1, 2020	51,673	(11,455)
Exchange adjustments	50	186
Changes in fair value recognized in profit or loss during the period	1,904	(30,011)
At July 31, 2020	53,627	(41,280)

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at December 31, 2018 and 2019 and July 31, 2020.

29 COMMITMENTS

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

	December 31, 2018	December 31, 2019	July 31, 2020
	RMB'000	RMB'000	RMB'000
Contracted for	5,340	1,168	2,130

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid individuals as disclosed in Note 9, is as follows:

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and other benefits	2,043	2,651	1,560	2,062
Discretionary bonuses	1,401	1,220	712	961
Equity-settled share-based payment expenses	792	475	345	4,303
	4,236	4,346	2,617	7,326

(b) Financing arrangement with related parties

(i) In September 2018, the ultimate controlling party of the Group, MPSC paid the consideration of US$11,100,000 (equivalent to RMB76,359,000) for certain investments on behalf the Group. The amount was repaid by the Group in July 2019.

(ii) In August 2019, MPSC provided a short-term loan of US$3,200,000 to the Group for the purpose of the reorganization with an interest rate at approximately 4.78% per annum. The loans were repaid to MPSC in November 2019.

(iii) In October 2018, the Group provided a short-term loan of RMB50,000,000 to Shanghai MicroPort Medical with an interest rate at 2% per annum. Shanghai MicroPort Medical has repaid the loan in December 2018.

(iv) Shanghai MicroPort Medical and its related parties signed Renminbi Cash Pool Management Agreement (the "Agreement") with the Bank of China ("BOC"). According to the Agreement, Shanghai MicroPort Medical and its related parties allow BOC to transfer the balance or overdraft of their respective bank accounts into Shanghai MicroPort Medical designated cash pooling account before the end of each business day, as entrusted loans to or from Shanghai MicroPort Medical. The effective annual interest rates charged on the entrusted loans to or from Shanghai MicroPort Medical was 2%. MP CardioFlow participated in this Agreement in 2016 and borrowed the loan of RMB95,924,000 in total from Shanghai MicroPort Medical in 2019, which have been fully settled in 2019.

(v) During the Relevant Periods, the Group entered into lease contracts in respect of certain leasehold properties from Shanghai MicroPort Medical for its operation. At the commencement date of these leases, the Group recognized right-of-use assets and lease liabilities in amount of RMB11,690,000, RMB6,274,000 and RMB560,000 for the years ended December 31, 2018 and 2019 and for the seven months ended July 31, 2020, respectively.

(vi) During the years ended December 31, 2018, the finance cost and interest income arising from financing arrangements in (i) to (v) charged to the consolidated profit or loss is RMB551,000 and RMB170,000, respectively.

During the years ended December 31, 2019, the finance cost arising from financing arrangements in (i) to (v) charged to the consolidated profit or loss is RMB3,129,000.

During the seven months ended July 31, 2020, the finance cost arising from financing arrangements in (i) to (v) charged to the consolidated profit or loss is RMB345,000.

(c) Other transactions with related parties

Particulars of the Group's other transactions with related parties during the Relevant Periods are as follows:

Name of party	Relationship
MPSC	Ultimate controlling party of the Group
Shanghai MicroPort Medical	Fellow subsidiary of the Group
AccuPath Medtech (Jiaxing) Co., Ltd. ("AccuPath") (脈通醫療科技(嘉興)有限公司)	Fellow subsidiary of the Group
Shanghai MicroPort Endovascular Medtech (Group) Co., Ltd. ("Shanghai MicroPort Endovascular") (上海微創心脈醫療科技(集團)股份有限公司)	Fellow subsidiary of the Group
Innovational Holding LLC ("MPI")	Fellow subsidiary of the Group
Shanghai Anzhu Medtech Co., Ltd. ("Anzhu") (上海安助醫療科技有限公司)	Fellow subsidiary of the Group
MicroPort Medical B.V. ("MPMBV")	Fellow subsidiary of the Group

	Year ended December 31,		Seven months ended July 31,	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Purchase of goods from Shanghai MicroPort Medical	11,127	7,154	5,876	–
Purchase of goods from AccuPath	208	681	186	585
Purchase of goods from Shanghai MicroPort Endovascular	4	–	–	–
Purchase of goods from MPI	–	–	–	5
Service fee charged by Shanghai MicroPort Medical	10,022	11,092	7,316	3,223
Service fee charged by Anzhu	187	298	91	17
Service fee charged by MPMBV	–	–	–	12
Short-term operating lease charges by Shanghai MicroPort Medical	371	–	–	93
Payment on behalf of the Group by MPSC	–	–	–	8
Guarantee issued by Shanghai MicroPort Medical in respect of the Group's bank loans	–	70,000	50,000	–

31 INVESTMENT IN SUBSIDIARIES

The Company

	December 31, 2019	July 31, 2020
	RMB'000	RMB'000
Investment in subsidiaries, at cost	538,475	1,234,213

Particulars of the principal subsidiaries are set out in Note 1.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at July 31, 2020, the directors consider the immediate parent to be Shanghai MicroPort Limited, which is incorporated in British Virgin Islands and does not produce financial statements available for public use.

As at July 31, 2020, the directors consider the ultimate controlling party is MicroPort Scientific Corporation, which is incorporated in Cayman Islands. MicroPort Scientific Corporation is listed on the Main Board of The Stock Exchange of Hong Kong Limited and produces financial statements available for public use.

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

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These include the following:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform — Phase 2*	1 January 2021
Annual Improvements to HKFRS Standards 2018 - 2020	1 January 2022
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, plant and equipment: proceeds before intended use*	1 January 2022
Amendments to HKAS 37, *Onerous contracts — cost of fulfilling a contract*	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
HKFRS 17, *Insurance contracts*	1 January 2023
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

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

34 SUBSEQUENT EVENTS

On January 15, 2021, a share subdivision was approved by the shareholders of the Company, pursuant to which, each issued and unissued share capital was subdivided to twenty shares of the corresponding class with par value US$0.000005 each.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to July 31, 2020.