上海康德萊醫療器械股份有限公司

Shanghai Kindly Medical Instruments Co., Ltd.*

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

Stock Code : 1501

INNOVATION SERVES HEALTH,

HIGH-QUALITY ACHIEVES EXCELLENCE

*For identification purposes only

ANNUAL REPORT 2019

Shanghai Kindly Medical Instruments Co., Ltd.
Annual Report 2019

CONTENTS

CORPORATE INFORMATION

Executive Directors
Dr. Liang Dongke (梁棟科) *(Chairman)*
Mr. Wang Cailiang (王彩亮)

Non-Executive Directors
Mr. Zhang Weixin (張維鑫)
Ms. Chen Hongqin (陳紅琴)
Mr. Fang Shengshi (方聖石)

Independent Non-Executive Directors
Mr. Dai Kerong (戴尅戎)
Mr. Jian Xigao (蹇錫高)
Dr. Ge Junbo (葛均波)
Mr. Hui Hung Kwan (許鴻群)

Supervisors
Ms. Wang Li (王莉) *(Chairperson)*
Ms. Chen Jie (陳潔)
Mr. Xu Jianhai (徐建海)

Audit Committee
Mr. Hui Hung Kwan (許鴻群) *(Chairman)*
Mr. Jian Xigao (蹇錫高)
Mr. Fang Shengshi (方聖石)

Remuneration Committee
Mr. Jian Xigao (蹇錫高) *(Chairman)*
Mr. Hui Hung Kwan (許鴻群)
Dr. Liang Dongke (梁棟科)

Nomination Committee
Dr. Liang Dongke (梁棟科) *(Chairman)*
Mr. Dai Kerong (戴尅戎)
Dr. Ge Junbo (葛均波)

Joint Company Secretaries
Dr. Song Yuan (宋媛)
Ms. Leung Shui Bing (梁瑞冰)

Authorized Representatives
Dr. Liang Dongke (梁棟科)
Ms. Leung Shui Bing (梁瑞冰)

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KPMG
(Certified Public Accountants)
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Central
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PRC

Legal Advisers
As to Hong Kong law:
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Hong Kong

As to PRC law:
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Floor 23, Sinar Mas Plaza,
No.501 East Da Ming Road,
Shanghai
PRC

Compliance Advisor
BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
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Block 2, No. 925 Jin Yuan Yi Road
Jiading District, Shanghai
PRC

CORPORATE INFORMATION

Headquarters and Principal Place of Business in the PRC

Block 2, No. 925 Jin Yuan Yi Road
Jiading District, Shanghai
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Principal Place of Business in Hong Kong

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Hong Kong

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

China Construction Bank Corporation
Shanghai Jiangqiao Branch
1/F, No. 138 Jiayi Road
Jiading District, Shaughai
PRC

Agricultural Bank of China Limited
Shanghai Jiading Branch
2/F, No. 355 Tacheng Road
Jiading District, Shanghai
PRC

Stock Code

1501

Company Website

www.kdl-int.com

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present this annual report of the Group for the year ended December 31, 2019 for consideration by the Shareholders.

Financial Review

As a result of growth in sales volume, the Group's revenue in the Reporting Period was approximately RMB286.46 million, representing an increase of approximately 41.07% as compared to approximately RMB203.06 million for the year ended December 31, 2018, with gross profit margin increased from 58.31% to 60.90%. The basic and diluted earnings per share in the Reporting Period were RMB0.79, as compared to RMB0.68 for the year ended December 31, 2018.

Operation Review

As of December 31, 2019, the Group was comprised of 7 wholly-owned or holding subsidiaries engaging in peripheral intervention, neurological intervention, cardiovascular intervention or implantation, the design and development of medical-device-related equipment and mold, and other fields, which covers the entire industry chain from design and development of mold and equipment, product injection to product assembly, product packaging and sterilization in the PRC.

In terms of distribution network, as of December 31, 2019, we had 360 PRC distributors covering 23 provinces, 4 directly-administered municipalities and 4 autonomous regions in the PRC, and covering 1,234 domestic hospitals in the PRC, which including 612 Tier III hospitals. In addition, we had 129 overseas customers covering over 44 countries and regions.

Research and Development

In terms of research and development, we have attained the following achievements during the Reporting Period:

- Developed 4 new products, namely PTCA balloon dilation catheter, micro-guidewire for single use, micro-catheter for single use and guiding catheter for single use, all of which have obtained NMPA registration certificates for Class III medical devices;

- Developed 5 products including guiding catheter, micro catheter and disposable automatic umbilical cord clamps, which have obtained European CE certificates; and

- Commenced clinical trial for biodegradable sinus drug eluting stent system (可降解鼻竇藥物支架系統).

During the Reporting Period, the Group has filed application for 61 patents, including 14 patents for invention and 47 patents for utility model, and has obtained 29 additional patents and 5 additional software copyrights.

We believe our in-house research and development progress and achievements as detailed above would continue to support development and commercialization of our products and fuel the Group's sustainable development in the future.

CHAIRMAN'S STATEMENT

Sales and Marketing

During the Reporting Period, the Group has attended domestic and international exhibition promotions to optimize our sales and distribution network. We took part in the following marketing initiatives for the year ended December 31, 2019:

- In respect of domestic marketing and promotion, we attended the China Interventional Therapeutics in March 2019; the 22nd China Cardiovascular Intervention Forum and the 21st South China International Congress of Cardiology in April 2019; the China International Medical Equipment Fair, Chang'an International Cardiovascular Forum and the 13th Oriental Congress of Cardiology in May 2019; the 12th Dunhuang International Heart Conference in June 2019; the 13rd Qianjiang International Cardiovascular Conference in September 2019; the 30th Great Wall International Congress of Cardiology in October 2019; and the 13th Annual Congress of Chinese Orthopedic Association in November 2019. Through domestic marketing and promotion, the coverage of our products was further extended to more than 260 hospitals in 2019.

- In respect of international marketing and promotion, we were invited to attend various international conferences, including the Medical Fair India 2019 in New Delhi, India in March 2019; Africa Health 2019 in Johannesburg, South Africa and EuroPCR 2019 in Paris, France in May 2019; TCT 2019 in San Francisco, USA in September 2019; Medica 2019 in Dusseldorf, Germany in November 2019; and Zdravookhraneniye 2019 in Moscow, Russia in December 2019. Through international marketing and promotion, we brought in 13 additional overseas customers in 2019.

Review and Outlook

In 2019, the Group has proactively expanded its distribution network, strengthened its research and development capacities, and developed and commercialized its pipeline products. As this year marks the Company's milestone of listing its H Shares on the Main Board of The Stock Exchange, we endeavor to take advantage of the capital platform going forward and continue our commitment to research and development, diversification of our product pipeline and continue to explore opportunities for strategic acquisition and cooperation, in order to further consolidate and strengthen our leading position in the interventional medical device industry.

Appreciation

On behalf of the Board, I would like to express my appreciation and gratitude to the Shareholders. We would also like to thank all of the Directors, Supervisors, senior management and colleagues for their continuous dedication and effort. We will strive to take advantage of opportunities ahead to achieve sustainable business growth and drive higher returns to the Shareholders.

Dr. Liang Dongke
Chairman

March 19, 2020

FINANCIAL SUMMARY

	For the Year Ended December 31,			
	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Operating results				
Revenue	106,445	137,551	203,059	**286,457**
Gross profit	59,005	77,796	118,397	**174,442**
Profit from operations	39,352	47,728	68,000	**113,768**
Profit for the year	34,001	40,770	58,236	**96,535**
Profitability				
Gross margin	55.4%	56.6%	58.3%	**60.9%**
Net profit margin	31.9%	29.6%	28.7%	**33.7%**
Earnings per share (RMB)				
Basic and diluted	0.40	0.49	0.68	**0.79**

	As at December 31,			
	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	186,092	232,456	482,040	**1,298,580**
Equity attributable to owners of the Company	159,444	200,214	372,025	**1,216,381**
Total liabilities	26,648	32,242	100,730	**64,293**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a leading Chinese cardiovascular interventional device manufacturer as well as one of the few medical device groups that cover the entire industry chain from design and development of mold and equipment, product injection, product assembly, product packaging to sterilisation in the PRC. Our major products are primarily used for cardiovascular surgeries, in particular PCI procedures. The Group's revenue in the Reporting Period was approximately RMB286.46 million, representing an increase of approximately 41.07% or approximately RMB83.40 million as compared to approximately RMB203.06 million for the year ended December 31, 2018 due to the growth in sales volume of interventional medical devices as a result of proactively expanding our distribution network as well as continuing developing and commercialising our pipeline products to the hospitals and medical device manufacture customers. A substantial majority of our revenue was generated from sales of our cardiovascular interventional medical devices, while the remaining portion was generated from sales of our medical accessories and other products.

We have an extensive distribution network and have developed and maintained stable relationships with our distributors. By the end of 2019, we had 360 (2018: 296) PRC distributors covering 23 (2018: 22) provinces, 4 (2018: 4) directly-administered municipalities and 4 (2018: 4) autonomous regions in the PRC, and covering 1,234 (2018: 973) domestic hospitals in the PRC including 612 (2018: 531) Tier III hospitals. In addition, we had 129 (2018: 116) overseas customers covering over 44 (2018: 40) countries and regions.

As at December 31, 2019, the Group was comprised of 7 (2018: 5) wholly-owned or holding subsidiaries engaging in the design and development of medical devices used in fields including peripheral intervention, neurological intervention, cardiovascular intervention or implantation, and the design and development of equipment and molds used for production of medical devices.

The H Shares of the Company were successfully listed on the Main Board of the Stock Exchange in November 2019, which we believe would significantly drive and accelerate the Group's industrial development in the field of interventional and implantable medical devices. During the Reporting Period, benefiting from our research and development capacities and sustained optimisation of product structure, the Group has obtained 4 NMPA registration certificates for Class III medical devices and 5 European CE certificates. As at December 31, 2019, we have an aggregate of 16 NMPA registration certificates for Class III medical devices, 12 Shanghai Medical Products Administration registration certificates for Class II medical devices, 32 European CE certificates and 10 United States Food and Drug Administration approvals.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group is also faced with the following industry-related risks and uncertainties which may have significant impact on our financial performance and future business development:

- ***Price control in the PRC.*** Our products' prices are subject to price control in China, by which the government agencies and hospital set a price limit for each product and may have significant impact on our operations of business and financial performance.

- ***Healthcare Reform in the PRC.*** Pursuant to the Notice of "Publishing Opinions on Implementing 'Two-Invoice System' in Drug Procurement Among Public Medical Institutions (For Trial Implementation)" (《印發<關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)>的通知》) issued on December 26, 2016 and the Notice on Consolidating the Results in Eliminating the Mechanism of Replenishing Medical Costs with Drug Selling Profits and Further Deepening the Comprehensive Reform of Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》) issued on March 5, 2018, a "two-invoice" system is implemented to limit the distribution of pharmaceutical products to a single level of distributors for sale to public hospitals. The two-invoice system requires one invoice to be issued from pharmaceutical manufacturers to pharmaceutical distributors and the other invoice to be issued from pharmaceutical distributors to medical institutions, which has the effect of centralizing the procurement and sale of high value medical consumables, and may have certain impacts on our business operations and business performance. While some provinces in China have extended the two-invoice system to medical devices, the healthcare reform is still in progress and the influence of the two-invoice systems on our financial performance and future business development remains uncertain.

The Group will continue to closely monitor and actively adapt to the regulatory policies in the industry, in order to reduce impacts of regulatory changes to our financial performance and future business development to the extent possible.

OUTLOOK FOR 2020

Looking forward to 2020, it is expected that the Group's full-year results of operations, the progress of use of proceeds from the global offering and the progress of research and development pipeline might be affected to certain extent in light of the fact that the outbreak of the novel coronavirus (COVID-19) (the "**Coronavirus**") has not been completely contained in the PRC and overseas countries at this stage. However, with confidence in measures taken by the PRC government to fight against the Coronavirus outbreak, the Group will minimise various adverse impacts by continuously promoting resources integration, allocating more resources for research and development, diversifying product pipeline and exploring opportunities for strategic acquisition and cooperation, so as to further consolidate and strengthen our leading position in the interventional medical devices industry.

FINANCIAL REVIEW

Revenue

The Group's revenue in the Reporting Period was approximately RMB286.46 million, representing an increase of approximately 41.07% or approximately RMB83.40 million as compared to approximately RMB203.06 million for the year ended December 31, 2018. The increase was primarily due to growth in sales volume of interventional medical devices as a result of proactively expanding our distribution network as well as continuing developing and commercialising our pipeline products to the hospitals and medical device manufacture customers.

With respect to revenue categorized by different products, the Group's revenue generated from sales of interventional medical devices in the Reporting Period was approximately RMB257.63 million, representing 89.94% of the total revenue as compared to 87.06% for the year ended December 31, 2018. The Group's revenue generated from sales of medical accessories was approximately RMB19.82 million, representing 6.92% of the total revenue.

Cost of Sales

The cost of sales in the Reporting Period was approximately RMB112.01 million, representing an increase of approximately 32.31% or approximately RMB27.35 million as compared to approximately RMB84.66 million for the year ended December 31, 2018. It was mainly due to business expansion, which was in line with the Group's increase in revenue in the Reporting Period.

Gross Profit and Gross Profit Margin

During the Reporting Period, gross profit was approximately RMB174.44 million, as compared to approximately RMB118.40 million for the year ended December 31, 2018. Gross profit margin increased from 58.31% for the year ended December 31, 2018 to 60.90% for the year ended December 31, 2019. The increase was mainly due to the optimisation of products structure of the Group with allocation of more resources to the manufacturing and sales of interventional products which have a higher profit margin.

Other Income

During the Reporting Period, other income was approximately RMB28.17 million, representing an increase of approximately 190.62% or approximately RMB18.48 million as compared to approximately RMB9.69 million for the year ended December 31, 2018. The increase was mainly due to the increase in interest income arising from the proceeds from global offering of the H shares of the Company, the increase in foreign exchange gains as well as fair value gains from wealth management products.

Finance Costs

During the Reporting Period, the finance cost was approximately RMB1.83 million as compared to approximately RMB1.53 million for the year ended December 31, 2018. The finance costs were interests arising from lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Costs

The distribution costs in the Reporting Period were approximately RMB23.96 million, increased by approximately 36.13% or approximately RMB6.36 million as compared to approximately RMB17.60 million for the year ended December 31, 2018. It constituted 8.36% of the total revenue as compared to 8.67% for the year ended December 31, 2018. The increase in distribution costs was primarily due to: (i) the Group attended exhibition promotions in the PRC and other countries to optimize the sales and distribution network and also to enhance the awareness of our brand "KDL Medical" in the markets; (ii) the sales team was expanded; and (iii) the transportation costs increased during the Reporting Period.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB34.18 million, as compared to approximately RMB20.50 million for the year ended December 31, 2018. The rise was mainly due to the one-off listing-related expenses and the increase in payroll and other compensation of administrative staff as a result of the business expansion.

Research and Development Expenses

The research and development expenses of the Group in the Reporting Period were approximately RMB30.76 million, representing an increase of approximately 39.22% or approximately RMB8.66 million as compared to approximately RMB22.10 million for the year ended December 31, 2018. The rise was primarily due to the Group's continued development and commercialisation of the existing pipeline products, as well as new products of the Group.

Income Tax Expenses

The income tax expenses in the Reporting Period was approximately RMB15.38 million, representing an increase of approximately 86.69% or approximately RMB7.14 million as compared to approximately RMB8.24 million for the year ended December 31, 2018. It was in line with the increase of the profit before taxation.

Profit for the year

The Group's profit for the year in the Reporting Period was approximately RMB96.54 million, representing an increase of approximately 65.77% as compared to approximately RMB58.24 million for the year ended December 31, 2018, which was primarily driven by the increase in gross profit as a result of the revenue increase and higher gross profit margin contributed by the optimisation of products structure, partially offset by the increase in operating expenses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the Reporting Period. As at December 31, 2019, the Group's cash and cash equivalent balance amounted to approximately RMB1,036.78 million (December 31, 2018: RMB298.16 million). For the year ended December 31, 2019, net cash flow generated from operating activities of the Group amounted to approximately RMB92.08 million (2018: RMB66.49 million).

The Group recorded total current assets of approximately RMB1,123.66 million as at December 31, 2019 (December 31, 2018: approximately RMB347.63 million) and total current liabilities of approximately RMB59.20 million as at December 31, 2019 (December 31, 2018: approximately RMB42.73 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 18.98 as at December 31, 2019 (December 31, 2018: approximately 8.13).

BORROWINGS AND GEARING RATIO

The Group has no bank borrowings or other borrowings for the Reporting Period and for the year ended December 31, 2018. As such, the gearing ratio is not applicable.

CAPITAL STRUCTURE

Total equity attributable to equity shareholders of the Company amounted to approximately RMB1,216.38 million as at December 31, 2019 as compared to approximately RMB372.03 million as at December 31, 2018.

OTHER INFORMATION

FINAL DIVIDEND

The Board recommended the payment of the Proposed Final Dividend of RMB0.175 per Share (inclusive of applicable tax) (equivalent to approximately HK$0.195 per Share) for the year ended December 31, 2019 (2018: RMB1.27 per Share). Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on Monday, May 18, 2020, the Proposed Final Dividend will be distributed on or about Thursday, June 18, 2020 to the Shareholders whose names appear on the register of members of the Company on Thursday, May 28, 2020.

The final dividend shall be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of the Board meeting for the declaration of the final dividend.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H Shares were successfully listed on the Main Board of the Stock Exchange on November 8, 2019, and 40,000,000 H Shares were issued under the global offering at the price of HK$20.8 per H Share. The issue and allotment of over-allotment shares pursuant to the full exercise of over-allotment options on November 15, 2019, the Company issued additional 6,000,000 H Shares at the price of HK$20.8 per H Share. The total net proceeds from Listing was approximately RMB797.62 million (after deducting the listing fees). As disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the details of intended application of net proceeds are set out as follows:

	Approximate % of total net proceeds	Net proceeds from the global offering *(RMB million)*	Utilized net proceeds up to December 31, 2019 *(RMB million)*	Unutilized net proceeds up to December 31, 2019 *(RMB million)*	Expected timeline of full utilisation of the unutilized proceeds
For setting up a research and development center and an additional facility in Jiading, Shanghai	34.10%	271.99	–	271.99	December 2021
To develop and commercialize existing pipeline products to further expand its product offerings	14.40%	114.86	–	114.86	December 2024
To purchase additional and replace existing production equipment and to automate its production lines	13.80%	110.07	–	110.07	June 2022
To expand its distribution network and coverage, collaborate with local distributors and intensify the marketing effects	8.70%	69.39	–	69.39	December 2022
To fund potential strategic investments including acquisition, partnership and license-in	19.60%	156.33	–	156.33	December 2021
General corporate purposes and funding its working capital	9.40%	74.98	0.85	74.13	December 2020
Total		797.62	0.85	796.77	

As at the date of this annual report, the net proceeds from the global offering had not yet been fully utilized and all of the net proceeds has been deposited into short-term deposits in the bank account maintained by the Group. In 2020, the Company will start utilizing the net proceeds from the global offering and for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

EMPLOYEE REMUNERATION AND RELATIONS

As at December 31, 2019, the Group had a total of 757 employees, comparing to 639 employees as at December 31, 2018. The total cost of employees for the Reporting Period amounted to approximately RMB75.51 million (2018: approximately RMB52.27 million). The Group provides employees with competitive remuneration and benefits, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provides training programs to employees, including new hire training for new employees and continuing technical training primarily for our research and development team to enhance their skill and knowledge.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to December 31, 2019.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except for the subsequent events disclosed in paragraph headed "Material Events After The Reporting Period" in the report of the Directors, the Group has no significant investment, or plan authorized by the Board for other material investments or additions of capital assets during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group has no material acquisitions or disposal of subsidiaries, associates and joint ventures during the Reporting Period.

CONTINGENT LIABILITIES

As at December 31, 2019 and 2018, the Group did not have any material contingent liabilities.

FINANCIAL INSTRUMENTS

As at December 31, 2019 and 2018, the Group did not have any outstanding hedge contracts or financial derivative instruments.

CAPITAL EXPENDITURE

The capital expenditure of the Group for property, plant and equipment (the "**PPE**"), construction in progress, intangible assets, prepaid lease payments and deposits for PPE amounted to approximately RMB109.82 million for the Reporting Period (2018: approximately RMB45.16 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

During the Report Period, the Group's operations were primarily based in the PRC. Assets, liabilities and transactions in the PRC are denominated in RMB, while overseas assets and transactions are mainly denominated in US Dollars. There were currency fluctuations among US Dollars, Euro, RMB and Hong Kong dollars during the Reporting Period, the Group's operational results and financial condition may be affected by changes in the exchange rates. As the Group reasonably arranges the currency structure, which effectively reduces foreign exchange risk, the Directors believe that there is no significant foreign exchange risk to the Group at the current stage. Therefore, the Group had not implemented any formal hedging or other alternative policies to deal with such exposure during the Reporting Period. The Group will continuously monitor its foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

CHARGE ON GROUP ASSETS

As at December 31, 2019, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

The Group's outstanding capital commitments authorized but not contracted for at December 31, 2019 not provided for in the financial statements amounted to approximately RMB418.77 million (2018: nil). The Group had no significant outstanding capital commitment contracted for at December 31, 2019 not provided for in the financial statements (2018: approximately RMB2.01 million).

REPORT OF THE DIRECTORS

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2019.

Global Offering

The Company is a joint stock company incorporated in the PRC with limited liability. Its H Shares were listed and traded on the Main Board of the Stock Exchange on November 8, 2019. The Prospectus of the Company dated October 28, 2019 has been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kdl-int.com). For use of proceeds from the Global Offering, please refer to the section headed "Management Discussion and Analysis" in this annual report.

Principal Activities

The Group is primarily engaged in the manufacturing of cardiovascular interventional device, which are mainly used in cardiovascular surgeries, and in particular, PCI procedures.

Business Review

A fair review of the Group's business during the Reporting Period, and the probable future business development of the Group are provided in the section headed "Management Discussion and Analysis" on pages 7 to 14 of this annual report.

Also, the financial risk management objectives and policies of the Group can be found in note 24 to the consolidated financial statements. An analysis of the Group's performance during the Reporting Period using financial key performance indicators is provided in the section headed "Financial Summary" on page 6 of this annual report. An account of the Company's relationship with its staff is included in the paragraph headed "Management Discussion and Analysis - Employee Remuneration and Relations" in this annual report.

Environmental Protection

The Group is subject to certain environmental laws and regulations in the PRC. The Group has established an administrative team to monitor compliance with legal requirements and internal standards regarding environmental protection. With respect to waste management, the Group has engaged qualified local third parties to collect recyclable part of solid waste from the Group's production, and as confirmed by the Group's PRC legal adviser, the Group has satisfied all material requirement for treatment and disposal of waste and discharge from its production. The Group believes that it has maintained good relationship with the communities in proximity of its production facilities.

To the best of the Group's knowledge, during the year ended December 31, 2019, the Group had complied with the applicable environment laws and regulations in the PRC in all material respects. Please refer to pages 46 to 68 of this annual report for the Environmental, Social and Governance Report of the Company prepared in compliance with the provisions set out in the Environmental, Social and Governace Reporting Guide in Appendix 27 to the Listing Rules.

REPORT OF THE DIRECTORS

Dividend

The Board recommended the payment of the Proposed Final Dividend of RMB0.175 per Share (equivalent to approximately HK$0.195 per Share) (inclusive of applicable tax) (2018: RMB1.27 per Share). Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on Monday, May 18, 2020, the Proposed Final Dividend will be distributed on or about Thursday, June 18, 2020 to the Shareholders whose names appear on the register of members of the Company on Thursday, May 28, 2020 (the "**Record Date**").

The Proposal Final Dividend distribution shall be calculated based on the total number of Shares in issue as of the Record Date and the final cash dividend distribution shall be based on RMB0.175 per Share (equivalent to approximately HK$0.195 per Share) (inclusive of applicable tax). In order to qualify for the final dividend, the Shareholders must lodge all share certificates accompanied by the transfer documents with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares), or the Company's registered office at Block 2, No. 925 Jin Yuan Yi Road, Jiading District, Shanghai, the PRC (for holders of Domestic Shares), before 4:30 p.m. on Friday, May 22, 2020. For the purpose of ascertaining the Shareholders who qualify for the final dividend, the register of members of the Company will be closed from Saturday, May 23, 2020 to Thursday, May 28, 2020, both days inclusive, during which period no transfer of Shares will be effected.

The final dividend will be denominated and declared in RMB. The holders of Domestic Shares will be paid in RMB and the holders of H Shares will be paid in Hong Kong dollars. The exchange rate for the final dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of the Board meeting for the declaration of the final dividend.

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was passed by the Standing Committee of the National People's Congress on March 16, 2007 and amended on February 24, 2017 and December 29, 2018 (the latest amendment which has taken effect on the even date), and its implementation regulations which came into effect on January 1, 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise Shareholders whose names appear on the register of members for H Shares when distributing the cash dividends. Any H Shares not registered under the name of an individual Shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organizations or groups, shall be deemed as Shares held by non-resident enterprise Shareholders. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such Shareholders. If holders of H Shares intend to change its Shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant Shareholders based on the register of members for H Shares as of the Record Date.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries (regions) which had an agreed tax rate of 10% for the cash dividends to them with the PRC under the relevant tax agreement, the Company should withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of less than 10% with the PRC under the relevant tax agreement, the Company shall withhold and pay individual income tax on behalf of the relevant Shareholders at a rate of 10%. In that case, if the relevant individual holders of H Shares wish to reclaim the extra amount withheld due to the application of 10% tax rate, the Company can apply for the relevant agreed preferential tax treatment provided that the relevant Shareholders submit the evidence required by the notice of the tax agreement to Computershare Hong Kong Investor Services Limited. The Company will assist with the tax refund after the approval of the competent tax authority. Should the individual holders of H Shares be residents of the countries which had an agreed tax rate of over 10% but less than 20% with the PRC under the tax agreement, the Company shall withhold and pay the individual income tax at the agreed actual rate in accordance with the relevant tax agreement. In the case that the individual holders of H Shares are residents of the countries which had an agreed tax rate of 20% with the PRC, or which has not entered into any tax agreement with the PRC, or otherwise, the Company shall withhold and pay the individual income tax at a rate of 20%.

Shareholders are recommended to consult their tax advisers regarding the tax implication in the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares.

Financial Summary

A summary of the Group's operating results, assets and liabilities for the last four financial years is set out on page 6 of this annual report. This summary does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 11 to the consolidated financial statements.

Major Customers and Suppliers

For the year ended December 31, 2019, the percentage of the major customers and suppliers in the Group's total sales and purchase are as follow:

	Percentage in the Group's total	
	Sales	**Purchases**
Largest customer	4.55%	
Total of the five largest customers	19.02%	
Largest supplier		10.15%
Total of the five largest suppliers		31.85%

Save for the executive Director, Mr. Wang Cailiang, the non-executive Director, Ms. Chen Hongqin, Mr. Zhang Weixin and one of our joint company secretaries, Dr. Song Yuan, who each has less than 1% beneficial interest in Shanghai Kindly Enterprise Development Group Co., Ltd. (上海康德萊企業發展集團股份有限公司) ("**KDL**") one of the Controlling Shareholders and one of the five largest customers of the Company for the year ended December 31, 2019, none of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

REPORT OF THE DIRECTORS

Tax Relief and Exemption

The Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

Share Capital

Share capital of the Company as at December 31, 2019 was as follows:

	Number of shares	Percentage of total issued share capital
Domestic Shares	120,000,000	72.29%
H Shares	46,000,000	27.71%

Reserves

Details of movements in the reserves of the Company during the Reporting Period are set out in the consolidated statement of changes in equity and note 23 to the consolidated financial statements, respectively.

Distributable Reserve

As at December 31, 2019, the Company had distributable reserve accounting to approximately RMB86.51 million (as at December 31, 2018: approximately RMB53.38 million).

Dividend Policy

The Group adopted a dividend policy, pursuant to which dividends may be recommended, declared and paid to the Shareholders from time to time. The declaration of dividends and the dividend amount shall be determined at the sole and absolute discretion of the Board taking into account the Articles and the following factors:

- the Group's current and future operations and earnings;
- the Group's liquidity position and future commitments at the time of declaration of dividend;
- any contractual restrictions on payment of dividends by the Company to the Shareholders or by the Company's subsidiaries to the Company;
- the retained earnings and distributable reserves of the Company and each of the members of the Group;
- The remaining profit after tax of the Company and each of the members of the Group after recovery of losses (if any) and allocation of the statutory reserve fund;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the general market conditions; and
- any other factors that the Board deems appropriate.

The Board recommends payment of a final dividend of RMB0.175 per Share (equivalent to HK$0.195 per Share) (inclusive of applicable tax) for the year ended December 31, 2019.

Directors and Supervisors

The Directors and Supervisors during the Reporting Period and as at the date of this report are as follows:

Executive Directors

Dr. Liang Dongke (梁棟科) *(Chairman)*
Mr. Wang Cailiang (王彩亮)

Non-executive Directors

Mr. Zhang Weixin (張維鑫)
Ms. Chen Hongqin (陳紅琴)
Mr. Fang Shengshi (方聖石)

Independent Non-executive Directors

Mr. Dai Kerong (戴尅戎)
Mr. Jian Xigao (蹇錫高)
Dr. Ge Junbo (葛均波)
Mr. Hui Hung Kwan (許鴻群)

Supervisors

Ms. Wang Li (王莉) *(Chairperson)*
Ms. Chen Jie (陳潔)
Mr. Xu Jianhai (徐建海)

The biographical information of the Directors and Supervisors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 69 to 76 of this annual report.

Disclosure of Information of Directors and Supervisors under Rules 13.51(2) and 13.51 B(1) of the Listing Rules

During the Reporting Period, there is no change of information of each Director and Supervisor that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules.

Directors' and Supervisors' Interests in Transaction, Arrangement or Contracts of Significance

The Group has not entered into any transaction agreement or contract of significant in which the Directors and Supervisors have direct or indirect material interests during the Reporting Period and the year ended December 31, 2018.

Controlling Shareholders' Interests in Contracts of Significance

None of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period and the year ended December 31, 2018.

REPORT OF THE DIRECTORS

Non-Competition Undertakings

Pursuant to the Non-Competition Undertakings, the Controlling Shareholders have undertaken that they would not and would use their best endeavors to procure their close associates (except any members of the Group) not to, directly or indirectly, at any time during the Reporting Period, carry out, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business which is the same as, similar to or in competition or will compete or may compete with the core business of the Company.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Undertakings for the year ended December 31, 2019 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Non-Competition Agreement for the year ended December 31, 2019.

Directors' Interests in Competing Business

During the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) had engaged in or had any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

Emoluments of the Directors and Supervisors and the Five Highest Paid Individuals

The Remuneration Committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The Remuneration Committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 8 and note 9 to the consolidated financial statements, respectively. For the year ended December 31, 2019, except for the non-executive Directors and one of the Supervisors, Ms. Wang Li, who did not receive remuneration from the Company, none of the Directors and Supervisors has waived or agreed to waive any emoluments.

Retirement and Employees' Benefit Scheme

Details on retirement and employees' benefit schemes of the Company are set out in note 6(b)(i) and note 23(b)(iii) to the consolidated financial statements, respectively.

Permitted Indemnity Provision

The Company has purchased appropriate liability insurance for its Directors and Supervisors which provides proper protection for the Directors and Supervisors.

Interests and Short Positions of the Directors, Supervisors and Chief Executives of the Company in the Shares, Underlying shares and Debentures of the Company and its Associated Corporation

As of December 31, 2019, the interests and short positions of the Directors, the Supervisors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is keen to taken or deemed to have under such provisions of the SFO), or as recorded in the registered maintained by the Company under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in Domestic Shares(2)	Percentage in total number of Shares(2)
Dr. Liang Dongke (梁棟科)	Domestic Shares	Beneficial owner	9,542,854 (L)	7.95%	5.75%

Notes

(1) The letter "L" stands for long position.

(2) The calculation is based on percentage of shareholding in a total of 166,000,000 Shares, which consist of 120,000,000 Domestic Shares and 46,000,000 H Shares as at December 31, 2019.

Save as disclosed above, as of December 31, 2019, to the knowledge of the Board, none of the Directors, the Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors, the Supervisors and chief executives of the Company were taken or deemed to have under such provisions of the SFO); (ii) recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

Interests of Substantial Shareholders in the Shares and Underlying Shares

As of December 31, 2019, according to the register kept by the Company pursuant to Section 336 of the SFO and so far is known to, or can be ascertained after reasonable enquiry by the Directors, the following person/entity had an interests or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or be directly and indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of the Company (the interests in Shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

Interests in the Shares of the Company

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in the respective class of share capital(6)	Percentage in total number of Shares(6)
KDL (2)	Domestic Shares	Beneficial owner	42,857,142 (L)	35.71%	25.82%
Shanghai Kindly Holding Group Co., Ltd. (上海康德萊控股集團有限公司) ("**KDL Holding**") (2)	Domestic Shares	Interest in a controlled corporation	42,857,142 (L)	35.71%	25.82%
Kindly Holding Co., Ltd. (康德萊控股有限公司) (2)	Domestic Shares	Interest in a controlled corporation	42,857,142 (L)	35.71%	25.82%
Shanghai Gongye Investment Co., Ltd. (上海共業投資有限公司) ("**Gongye**") (2)	Domestic Shares	Interest in a controlled corporation	42,857,142 (L)	35.71%	25.82%
Mr. Zhang Xianmiao (張憲淼) (2)	Domestic Shares	Interest in a controlled corporation; interest jointly held with another person	42,857,142 (L)	35.71%	25.82%
Ms. Zheng Aiping (鄭愛平) (2)	Domestic Shares	Interest in a controlled corporation; interest jointly held with another person	42,857,142 (L)	35.71%	25.82%

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in the respective class of share capital[(6)]	Percentage in total number of Shares[(6)]
Mr. Zhang Wei (張偉)[(2)]	Domestic Shares	Interest in a controlled corporation; interest jointly held with another person	42,857,142 (L)	35.71%	25.82%
Ningbo Huaige Taiyi Equity Investment Partnership (Limited Partnership) (寧波懷格泰益股權投資合夥企業(有限合夥)) ("**Ningbo Huaige Taiyi**")[(3)]	Domestic Shares	Beneficial owner	25,200,000 (L)	21.00%	15.18%
Ningbo Huaige Gongxin Equity Investment Partnership (Limited Partnership) (寧波懷格共信股權投資合夥企業(有限合夥)) ("**Ningbo Huaige Gongxin**")[(3)]	Domestic Shares	Interest in a controlled corporation	25,200,000 (L)	21.00%	15.18%
Ningbo Huaige Health Investment Management Partnership (Limited Partnership) (寧波懷格健康投資管理合夥企業(有限合夥)) ("**Ningbo Huaige Health**")[(3)]	Domestic Shares	Interest in a controlled corporation	25,200,000 (L)	21.00%	15.18%
Mr. Wang Kai (王鍇)[(3)]	Domestic Shares	Beneficial owner Interest in a controlled corporation	5,571,428 (L) 25,200,000 (L)	4.64% 21.00%	3.36% 15.18%

REPORT OF THE DIRECTORS

Name	Class of Shares	Nature of Interest	Number of Shares	Approximate percentage in the respective class of share capital(6)	Percentage in total number of Shares(6)
Ms. Zhao Wei (趙威) (3)	Domestic Shares	Interest of spouse Interest in a controlled corporation	5,571,428 (L) 25,200,000 (L)	4.64% 21.00%	3.36% 15.18%
Dr. Song Yuan (宋媛) (4)	Domestic Shares	Interest of spouse	9,542,854 (L)	7.95%	5.75%
OrbiMed Capital LLC (5)	H Shares	Investment manager	11,312,800 (L)	24.59%	6.81%
JPMorgan Chase & Co.	H Shares	Person having a security interest in shares	7,412,800 (L)	16.11%	4.47%
Worldwide Healthcare Trust PLC (5)	H Shares	Beneficial owner	7,412,800 (L)	16.11%	4.47%
Mr. Ke Wei (柯偉)	H Shares	Beneficial owner	6,070,000 (L)	13.20%	3.66%
FMR LLC	H Shares	Interest of controlled corporation	4,600,000 (L)	9.97%	2.76%
Fidelity Investment Trust	H Shares	Beneficial owner	3,793,800 (L)	8.00%	2.22%
Allianz SE	H Shares	Interest of controlled corporation	2,725,400 (L)	6.30%	1.75%
OrbiMed Partners Master Fund Limited (5)	H Shares	Beneficial owner	3,900,000 (L)	8.48%	2.35%

REPORT OF THE DIRECTORS

Notes:

(1) The letter "L" and "S" stand for long position and short position, respectively.

(2) To the best of the Directors' knowledge, KDL Holding controls KDL as it owns more than one-third of the voting power at general meetings of KDL. KDL Holding is in turn controlled by each of Gongye and Kindly Holding Co., Ltd. as each of Gongye and Kindly Holding Co., Ltd. owns more than one-third of the voting power at general meetings of KDL Holding. Gongye is held as to 56.43% and Kindly Holding Co., Ltd. is wholly-owned by the Zhang Family as concert parties. As such, under the SFO, each of KDL Holding, Gongye, Kindly Holding Co., Ltd., Mr. Zhang Xianmiao, Ms. Zheng Aiping and Mr. Zhang Wei is deemed to be interested in the equity interests held by KDL.

(3) To the best of the Directors' knowledge, Ningbo Huaige Taiyi is a limited partnership established in the PRC and is owned as to 53.13% by Ningbo Huaige Gongxin as limited partner. Ningbo Huaige Health is the general partner of Ningbo Huaige Taiyi and Ningbo Huaige Gongxin. Mr. Wang Kai is the general partner of Ningbo Huaige Health. Ms. Zhao Wei, the spouse of Mr. Wang Kai, has 85% interest in Ningbo Huaige Health as a limited partner. As such, under the SFO, each of Ningbo Huaige Gongxin, Ningbo Huaige Health, Mr. Wang Kai and Ms. Zhao Wei is deemed to be interested in the equity interests held by Ningbo Huaige Taiyi.

(4) Dr. Song Yuan is the spouse of Dr. Liang Dongke. Under section 316(1)(a) of the SFO, Dr. Song Yuan is deemed to be interested in the equity interests held by Dr. Liang Dongke.

(5) Taking into account the 3,900,000 H Shares and 7,412,800 H Shares to be held by OrbiMed Partners Master Fund Limited and Worldwide Healthcare Trust PLC, respectively, pursuant to the cornerstone investment agreement as described under the section headed "Cornerstone Investors" in the Prospectus, OrbiMed Capital LLC is deemed to be interested in the above H Shares.

(6) The calculation is based on the percentage of shareholding in a total of 166,000,000 Shares, which consist of 120,000,000 Domestic Shares and 46,000,000 H Shares as at December 31, 2019.

REPORT OF THE DIRECTORS

Interests of Substantial shareholders of other members of the Group

Name	Member of the Group	Nature of Interest	Approximate percentage held by the substantial shareholder
Jiang Xiannan (姜賢男)	Shanghai Pukon Medical Instruments Co., Ltd. (上海璞康醫療器械有限公司) ("**Shanghai Pukon**")	Beneficial owner	15.0%
Chen Linling (陳臨淩)	Shanghai Healing Medical Instruments Co., Ltd. (上海翰淩醫療器械有限公司) ("**Shanghai Healing**")	Beneficial owner	30.0%
Chen Gang (陳剛)	Shanghai Puhui Medical Instruments Co., Ltd. (上海璞慧醫療器械有限公司) ("**Shanghai Puhui**")	Beneficial owner	15.0%
Chen Caizheng (陳才正)	Shanghai Puhui	Beneficial owner	14.0%
Cheng Songming (成松明)	Shanghai Puhui	Beneficial owner	10.0%
Chen Yanli (陳豔麗)	Shanghai Qimu Medical Instruments Co., Ltd. (上海七木醫療器械有限公司) ("**Shanghai Qimu**")	Beneficial owner	16.5%
Pang Qi (龐琦)	Shanghai Qimu	Beneficial owner	14.0%
Sun Peng (孫鵬)	Shanghai Qimu	Beneficial owner	10.0%

Save as disclosed above, as of December 31, 2019, to the knowledge of the Directors, no other person had, or were deemed or taken to have interests or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the registry kept by the Company pursuant to Section 336 of the SFO.

Connected Transactions

(1) Connected Transaction

In August 2019, the Group purchased a certain property from KDL at cash consideration of RMB61.31 million, of which RMB28.63 million was paid for land use right and the remaining RMB32.68 million was paid for the property located on the land.

(2) Continuing Connected Transactions

During the year ended December 31, 2019, details of the Group's continuing connected transactions subject to the reporting, annual review and announcement requirements are set out as follows:

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2019	Actual transaction value for the year ended December 31, 2019
Property Lease Framework Agreement	October 14, 2019	KDL Holding, one of the Controlling Shareholders	Lease of properties from KDL Holding and its subsidiaries ("**KDL Holding Group**") for the Group's business operations	RMB4.40 million	RMB4.38 million
Medical Accessories and Molds Sales Framework Agreement (as defined below)	December 31, 2018, as supplemented on October 14, 2019	KDL, one of the Controlling Shareholders, and Zhejiang Kindly Medical Devices Co., Ltd. (浙江康德萊醫療器械股份有限公司) ("**Zhejiang Kindly**"), a wholly-owned subsidiary of KDL	Sale of certain medical accessories and molds by the Company to KDL and/or its subsidiaries or associated companies	RMB16.00 million	RMB13.05 million

The detailed terms of the non-exempt continuing connected transactions mentioned above are as follows:

Property Lease Framework Agreement

On October 14, 2019, the Company and KDL Holding entered into the Property Lease Framework Agreement for a term of 3 years from November 8, 2019, pursuant to which the Company would lease form the KDL Holding Group properties needed for its operations, including office premises, warehouses, staff quarters and productions plants. The Company and KDL Holding will enter into separate lease agreements which will set out the specific terms and conditions according to the principles in the Property Lease Framework Agreement.

REPORT OF THE DIRECTORS

Pricing

The pricing policy pursuant to the Property Lease Framework Agreement is set out as follow:

(i) the rentals shall be determined with reference to the then market price of properties of comparable size and use in the vicinity which are available to independent third parties as agreed by both parties after arm's length negotiations;

(ii) the property management fees shall be determined as agreed by both parties after arm's length negotiations with reference to the then market price; and

(iii) the energy charges and other facilities fees shall follow the government-prescribed price or where no such government-prescribed price is applicable, it shall then be determined as agreed by both parties after arm's length negotiations with reference to the then market price.

Annual caps

For the years ending December 31, 2019, 2020 and 2021, the maximum aggregate annual amount of rentals under the Property Lease Framework Agreement shall not exceed RMB4.4 million, RMB1.2 million and RMB1.3 million, respectively.

During the Reporting Period, the amount of rentals paid/payable by the Company to KDL Holding under the Property Lease Framework Agreement was RMB4.38 million.

Medical Accessories and Molds Sales Framework Agreement

On December 31, 2018, the Company entered into a procurement framework agreement dated December 31, 2018 with Zhejiang Kindly, a wholly-owned subsidiary of KDL. The procurement framework agreements are amended and supplemented by a supplemental procurement framework agreement dated October 14, 2019 entered into by and between the Company and KDL (together, the "**Medical Accessories and Molds Sales Framework Agreement**"), the principal terms of which are set out as follow:

(i) the Group will sell to KDL and/or its subsidiaries or associated companies (the "**Purchaser**") certain medical accessories and molds manufactured by the Group;

(ii) with respect to specific product requests that may be identified in the future, the Group and the Purchaser will enter into separate individual agreements or work orders to provide for the specific terms and conditions according to the principles; and

(iii) the Medical Accessories and Molds Sales Framework Agreement is effective from January 1, 2019 to December 31, 2021 and may be renewed conditional on the fulfillment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

Annual caps

For the three years ending December 31, 2019, 2020 and 2021, the annual transaction amounts under the Medical Accessories and Molds Sales Framework Agreement shall not exceed RMB16.0 million, RMB16.0 million and RMB16.0 million, respectively.

During the Reporting period, the transaction amount received/receivable by the Group from the Purchaser under the Medical Assessories and Molds Sales Framework Agreement was RMB13.05 million.

Review by and confirmation of independent non-executive Directors of the Company

The independent non-executive Directors have reviewed the above continuing connected transactions, and after due and careful enquiry with the management of the Group, confirmed that such transactions were:

(i) carried out in the ordinary and usual course of business of the Group;

(ii) made on normal commercial terms or better; and

(iii) carried out according to the terms in the relevant transaction agreements, which are fair and reasonable, and in the interests of the Shareholders as a whole.

The independent non-executive Directors are satisfied that they have received and reviewed sufficient information to give the confirmations above.

Confirmation of the auditor

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued an unqualified letter containing the findings and conclusions in respect of the above mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor of the Company had informed the Board and confirmed nothing has come to their attention that cause them to believe that the continuing connected transactions:

(i) have not been approved by the Board;

(ii) are not carried out in accordance with the pricing policies of the, in all material respects Group;

(iii) are not entered into in accordance with the related transaction agreement in any material respects; and

(iv) exceed the relevant annual caps as disclosed in the Prospectus.

In respect of the above mentioned non-exempt connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

During the Reporting Period, there was no connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with the Listing Rules, save for the foregoing.

REPORT OF THE DIRECTORS

Material Related Party Transactions

Save as disclosed in the paragraph headed "Connected Transactions" in this annual report, the related party transactions as set out in note 26 to the consolidated financial statements are not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

Pre-Emptive Rights

There is no provision for the pre-emptive rights in the articles of association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

Purchase, Sale, Redemption or Cancellation of Listed Securities

For the year ended December 31, 2019, nether the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities.

Equity-Linked Agreement

The Company had not entered into any equity-linked agreement for the year ended December 31, 2019, nor did any equity-linked agreement subsist as at December 31, 2019.

Bank Borrowings

As at December 31, 2019, the Group had no bank borrowing.

Donations

For the year ended December 31, 2019, the Group donated RMB100,000 to Education Awards Foundation of Jiading District, Shanghai as the "Educational Development Fund for Jiangqiao Town" (2018: nil).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2019 and 2018.

Corporate Governance

The Company is committed to maintaining high standards of corporate governance practices. Save for the deviation from code provision A.2.1 of CG code as disclosed in the Corporate Governance Report below, the Board is of the opinion that the Company has complied with the applicable code provisions under the CG Code throughout the Reporting Period. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 34 to 45 of this annual report.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

Continuing Disclosure Obligations Pursuant to the Listing Rules

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

Closure of the Register of Members

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Saturday, April 18, 2020 to Monday, May 18, 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for the holders of H Shares), or the Company's registered office at Block 2, No. 925 Jin Yuan Yi Road, Jiading District, Shanghai, the PRC (for the holders of Domestic Shares), not later than 4:30 pm on Friday, April 17, 2020.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Saturday, May 23, 2020 to Thursday, May 28, 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Divided (subject to the approval by the Shareholders at the AGM), all completed share transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for the holders of H Shares), or the Company's registered office at Block 2, No. 925 Jin Yuan Yi Road, Jiading District, Shanghai, the PRC (for the holders of Domestic Shares), not later than 4:30 pm on Friday, May 22, 2020.

Compliance with Relevant Laws and Regulations

There was no incident of non-compliance with relevant laws and regulations that had a significant impact on the Group during the Reporting Period. For details in relation to the relevant laws and regulations, please refer to the section headed "Regulatory Overview" of the Prospectus.

Material Events after the Reporting Period

(i) On March 19, 2020, the Company and Ningbo Huaige Health conditionally entered into the Int Subscription Memorandum (the "**Int Memorandum**") in relation to the establishment of, and investment in, Shanghai Huaige Int Phase I Venture Investment Partnership (Limited Partnership) (上海懷格瑛泰一期創業投資合夥企業(有限合夥)) (the "**Int Fund**"). Under the Int Memorandum, the target total capital contribution by the general partner and all the limited partners of the Int Fund is not less than RMB110.00 million and not more than RMB200.00 million, and the capital commitment payable by the Company as a limited partner will be RMB50.00 million.

The Int Fund will be registered in the PRC as a limited partnership with the primary objective of venture investment in, among others, equity interests, convertible loans and/or financial assets in relation to start-ups or early-stage businesses in the medical devices industry mainly in the PRC. The investment priorities of the Int Fund include start-ups or early-stage businesses principally engaged in the research and development of cardiovascular interventional devices, neuro interventional medical devices and other interventional medical devices.

REPORT OF THE DIRECTORS

(ii) On March 19, 2020, the Company and Ningbo Huaige Health conditionally entered into the Ruixin Subscription Memorandum (the "**Ruixin Memorandum**") in relation to the establishment of, and investment in, Jingning Huaige Ruixin Venture Investment Partnership (Limited Partnership) (景寧懷格瑞信創業投資合夥企業(有限合夥)) (the "**Ruixin Fund**"). Under the Ruixin Memorandum, the target total capital contribution by the general partner and all the limited partners of the Ruixin Fund is not less than RMB300.00 million and not more than RMB400.00 million, and the capital commitment payable by the Company as a limited partner will be RMB50.00 million.

The Ruixin Fund will be registered in the PRC as a limited partnership with the objective of investments in equity interest of entities in the medical devices, pharmaceutical, biologics, medical services and Contract Research Organization services industries mainly in the PRC with a focus of investing in other equity funds in the medical device and biomedical fields.

As at the date of this report, the establishment of the Int Fund and the Ruixin Fund are yet to be completed and are subject to approval by the independent Shareholders. Further details of the Int Memorandum and the Ruixin Memorandum are set out in the Company's announcement dated March 19, 2020.

Auditor

KPMG and BDO China Shu Lun Pan Certified Public Accountants LLP had been appointed as the international and domestic auditors of the Company in respect of the financial statements for the year ended December 31, 2019 prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") and PRC GAAP, respectively. The financial statements have been audited by KPMG and BDO China Shu Lun Pan Certified Public Accountants LLP. Since the date of preparation for the listing, the Company has been engaging KPMG and BDO China Shu Lun Pan Certified Public Accountants LLP for their services. KPMG and BDO China Shu Lun Pan Certified Public Accountants LLP will retire and, being eligible, offer themselves for re-appointments of the auditors of the Company at the forthcoming AGM.

By order of the Board
Shanghai Kindly Medical Instruments Co., Ltd.
上海康德萊醫療器械有限公司
Dr. Liang Dongke
Chairman

Shanghai, the PRC
March 19, 2020

REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee in compliance with the relevant requirements of the Company Law of the PRC and the Articles, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work seriously and with diligence to protect the interests of the Company and the Shareholders.

During the Reporting Period, the Supervisory Committee had reviewed cautiously the development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the relevant requirements of the Company Law of the PRC and the Articles and in the interests of the Shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the final dividend to be proposed by the Board for presentation at the forthcoming AGM. We are of the opinion that the Directors and other senior management of the Company are able to strictly observe their fiduciary duty, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles. The transactions between the Company and connected persons are in the interests of the Shareholders as a whole and under fair and reasonable terms.

As of today, none of the Directors and senior management of the Company had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the Shareholders and employees. None of them was found to be in breach of any laws and regulations or the Articles.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2019 and has great confident in the future prospect of the Company.

By Order of the Board of Supervisors
Shanghai Kindly Medical Instruments Co., Ltd.
Wang Li
Chairperson of the Supervisory Committee

Shanghai, the PRC
March 19, 2020

CORPORATE GOVERNANCE REPORT

The Board is committed to achieve good corporate governance standards to protect the Shareholders' interest and enhance the Company's transparency and accountability. The Company's corporate governance practices are based on the CG Code contained in Appendix 14 of the Listing Rules on the Stock Exchange.

Summary of Corporate Governance

The Company has established a corporate governance structure comprising general meeting, the Board, the Board of Supervisors and the management in accordance with Company Law of the PRC, the Securities Law of the People's Republic of China and the Listing Rules. Such structure gives a clear division of authority and responsibilities among the authority, decision-making and regulatory bodies and the management, and creates a balances mechanism and mutual coordination for standard operation.

Corporate Governance Code

The Company's H shares have been listed on the Stock Exchange since November 8, 2019. During the period from the Listing Date to December 31, 2019, save for the deviation from code provision A.2.1 as described in the paragraph headed "Chairman and Chief Executive" below, the Company has complied with all the code provisions set out in CG Code in Appendix 14 to the Listing Rules and adopted substantially all the recommended best practices therein.

The Board

The Board currently composes nine Directors, including two executive Directors, three non-executive Directors and four independent non-executive Directors.

Executive Directors

Dr. Liang Dongke (梁棟科) *(Chairman)*
Mr. Wang Cailiang (王彩亮)

Non-executive Directors

Mr. Zhang Weixin (張維鑫)
Ms. Chen Hongqin (陳紅琴)
Mr. Fang Shengshi (方聖石)

Independent non-executive Directors

Mr. Dai Kerong (戴尅戎)
Mr. Jian Xigao (蹇錫高)
Dr. Ge Junbo (葛均波)
Mr. Hui Hung Kwan (許鴻群)

The biographical information of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 69 to 76 of this annual report. Save as disclosed in their respective biographies, the Directors, Supervisors and senior management members do not have financial, business, family or other material relationships with one another.

With regard to the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management of the Group the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Audit Committee, Remuneration Committee and Nomination Committee and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

Chairman and Chief Executive

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

Dr. Liang Dongke is our chairman of the Board and the general manager (same as a chief executive) of the Company. Dr. Liang has extensive experience in the medical devices industry and have served in the Company since its establishment. He is in charge of overall management, business, strategic development and scientific research and development of the Group.

The Board considers that vesting the roles of chairman and general manager in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the Board, the Supervisors and the senior management members of the Company, which comprises experienced and visionary individuals. The Board currently comprises two executive Directors (including Dr. Liang), three non-executive Directors and four independent non-executive Directors, and therefore has a strong independence element in its composition. The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

Board Diversity Policy

The Company has adopted the Board Diversity Policy, pursuant to which the Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

As at the date of this annual report, the Board consists of eight male members and one female member with one Director of age 31 to 40 years old, five Directors of age 41 to 50 years old, one Director of age 51 to 60 years old and two Directors of over 60 years old. The Company has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

During the period from the Listing Date to December 31, 2019, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of the directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Since the Company's Listing in November 2019, the Board has at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmation on independence from each of the independent non-executive Directors for the period from the Listing Date to December 31, 2019 in accordance with Rule 3.13 of the Listing Rules. The Company considers that each of its independent non-executive Director is independent.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' and Supervisors' securities transactions. Having made specific enquiry of all Directors and Supervisors, the Directors and the Supervisors have complied with the required standard set out in the Model Code during the period from the Listing Date to December 31, 2019. Employees who are, or likely to be, in possession of unpublished inside information in relation to the Company or the Shares are prohibited from dealing in the Shares during the black-out period.

Delegation by the Board

The Board undertakes responsibility for decision making in major Group matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Directors' Service Contracts

Each of the Directors entered into a service contract with the Company for a term of three years and which are renewable upon expiry and subject to re-election upon expiry of their term of office in accordance with the Articles and applicable laws, rules and regulations.

Each of the Supervisors has entered into a service contract with our Company for a term of three years and in respect of, among others, compliance with relevant laws and regulations, observation of the Articles and provision on arbitration.

Save as disclosed above, the Company did not sign any relevant unexpired service contract which is not terminable within a year without payment of any compensation, other than statutory compensation.

Continuous Professional Development

Each newly appointed Director shall receive formal and comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors will be continuously updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company update the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records maintained by the Company, all Directors participated in trainings regarding the knowledge of the Listing Rules and other legislations, as well as the knowledge in relation to responsibilities of directors of a listed company. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended December 31, 2019 is summarized as follows:

Name of director	Reading materials relevant to corporate governance and regulations	Attending training session(s) relevant to corporate governance and regulations
Executive Directors		
Dr. Liang Dongke (梁棟科) *(Chairman)*	✓	✓
Mr. Wang Cailiang (王彩亮)	✓	✓
Non-executive Directors		
Mr. Zhang Weixin (張維鑫)	✓	✓
Ms. Chen Hongqin (陳紅琴)	✓	✓
Mr. Fang Shengshi (方聖石)	✓	✓
Independent Non-executive Directors		
Mr. Dai Kerong (戴尅戎)	✓	✓
Mr. Jian Xigao (蹇錫高)	✓	✓
Dr. Ge Junbo (葛均波)	✓	✓
Mr. Hui Hung Kwan (許鴻群)	✓	✓

Appointment and Re-Election of Directors

Pursuant to the requirements of the Articles, Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years. A Director shall be eligible for re-election on the expiry of each term. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to approval by election at the general meeting.

Compensation of Directors, Supervisors and Senior Management

The emoluments of the Directors, Supervisors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

During the Reporting Period, the remuneration of each of the members of senior management as named in the section headed "Directors, Supervisors and Senior Management" above falls within the remuneration band of RMBnil to RMB2 million. Details of the Directors', Supervisors' and senior management's emoluments and emoluments of the five highest paid individuals in the Group are set out in note 8 and note 9 to the consolidated financial statements, respectively.

For the Reporting Period, no emoluments were paid by the Group to any Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. For the year ended December 31, 2019, except for the non-executive Directors and one of the Supervisors, Ms. Wang Li, who did not receive remuneration from the Company, none of the Directors and Supervisors has waived any emoluments.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2019, by the Group to or on behalf of any of the Directors.

Board Meetings and General Meeting

Pursuant to Code Provision A.1.1 of the CG Code, the Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals. Notice of not less than fourteen days are given for all regular Board meetings or not less than 3 days are given for extraordinary Board Meeting to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting in accordance with Code Provision A.1.3 of the CG Code.

The agenda and the accompanying board papers together with appropriate, complete and reliable information are circulated to all Directors not less than 3 days before the date of the Board meetings to enable them to make informed decision. The Directors have access to the senior management and the joint company secretaries of the Company at all times and, upon reasonable request, may seek independent professional advice at the Company's expense.

Minutes of Board meetings are kept by the secretary to the Board with copies circulated to all Directors for information and records. Minutes of Board meetings and committee meetings record sufficient detail of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of Board meetings and committee meetings are sent to the Directors for comments within a reasonable time after the date on which a meeting is held. The minutes of the Board meetings are open for inspection by Directors.

As the Company was listed on November 8, 2019, which was less than two months to December 31, 2019, the Board did not have any matters to discuss during the Relevant Period, and no Board meeting or general meeting of the Company was held during the relevant period. The Company will comply with A.1.1 of the CG Code to convene Board meetings at least four times a year at approximately quarterly intervals.

Board Committees

The Board has established three committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, to handle particular responsibilities of the Board and the Company's affairs.

All Board committees of the Company are established with defined written terms of reference that have been uploaded to the respective websites of the Stock Exchange and the Company, and are provided with sufficient resources to discharge their duties.

Audit Committee

The Company established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference in compliance with the CG Code and the roles and responsibilities delegated to the Audit Committee by the Board.

The Audit Committee is primarily responsible for the appointment of external auditor; reviewing the Group's financial information and overseeing the Group's financial reporting system, risk management and internal control procedures, supervising the Company's internal audit function and reviewing its effectiveness, reviewing the Company's compliance with the relevant terms and rules, reviewing the interim and annual results and reports of the Group prior to recommending them to the Board for approval, and other matters that the Board has authorized it to deal with.

The Audit Committee consists of two independent non-executive Directors, Mr. Hui Hung Kwan (chairman of the Audit Committee) and Mr. Jian Xigao, and one non-executive Director, Mr. Fang Shengshi.

As the Company was listed on November 8, 2019, which was less than two months to December 31, 2019, the Audit Committee did not hold any meetings between November 8, 2019 and December 31, 2019. Code provision C.3.3(e)(i) of the CG Code provides that the terms of reference of the Audit Committee shall have the terms that the members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the Company's Auditor. The Company has included such terms in relevant terms of reference, and thus complied with the Code provision C3.3(e)(i) of the CG Code during the Relevant Period.

The Audit Committee has reviewed and is of the opinion that the Group's consolidated financial statements for the year ended December 31, 2019 comply with the applicable accounting principles, standards and requirements and that adequate disclosures have been made. The Audit Committee therefore recommend for the Board's approval of the Group's consolidated financial statements for the year ended December 31, 2019.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the requirements of the CG Code and the roles and responsibilities delegated to the Nomination Committee by the Board.

The Nomination Committee is primarily responsible for screening and nominating candidates for Directors and members of the board committees of the Company and assessing the candidates' qualifications, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure, reviewing the procedures and criteria for determining the candidates for Directors and the chief executive officer of the Company and making proposals to the Board, assisting the Board in assessing and reviewing the independence of the independent non-executive Directors, and performing regular review on contributions made by the Directors and the sufficiency of their time devoted to perform their duties. The Company has adopted nomination policy, which is incorporated in the terms of reference of the Nomination Committee and sets out the selection criteria and nomination procedures for identifying and recommending candidates for appointment or reappointment of Directors.

The Nomination Committee consists of one executive Director, Dr. Liang Dongke (chairman of the Nomination Committee), and two independent non-executive Directors, Mr. Dai Kerong and Dr. Ge Junbo.

The Board has adopted a board diversity policy, please refer to "Board Diversity Policy" on page 35 of this annual report for more details. When a vacancy in the Board arises, the Nomination Committee evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy. The Nomination Committee will then identify suitable candidates and convene a meeting to discuss and vote on the nomination of the Directors and make recommendation to the Board on the candidate(s) for directorship.

As the Company was listed on November 8, 2019, which was less than two months to December 31, 2019, the Nomination Committee did not hold any meetings between November 8, 2019 and December 31, 2019. The Nomination Committee will fully comply with its terms of reference.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with the CG Code and the roles and the responsibilities delegated to the Remuneration Committee by the Board.

The Remuneration Committee is primarily responsible for evaluating the remuneration strategies and policies, performance appraisal and incentive schemes and other matters regarding the remuneration of directors, supervisors and senior management, and making relevant recommendations to the Board. Upon the approval by the Board, relevant recommendations will be proposed for consideration at the general meeting. The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) of the CG Code (i.e. make recommendation to the Board on the remuneration packages of individual executive Director and senior management).

The Remuneration Committee consists of two independent non-executive Directors, Mr. Jian Xigao (chairman of the Remuneration Committee) and Mr. Hui Hung Kwan, and one executive Director, Dr. Liang Dongke.

Details of the Directors' emoluments and the five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements, respectively.

As the Company was listed on November 8, 2019, which was less than two months to December 31, 2019, the Remuneration Committee did not hold any meetings between November 8, 2019 and December 31, 2019. The Remuneration Committee will fully comply with its terms of reference.

Supervisory Committee

Supervisory Committee is a supervisory agency of the Company which is responsible for the supervision of the Board and its members and senior management such as the general manager and deputy general manager so as to prevent them from the misuse of authority and infringement upon lawful rights of the Shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in line with the provisions and requirements of the laws, regulations and the Articles. During the Reporting Period, the Supervisory Committee was comprised of three supervisors, Ms. Wang Li (chairperson of the Supervisory Committee), Ms. Chen Jie and Mr. Xu Jianhai. Mr. Xu was employee representative supervisory democratically elected by our employees. The background and biographical details of the supervisors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

The Supervisors shall serve a term of three years, and may be re-elected for successive terms. The chairperson of the Supervisory Committee shall be appointed or removed by the votes of more than two thirds of the members of the Supervisory Committee. Resolutions of the meeting of the Supervisory Committee shall be approved by more than two thirds of the members of the Supervisory Committee.

As the Company was listed on November 8, 2019, which was less than two months to December 31, 2019, the Supervisory Committee did not hold any meetings between November 8, 2019 and December 31, 2019.

Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems of the Group and for reviewing their effectiveness at least annually, with assistance from the Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance and risk management.

In order to identify, assess and control the risks that may cause impediments to our business, the Group has designed and implemented various policies and procedures to help ensure effective risk management in our operations. Our general manager is ultimately responsible for our risk management. Senior management of the Company implements the risk management policies, strategies and plans set by our general manager. Each business department monitors and evaluates the implementation of risk management and internal control policies and procedures. Our general manager conducts a bi-weekly meeting with senior management and each business department head to discuss among other things, risk management and internal control policies and procedures. At general manager's meetings, depending on the agenda, different department heads will report to our general manager on the relevant agenda items, as necessary. The Directors believe that our corporate structure provides an appropriate system of checks and balances to improve our risk management procedures in a number of important respects.

CORPORATE GOVERNANCE REPORT

The Company has an internal audit department, which is responsible for independently reviewing the adequacy and effectiveness of the risk management and internal control system of the Company, and reporting the results to the Audit Committee. Internal control supervisor of the Company is responsible for coordinating the internal control, sorting out and improving the business process and management mechanism, and carrying out the effectiveness evaluation of internal control. In addition to the internal control and internal audit functions, all employees are liable for risk management and internal control within their business scope. Each department shall actively cooperate with the internal control and internal review, report to the management on the important development of the department's business and the implementation of policies and strategies established by the Company, and identify, evaluate and manage major risks in time.

The Company has established risk management and internal control management to build general risk management internal control environment. At present, the Company has built an internal control process framework covering procurement, sales, human resources and compensation management, marketing and promotion management, tax management, capital management, information security and intellectual property rights, financial reporting and disclosure and other business processes and carry out risk assessment regularly to ensure risk management and internal control being in operation effectively.

The Audit Committee was satisfied as to the implementation and effectiveness of the Group's risk management and internal control procedures. There were no matters of material concerns relating to financial, operational or compliance controls. The Board is satisfied with the adequacy of the risk management and internal control procedures of the Group during the Reporting Period.

Directors' and Auditors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended December 31, 2019 which give a true and fair view of the affairs of the Group and of the Group's financial performance and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's consolidated financial statements for the year ended December 31, 2019, which are put to the Board for approval. The management also provide all members of the Board with monthly updates giving a balanced and understandable assessment of the performance and prospects of the Company.

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

The statement prepared by KPMG, the international auditor of the Company, regarding their reporting responsibilities on the consolidated financial statements of the Company prepared under HKFRS, is set out in the Independent Auditor's Report to the Shareholders on pages 77 to 81 of this annual report.

Auditors' Remuneration

During the year ended December 31, 2019, the total fee paid/payable in respect of audit and non-audit services provided by the Group's international and domestic auditor, KPMG, and BDO China Shu Lun Pan Certified Public Accountants LLP is set out below:

Service Category	Fees Paid/Payable *(RMB million)*
Audit services	4.45
Non-audit services	0.4
Total	4.85

Note: the amount of auditors' remuneration also included fees for reporting accountants service and internal control advisory services in connection with the Global Offering provided by KPMG.

Main Duties of Internal Audit

The Company has established an internal audit department as its dedicated internal audit function, which is also the executive body for the work of the Audit Committee under the Board. The roles and duties of the internal audit are designated to facilitate the effective operation and management of the Company and provide support to the Board and the Audit Committee is discharging their duties.

Joint Company Secretaries

Dr. Song Yuan, one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Ms. Leung Shui Bing, a manager of TMF Hong Kong Limited (a global corporate services provider), as another joint company secretary to assist Dr. Song Yuan in discharging her duties as company secretary of the Company. Ms. Leung Shui Bing's primary contact person at the Company is Dr. Song Yuan.

During the Reporting Period, Ms. Leung Shui Bing had undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules. As the Company's H Shares were listed on the Stock Exchange on November 8, 2019, which was less than two months to December 31, 2019, Dr. Song had taken less than 15 hours of relevant professional training during the Reporting Period and will be obliged to comply with Rule 3.29 of the Listing Rules in the forthcoming year.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("EGM")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below.

Two or more Shareholders individually or jointly holding over 10% of the Shares with the voting power at the proposed meeting may sign one or more written requests of identical form of content requesting the Board to hold the EGM or a class meeting.

If the Board fails to issue a notice of convening such meeting within 30 days upon receipt of the above written request, the Shareholders who made such request may request the Board of Supervisors to convene the EGM or class meeting.

If the Board of Supervisors fails to issue a notice of convening such meeting within 30 days upon receipt of the above written request, for more than 90 consecutive days, Shareholders individually or jointly holding 10% or more of the shares carrying voting rights at the meeting sought to be held may convene the EGM of their own accord within four months upon the Board having received such request. The convening procedures shall, to the greatest extent possible, be identical to procedures according to which the Shareholders' general meetings are to be convened by the Board.

Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When the Company convenes a shareholders' general meeting, Shareholders individually or jointly holding 3% or more of the total voting shares of the Company are entitled to propose new resolutions in writing to the Company and submit them to the convener 10 days before the meeting. The convener of the Shareholders' general meeting shall issue a supplementary notice of the Shareholders' general meeting to other Shareholders within two days upon the receipt of such proposal and incorporate any matters falling within the scope of duties of the shareholders' general meeting into the agenda of such meeting. The new agenda shall be tabled to the shareholders' general meeting for consideration.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's registered office in the PRC at Block 2, No. 925 Jin Yuan Yi Road Jiading District, Shanghai, the PRC. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Communications with Shareholders

The Company continuously attaches great importance to maintaining and developing investor relations for a long time, enhances transparency of the corporate information by promptly and effectively releasing the corporate information to the public, which has established effective channels for the Company to communicate with investors.

The Company publishes its announcements, financial information and other relevant information on the website at www.kdl-int.com, as a channel to facilitate effective communication.

The Board welcomes shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. Chairman of the Board and the chairman of all committees (or their proxy) will attend the annual general meeting and other general meetings. At the general meetings, all shareholders attending the meeting may make enquiries to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the shareholders and annual reports for shareholders to express their views or make enquiries.

Investor Relations

The Company considers it crucial to provide investors with accurate information in a timely manner and maintains communication with investors through effective communication channels, with an aim to enhance mutual understanding between investors and the Company and to improve the transparency of the Company's information disclosure.

In accordance with the Listing Rules, the Company shall duly disseminate its corporate information via various channels, including regular reports, announcements and company website.

Change in Constitutional Documents

Save for the Articles conditionally adopted on April 20, 2019 with effect from the date of listing on November 8, 2019, there was no change in the constitutional documents of the Company since the Listing Date and up to December 31, 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 ABOUT THIS REPORT

Statement by the Board

The Board and all the directors of the Group warrant that there are no false representations or misleading statements contained in, or material omissions from this report, and severally and jointly accept responsibilities for the truthfulness, accuracy and completeness of this report.

Basis of Preparation

This report is prepared for the year from 1 January 2019 to 31 December 2019 in accordance with Appendix 27 of the Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**HKEX**"). This report provides an overview of the Group's activities over the year and will be posted on the website of HKEX and the official website of the Group.

Publication Interval

This is the Group's first Environmental, Social and Governance ("**ESG**") Report, which covers the year from January 2019 to December 2019.

Scope of Report

The reporting entities are Shanghai Kindly Medical Instruments Co., Ltd.* and its subsidiaries. The data in respect of their policies, social responsibilities and environmental protection efforts cover all of the Group's business lines.

Sources of Data

The data used in this report are derived from the internal documents and related statistics of Shanghai Kindly Medical Instruments Co., Ltd.* and its subsidiaries.

Representations

For ease of presentation, Shanghai Kindly Medical Instruments Co., Ltd.* is hereinafter referred to as "Kindly Medical Instruments", "the Group" or "We".

2 CHAIRMAN'S ADDRESS

During the 21st century, China has realized rapid development and national rejuvenation. The development of a country is closely related to and depends on the prosperity of each industry. In the past decade, the medical device industry of China has gone through the golden age of rapid development. Meanwhile, benefitted from the national technological innovation planning of the 13th Five-Year Plan and the core policy on deepening the medical-sanitary system reform, we ride on the general trend of domestication of medical device production and adhere to the development principle of "innovation and quality". In 2019, the Group realized over 40% increase in revenue and over 60% increase in net profit and was listed on the Hong Kong Stock Exchange, turning the Group to a new chapter of development.

* *For identification purpose only*

An effective team is the cornerstone of entrepreneurship. The development of an enterprise depends on talents introduction and training. We have formulated an open and fair recruitment system, established diversified employee benefit packages and incentive measures covering housing rent allowance, housing fund and employee stock ownership plan, and are committed to creating a positive corporate culture of "from the staff and for the staff". In the meantime, we have employee development and training system in place in order to provide a broader platform and wider space for our employees and endeavour to build up a core team with passion, integrity and administrative capacity and cadre reserves with competence and responsibility within the Group. We encourage our employees to work hard continuously for a promising future of Kindly Medical Instruments.

Innovation is the fountain of development. We stick to the corporate strategy of "innovation-driven development and technology-led future" with a focus on technological innovation. We centre on the medical-industrial cooperation to help more doctors to transform their research fruits and establish a comprehensive platform for the development and transformation of medical devices. We also adhere to the technological innovation strategy of industry-university-research integration. We have built a good cooperation relationship with many well-known universities in China, which, as an important force for technological innovation of an enterprise, lays a solid knowledge reserve and technological foundation for further outstanding results.

Administrative capacity is the key to success. Quality of medical device products represents the confidence for health recovery and carries the hopes for the quality and length of life for billions of users. We must be responsible for doctors, nurses and patients and offer high-quality products to all our users. A comprehensive quality control system covering incoming materials, work-in-process and finished products has been implemented throughout the Group. We require our workers to strictly follow the code of conduct, i.e. "focus on implementation and details" in order to realize our pursuit for higher quality.

As an enterprise engaged in the medical device industry, we attach great importance to the sacred mission of disease treatment and health recovery. Therefore, we insist on "safety first and efficiency second" in respect of supply chain management and select our suppliers in a strict manner. Meanwhile, during our business activities with suppliers and partners, we adhere to co-existence, win-win and co-development and share our resources with the upstream and downstream enterprises on the industrial chain to realize complementary advantages and friendly collaboration and establish a harmonious medical system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Focus makes a professional. For years, the Group has been engaged in the research and development, production and marketing of the interventional medical devices and achieved remarkable results with the hard work of our employees and strong supports from our suppliers and partners. Besides, we also focus on the development of the community where we operate. In 2019, we set up the "Educational Development Fund for Jiangqiao Town" in Jiading District, Shanghai, where the headquarter of the Group lies. In early 2020, the Group donated ear thermometers, masks and other epidemic prevention materials to the village where we operate in fighting the novel coronavirus disease (COVID-19).

As a landmark in our history, the listing of the Group also represents a brand-new beginning. Charged with the mission of "innovation and quality", we will continue to forge ahead and establish the Group into a globally known interventional medical device group driven by technological innovation.

By order of the Board
Liang Dongke
Chairman
Shanghai, China

March 19, 2020

3 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

3.1 GROUP ESG STRATEGY

The Group focuses on "innovation and quality" in the course of business and is committed to the health undertaking of all human beings. The development of human health industry is closely related to the natural environment and social environment. The development of the Group, on one hand, greatly depends on the natural environment. Therefore, we implement energy saving and emission reduction as well as resource conservation during our business process to do our part for the establishment of a resource conserving and environment-friendly society; On the other hand, the development of the Group also relies on the continuous hard work and innovation of our employees. Therefore, we focus on the build-up of a stable core employee team, provide a platform for their development and make timely adjustment to their remuneration package to let them share the benefit of the Group's development.

We recognize that the development of an enterprise not only depends on itself, but also correlates with the demands of people who use our products and receive our services, as well as the coordinated development of our clients and business partners. Besides, long-termly speaking, the development of an enterprise is not only reflected on economic efficiency, but also on the environment efficiency and social efficiency in order to realize sustainable development. Our operation principle is identical with the principle of sustainable development. Co-existence, win-win and co-development are undertakings made by the Group to all employees, vice versa. It is also a serious undertaking made by the Group to its customers and business partners.

3.2 GROUP ESG GOVERNANCE STRUCTURE

An ESG working group comprising of the senior management and middle management from each major department and subsidiary has been established to make periodic reports to the Board and receive advice and suggestions. Members of the Group's ESG working group come from the general manager office, technology department, finance department, administrative department, marketing department, quality department and production department.

The ESG working group is responsible for the conveying and communication of the Group's strategies, rules and regulations and feedbacks related to ESG and is an integral part of the Group's sustainable development work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.3 COMMUNICATION OF STAKEHOLDERS

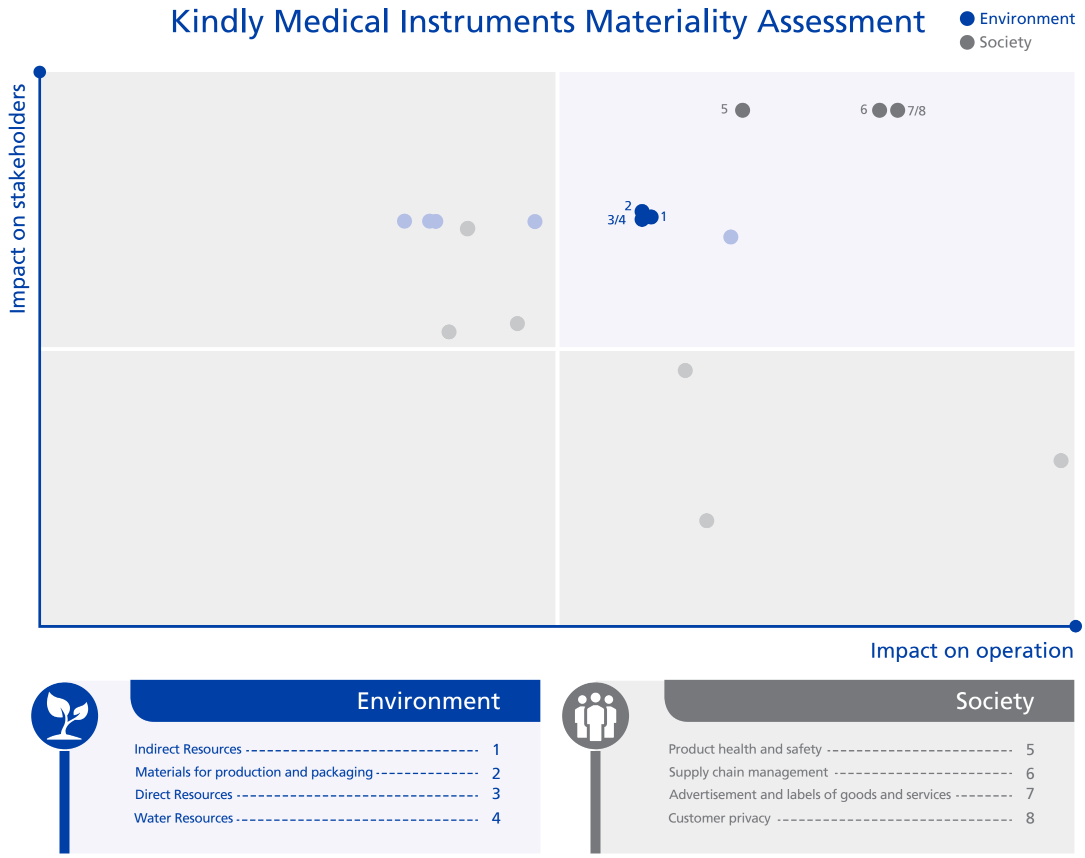
Stakeholders	Government	Shareholders	Employees	Customers	Suppliers	Community
Target and focus	• Respond to relevant state medical policies • Operate according to laws and regulations • Increase medical level • Dispose the medical hazardous wastes • Perform the duty to pay taxes in accordance with applicable tax laws	• Business strategy and financial performance • Protect shareholder's legal rights • Business sustainability • Incubator of emerging industries • Sustainable development of company	• Payment and welfare • Guarantee of rights and interests • Career development • Safety and health • Corporate culture	• Supply precision medical devices • Efficient and convenient equipment • Improve the efficiency of medical workers • increase the survival rate of patients • improve the service quality continuously	• Abide by commercial ethics & state laws and rules • Be open and fair • Keep promises, achieve mutual benefits and create a win-win situation • Keep channels transparent	• Hold community activities • Participate in community construction • Devote to community welfare • Promote community development • Assist and support poverty-stricken students
Methods of communication and exchange	• Take part in discussions when relevant policies of medical devices are being formulated and share enterprise experience • Guide and influence the implementation of public policies actively • Engage in dialogue with the local government • Create an efficient healthcare system	• Enhance information disclosures • Board meeting, general meeting and investors' meeting • Direct communication among shareholders • Carry out relevant activities with universities or colleges to promote the incubation and implementation of industry	• Employee representative on the board of supervisors • Labour union • Employee representative conference • Employee survey and provision of feedback • Enhance information disclosures	• Feedbacks of user experience on medical devices from medical workers • Cure rate of patients upon usage • Complaints hotline • Enhance information disclosures • Feedbacks from hospitals	• Announce the supplier management rules • Contract negotiation • Daily business exchange • Enhance information disclosures	• Engage in dialogues with local government and organisations • Visit community and exchange ideas with community members • Provide assistance and support together with foundation • Enhance information disclosures
Key actions	• Implement state policies and abide by state laws and regulations • Accept supervision and check-ups • Create more posts to boost the employment rate • Monitor the disposal of wastes and pollutants strictly • Declare taxes in a timely manner	• Convene general meetings regularly • Convene board meetings regularly • Convene investors' meetings • Disclose statutory issues in a timely manner • Industry-university-research linkage	• Enhance training for employees in respect of culture and technical skills • Improve employees living and working environment • Guarantee employees' rights and benefits and upgrade their welfare level • Health and safety guarantees for employees • Establish a labour union	• Regulate and standardise services • Conduct regular customer satisfaction surveys • Respond to customer complaints and provide them with feedback in a timely manner • Earnestly protect customer privacy • Questionnaire	• Set up an open and transparent bid invitation system • Set up a communication platform for suppliers • Perfect the supplier selection system • Offer suppliers with opportunities for fair competition	• Regularly hold activities to benefit community residents • Encourage good deeds • Be passionate about public welfare and contribute to society • Conduct employee volunteer activities • Set up a special foundation
Key performance indicators	• Conduct centralized disposal of wastes • Take action to implement garbage classification • Number of persons employed	• Stock value and dividend returns • Stock market value • Invest in subsidiaries	• Number of participants of employee training • Remuneration and welfare system	• Investments in greening • Feedbacks on complaints about disputes between doctors and patients • Improve product precision	• Contract performance rate • Assessment of suppliers	• Examples of good deeds • Investments in social welfare causes • Employee volunteer activities

3.4 MATERIALITY ASSESSMENT

To prepare for the first ESG Report of the Group, we actively carried out the assessment of the materiality from internal stakeholders within the Group with online questionnaire, and the coverage rate of the assessment in the employees within the Group exceeds 5%. We will also continually pay attention to all stakeholders, constantly review and update the materiality assessment, and include external stakeholders when the conditions are appropriate, so as to achieve a more accurate and thorough understanding of the demands of various parties, and to provide guidance and direction to the enterprise's business operations and controls over environmental and social governance.

Based on the analysis and summary of the results of the materiality assessment from all stakeholders, we have formed the following materiality assessment matrix, which covers business operations, the business environment, society, governance and the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange. The Group puts its focus on social aspects such as supply chain management, product health and safety, customer privacy and environmental aspects such as indirect resources, materials for production and packaging, direct resources and water resources.

Kindly Medical Instruments Materiality Assessment



4.1 EMISSIONS

Responsibility Management

Though the Group is not a key pollutant-discharging entity announced by the environment authorities, we still attach great importance to emission management. The Group strictly complies with the relevant laws and regulations in relation to environment, including the Prevention and Control of the Solid Waste Pollution Law of the PRC (《中華人民共和國固體污染防治法》) and Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》). Each subsidiary has established an environment management committee and an environmental accident response team consisted of coordinators from each relevant department. The representative of the subsidiary is appointed as the head of the team and the competent department leader as the vice head.

In the event of a pollution accident, the Group clearly asks the relevant department to arrange the removal of the pollutants first and then identify the reasons thereof. Except for rectification by the relevant department or company strictly, other companies under the Group shall also take it as a warning and review if there are preventive measures in place and, if not, make timely rectification and improvement.

Waste Gas Emissions

The emission of non-methane hydrocarbons generated from the Group's production process must comply with relevant standards after activated carbon filtration. There is online monitoring system in place to monitor the emission process and calculate the volume of emissions. In 2019, the total emission of non-methane hydrocarbons of the Group was 52.76 million cubic meters.

Noises

We use machines during our production, which will inevitably generate noises. Long-term working in a noisy environment will affect the physical condition of our employees. In view of this, we make careful study and identify the location where the noise comes from. Sound-proof cottons will then be used to decrease the acoustic sound level as well as the impact on our employees. Meanwhile, we also purchased some protective equipment, such as earbuds.

Waste Water Discharge

The Group's production doesn't generate waste water, excluding domestic wastewater primarily from the kitchen of the factory canteen, which is processed by the oil-water separators before discharge. The Group operates a canteen in its headquarter and has obtained a drainage permit pursuant to the Administrative Regulations on Drainage (《排水管理條例》). In order to make sure the discharge of domestic wastewater in compliance with relevant standards, the Group makes periodic inspections on the domestic wastewater processing facilities in its factory. In 2019, the Group's waste water discharge was 8,052 cubic meters. During the reporting period, no incompliance was identified in relation to the discharge of domestic wastewater.

Wastes

The Group implements classification of wastes, including hazardous wastes, non-hazardous wastes (recyclable) and non-hazardous wastes (unrecyclable). For hazardous wastes, the Group has established the Hazardous Waste Emergency Response (《危險廢棄物應急預案》), covering the whole process of hazardous wastes from the source to the final treatment; for non-hazardous wastes, the Group adopts different treatment methods depending on their recyclable or unrecyclable nature. The recyclable non-hazardous wastes gathered from each department will be collected by the third party designated by the administrative department for recycle. For unrecyclable non-hazardous wastes, the Group will increase garbage classification facilities pursuant to the local Administrative Regulation on Domestic Waste (《生活垃圾管理條例》), introduce relevant knowledge on garbage classification in its regular meetings, put up posters in the factory and arrange a watchkeeper responsible for giving garbage classification instructions in the fixed collection points in order to make the employees understand the importance, implement, and support the development of urban garbage classification in an orderly manner.

The hazardous wastes of the Group mainly include waste ink barrels, used emulsions, used oil and laboratory wastes. Given misplacement is the source of pollution accidents, each subsidiary has designated place for the stacking and storing of hazardous wastes. Such hazardous wastes will be removed from our workplace by a qualified third party for disposal. Meanwhile, an environmental safety inspection team has been set up by each of our subsidiaries with a WeChat group. In case of any incompliance, the inspection team may report to the head of the competent department or the legal representative of each company and any member of the team may also report to the competent department of the company he or she works for.

In 2019, the Group's hazardous waste emissions include lab wastes of 1,728 kilograms and waste ink of 118 kilograms; its non-hazardous waste emissions include domestic wastes of 28,361 kilograms, grease trap wastes of 2,400 kilograms, waste paper-made packing materials of 1,331 kilograms and waste plastic packing materials of 1,393 kilograms.

Greenhouse Gas Emissions

The greenhouse gas emissions will cause a greenhouse effect, raise global temperatures and lead to climactic abnormalities, thus endangering the environment on which the existence and development of human beings relies. The environmental issue caused by the green gas emissions is now becoming a common concern of all human beings. As listed company committed to "the health undertaking of all human beings", we deeply recognize the importance and urgency to reduce greenhouse gas emissions.

The greenhouse gas emissions of the Group primarily come from purchased electricity, liquefied petroleum gas (LPG) for canteens and oil for service cars. The Group's greenhouse gas emissions as well as the expenses in electricity, LPG and oil consumption are not significant. However, given that no act of kindness, no matter how small, is ever wasted, we adopt the following emission reduction measures.

- Using LED Lightening with reasonable distance distributions;
- Setting temperature limits on air conditioners, i.e. no higher than 20 degrees Celsius in winter and no less than 26 in summer;
- Formulating a reasonable production scheme based on sales forecast to improve productivity;

- Select energy-saving equipment with lower energy consumption during the procurement of new equipment;

- Promoting and planting trees in the factory.

The above measures for the reduction of greenhouse gas emission may temporarily increase our capital expenditure, in the long run, however, we believe they will improve our efficiency and realize win-win of the economic efficiency and environmental efficiency.

During the reporting period, the greenhouse gas emissions of the Group was 4,857 tonnes of carbon dioxide equivalents, with nitric oxide emission of 267 kilograms, sulphide emission of 0.01 kilogram and particulate matter emission of 14 kilograms due to the use of gasoline and diesel.

4.2 USE OF RESOURCES

Resource conservation and environment protection are the national policies of the PRC.

The Group strictly complies with the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》) and the Law of the People's Republic of China on Cleaner Production (《中華人民共和國清潔生產促進法》). Internal regulations have been in place to help the Group to fulfil its responsibility on energy saving and emission reduction and improve the comprehensive resource utilization rate. As specified in the Social Responsibility Management System (《社會責任管理制度》) of the Group, green production and green office shall be implemented on a group-wide basis to reduce unnecessary resource consumption and avoid environmental pollution. The Employee Handbook (《員工手冊》) of the Group provides the employees shall not destroy equipment and tools and waste raw materials, and the Group shall improve the environment protection and resource conservation awareness of its employees through publicity and training.

Purchased electricity, LNG for canteens, oil for service cars and packing materials are the key resources consumed by the Group. Package plays a crucial role in protecting products from damages. As the nature of medical devices, the Group does use some packing materials, such as cardboard cases, boxes, paper pallets, plastic bags and plastic pallets. In selecting packing materials, the Group actively adopts various measures to replace cheaper plastic products with paper or other easily degradable packing materials. During the reporting year, the Group used packing materials of 179,667 kilograms, including paper-made materials of 157,763 kilograms and plastic materials of 21,904 kilograms.

During the reporting year, the Group's consumptions of other resources are the following:

Type of Resource	Total Consumption	Unit	Density	Unit
Purchased electricity	5,975,794.00	kWh	20,860.83	kWh/RMB million (revenue)
LNG	3,600.00	Kilogram	12.57	Kilogram/RMB million (revenue)
Gasoline	607.00	Litre	0.64	Litre/kilometer'00
Diesel	246.00	Litre	0.82	Litre/kilometer'00
Water	35,518.00	Cubic meter	123.99	Cubic meter/RMB million (revenue)
Paper-made packing materials	157,762.50	Kilogram	550.73	Kilogram/RMB million (revenue)
Plastic packing materials	21,904.30	Kilogram	76.47	Kilogram/RMB million (revenue)

4.3 ENVIRONMENT AND NATURAL RESOURCES

The Group's operation has no significant effect on the environment and natural resources.

The Group's efforts in resource conservation and emission reduction are set out in the above two sections.

5 EMPLOYMENT AND LABOR PRACTICE

The establishment, development and listing of the Group greatly depends on the hard work of our employees. We firmly believe employees are the carriers of businesses and teams are the cornerstones of entrepreneurship. Therefore, we endeavour to provide a broad career development space, a safe and healthy working environment and a competitive remuneration package for each employee for the co-existence, win-win and co-development of the Group and our employees.

5.1 EMPLOYMENT

Open and Fair Employment and Diversified Incentives

The Group strictly complies with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and other laws and regulations related to employment. We have established the Employee Handbook (《員工手冊》) and the Administrative Management System (《行政管理制度》) in place. The Group also makes active communication with employees in relation to their requirement and rights and obligations in an opened manner.

The Group protects the lawful rights and interests of employees, including paying remuneration in full and timely, making social security contribution and housing provident fund and providing financial rewards to outstanding employees. The Group adheres to the principle of equality during human resource management. Employees won't be discriminated for age, gender, physical or mental health condition, marital condition, family condition, race, colour, nationality, religion, political grouping or sexual preference in respect of employment, promotion, training, remuneration and benefit package.

The Group conducts regular performance evaluations on employees and helps them to align their individual interests with the corporate target to create a positive corporate culture of "from the staff and for the staff". We provide housing rent allowances to all employees, housing fund and incentive bonus to core employees with over three-year service, and employee stock ownership plan, serious illness insurance, high-end physical check-up service and other supporting measures to core employees with over five-year service, to encourage them to make remarkable results on their positions.

As at the end of the reporting year, the Group has 757 employees, including 505 female employees or 67.24%. 615 or 81.24% of them are at the age of 20–40.

Calibre-Based Recruitment and Employee Care

During recruitment, the Group adheres to a calibre-based principle and on a willing basis of the parties. The administrative department identifies and recruits suitable people through talent market, employment agency, on-campus employment, online recruitment and news media for departments with any employment needs with reference to the detailed requirements for the jobs.

We have established a comprehensive employee care program in accordance with the needs of our employees, including:

- monthly food and communication allowance;
- birthday gift coupon;
- gifts for traditional festivals;
- paid annual travelling;
- free annual physical check-up; and
- "Talent Housing" for employee in need.

5.2 HEALTH AND SAFETY

The Group attaches great importance to the health and safety of employees in workplace and strictly abides by relevant laws and regulations related thereto, such as the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Norms for the Management of Labour Protective Articles for Employers (《用人單位勞動防護用品管理規範》) and the Special Regulations on Female Labour Protection (《女職工勞動保護特別規定》).

The Group has established a "safety-first and prevention-oriented" safety management approach and implements the enterprise leader responsibility system, the safety leader responsibility system and the hierarchical safety responsibility system, establishes and improves safety management rules, organizes regular and irregular safety training and inspection and eliminates potential safety threats to ensure labour safety during production, property safety of running machines and orderly operating activities. The Administrative Regulations have been established to adopt the following major measures:

- setting up a warning sign at each dangerous place and regularly checking the workplace to ensure the warning sign is updated;
- formulating special regulations on the storage, usage and disposal of hazardous substances used in production and regularly checking the implementation thereof;
- providing protective equipment to employees on special posts and providing periodic special physical check-up; and
- providing periodic employee safety training and organizing safety drills according to the planned rescue routes.

During the reporting year, no work injury occurred within the Group.

5.3 DEVELOPMENT AND TRAINING

Innovation is a driving force for development. The development of the Group is driven by the innovation of employees. Therefore, the Group provides a series of trainings to the employees based on the Group's development and job requirements, including both internal and external trainings. During the reporting year, the Group's external training expense amounted to RMB133,300.

Our training policies are provided in the Employee Handbook (《員工手冊》), primarily including the following:

- Regular training, i.e. orientation training, covering industry laws and regulation, group system, professional ethics, process and hygiene, code of conduct, production safety, etc.;
- Training on need, i.e. providing theoretical and operation skill training on the needs of employees, which also can be classified into annual training program and provisional training program (the annual training program refers to a training program established by the administrative department at the beginning of each year after collecting the training needs of each department in December last year).

The administrative department is also responsible for the recording and verification of the effectiveness of each training. Currently, training session and seminar are the two forms of training adopted by the Group.

5.4 LABOR STANDARDS

The Group advocated to achieve co-existence, win-win and co-development with our employees, so as to arouse their passion at work. However, forced labours are strictly prohibited by the Group.

At-Will Employment in Compliance with Laws

The Group recognizes employment is an agreement entered into between an employer and an employee on a willing basis. The Group respects the rights of its employees. Withholding of valid documentation, charge of deposits and forced labour are strictly prohibited by the Group during employment. In compliance with the relevant laws and regulations of the government, we implement a standard, comprehensive or flexible working hours system respectively subject to different jobs, and protect our employees' rights of rest and holiday. During the reporting year, the Group provided an average of 6 paid holiday days to its employees.

No forced labour was employed by the Group during the reporting year.

Prohibition of Child Labour

In accordance with the relevant laws and regulations, such as the Law of the People's Republic of China on the Protection of Minors (《未成年人保護法》) and the Provisions on the Prohibition of Child Labour (《禁止使用童工規定》), the Group and its subsidiaries explicitly prohibit the employment of persons under the age of 18 and conduct strict examinations in the recruitment process so as to avoid the employment of child labour. The human resource department of the Group conducts irregular inspection on the recruitment procedures and employee information of the Group and its subsidiaries and a mutual supervision and whistle-blowing system is implemented among different departments. Where the misuse of child labour is discovered, the Group will immediately terminate the employment and conduct an investigation on the relevant people involved therein.

No child labour was employed by the Group during the reporting year.

6 SUPPLY CHAIN MANAGEMENT

Adhering to a quality-oriented and customer-based principle of development, the Group maintains high standards and strict requirements on product quality and extents to the supply chain management. The Group has established the Supplier Management System (《供方管理制度》) for the purpose of reasonable selection and assessment of suppliers.

Strict Admission Threshold and Pursuit of Quality

In selecting suppliers, the purchasing department, quality department and technology department form a joint appraisal group responsible for supplier investigation and on-site inspection, including the verification of general qualification materials, quality system assessment, sample test and sample verification. Suppliers who pass the above appraisal processes will be included in the List of Qualified Suppliers (《合格供方名錄》). Meanwhile, subject to the extent of effect of raw materials on the quality of products, the Group divides the suppliers into several categories for management. The two key categories of suppliers having a crucial and auxiliary effect on product quality will be re-appraised annually. The reappraisal of suppliers involves five aspects: qualification, quality, price, delivery and service and a Supplier Reappraisal List (《供方再評價記錄表》) will be produced after reappraisal.

As at the end of the reporting period, the Group has 80 domestic suppliers, including 2 in Northern China, 68 in Eastern China and 10 in Southern China, and 5 overseas suppliers.

Channel Stabilization and Emergency Management

As an enterprise manufacturing medical device, our products are not only of commercial nature, but also charged with the sacred mission of disease treatment and health recovery. Therefore, we insist on safety first and efficiency second in respect of supply chain management. Safety refers to reliable product quality and continuous product supply. We deeply understand that the stability of product quality is closely related to the stability of supply chain. The stability of supply chain is not only related to products but the supplier's environmental and social condition and its management as well.

The Group has established the Supply Chain Environmental and Social Risk Management System (《供應鏈環境及社會風險管理制度》) and the Supply Disruption Emergency Management Method (《供應中斷應急計劃管理辦法》). During our daily work, we keep frequent communication with our selected suppliers, pay attention to changes in the production conditions and processes of the said suppliers and other crucial factors which may affect quality, and keep an eye on the social responsibility performance of suppliers and the effect thereof on their product supply in order to ensure the Group's normal production and delivery to meet the market needs in the event of disruption of supply of products originally purchased.

7 PRODUCT RESPONSIBILITY

Quality is a silent advertising of products and a cornerstone for an enterprise to establish product reputation, industry position and corporate reputation. For a medical device enterprise, we assume great responsibility for the management of product quality, as the quality of medical device represents the confidence for health recovery and carries the hopes for the quality and length of life for billions of users.

Outstanding Quality and Reliable Reputation in Medical Device Industry

The Group strictly complies with the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Medical Device Supervision and Administration Regulations (《醫療器械監督管理條例》), the Administration Regulations on Medical Device Production Quality (《醫療器械生產質量管理規範》), the European Medical Device Regulation (MDR), the US Quality System Regulation (QSR 820) and other laws and regulations in relation to product quality. It has established the Monitoring and Measuring Device Control Procedures (《監視和測量裝置控制程序》), pursuant to which, the Group implements quality control over incoming materials, production process and finished products. All incoming materials will not be accepted until inspection, and each production process is monitored and each finished product shall receive final quality test, thus realizing the quality control in all aspects.

Pursuant to the Measures on the Adverse Events Monitoring and Re-Evaluation of Medical Device (《醫療器械不良事件監測和再評價管理辦法》), the Group has established the Reporting Procedures for Adverse Events Control (《不良事件控制報告程序》) and the Product Return and Replacement System (《退換貨管理制度》). Generally, the Group has the following two forms of product return:

(1) Product recall: the management organizes the relevant department to make a comprehensive assessment on the suspected adverse event and, if the result shows that a handicap exists and a recall must be made, will issue a recall notice immediately and report to the National Medical Products Administration; and

(2) Product return and replacement: any product with any quality problem before the expiry date may be returned or replaced unconditionally, if proved to be true, or in other cases, the marketing department shall identify the reasons for return and replacement and address appropriately.

During the reporting year, the Group didn't occur any product recall.

Medical device is a special category of commodity closely related to life safety and physical health. The Group strictly abides by the Advertisement Law of the People's Republic of China (《中華人民共和國廣告法》), the Administrative Regulations on Medical Device Instruction and Label (《醫療器械説明書和標簽管理規定》), the Review Measures for Medical Device Advertising (《醫療器械廣告審查辦法》) and other relevant laws and regulations, and has established a Label and Instructions Management System (《標簽、説明書管理制度》) to ensure the correct use of labels and advertisings and prohibit false advertising.

During the reporting year, no false promotion or untrue advertising in respect of advertising and labels occured within the Group.

Focus on Demands and Protection of Privacy

Customer demands serve as the driving force for us to allocated resources to research and development for further improvement. Accordingly, we focus on customer demands by working closely with doctors, hospitals and research institutions in research and development of products to develop clinically effective products that meet clinical needs. Besides, we also attach great importance to customer feedbacks. To this end, the Group issues Customer Satisfaction Survey to our cooperative customers and then collects the same in December annually.

The marketing department undertakes the responsibility to conduct analysis on product quality, attitude towards customers, timeliness of delivery, timeliness of reply and other aspects, to assess whether the customer's comprehensive evaluations are in line with the Group's quality objective, and then provide classified feedbacks to respective departments for them to develop improvement measures. For instance, all information about product design including change of packaging, addition to model and other aspects, is required to inform the technology department, so that the technology department will alter design in case of necessity. Additionally, all the proposals relating to product design put forward by clinical organization as well as quality supervision and inspection center during their daily work, shall inform the technology department by registration department, so that the technology department will alter design in case of necessity. Upon settlement of the events by responsible departments, the outcome shall be fed back to the provider of feedback in a timely manner.

During the reporting year, the Group issued 98 Customer Satisfaction Survey with 64 collected, and recorded an overall satisfaction rate of 96.48%. During the reporting year, the Group had not received any complaints on products and services.

In strict compliance with Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) as well as relevant laws and regulations at the places where it operates, the Group formulates Management System for Using Computer (《計算機使用管理制度》) and Control Procedure for Customer Property (《顧客財產控制程序》). In terms of hardware, all staff are prohibited to take computer data out of the Group, and the network administrator of administrative department shall be fully responsible for the consistent setting of user ID, password as well as hardware and software configuration, and shall keep the same confidential. In terms of system, staff whose post involving commercial business secrets and technical secrets are required to sign a confidentiality agreement when they join the Group, pursuant to which, all the staff are obligated to keep confidential the information relating to customers' property and privacy they access to, including inadvertently, while working.

During the reporting year, there was no incident of breach of customer privacy protection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Safeguard of Intellectual Property Rights and Encouragement of Innovation

For a medical device enterprise whose development depends on highly professional efforts and long-lasting concentration, innovation is the source of development, while sustained innovation is where the enterprise vitality lies. Therefore, the Group not only fosters and supports innovation, but also protects innovation achievements made.

In strict compliance with the Patent Law of the PRC (《中華人民共和國專利法》), the Implementation Rules for the Patent Law of the PRC (《中華人民共和國專利法實施細則》) and other laws and regulations, and by reference to Certain Opinions on More Strict Patent Protection (《關於嚴格專利保護的若干意見》) issued by the State Intellectual Property Office and the 13th Five-Year National Intellectual Property Rights Protection and Application Planning (《"十三五"國家知識產權保護與運用規劃》) published by the State Council, the Group has established a series of management policies, including Administrative Measures for Intellectual Property Rights (《知識產權管理辦法》), Administrative Measures for Patents (《專利管理辦法》), Trademarks Management Policy (《商標管理制度》), Production Rights Management Policy (《製作權管理制度》), Trade Secret Protection Policy (《商業秘密保護制度》), Reward Policy for Intellectual Property Rights (《知識產權獎勵制度》) and Intellectual Property Contingency Plan (《知識產權應急方案》), to strengthen safeguard of the Group's intellectual property rights, inspire initiative from our staff to make inventions and innovations and boost the promotion and utilization of technical achievements.

The Group's intellectual property rights related matters are managed by the general manager office. The general manager office takes the responsibility to develop and protect the Group's intellectual property rights such as trademarks, reputation and achievements, and to make sure that the Company has effectively conducted intellectual property rights protection works mainly by adoption of the following measures:

- Strengthening the publicity of intellectual property rights protection: we arrange courses on intellectual property rights and its related laws, and organize regular or irregular training for management and technicians at the headquarters and from subsidiaries of the Group, to enable them to get familiar with and grasp intellectual property rights related laws, such as the Patent Law and Trademark Law, thereby promoting their awareness of intellectual property rights protection;

- Encouraging technicians to devote to innovation: we present the "Annul Invention Award" and the "Excellent Paten Workers" to outstanding individuals that actively devote to creation on respective posts and that have make inventions and innovations with evident economic efficiency, bright market prospects and prominent energy-saving and environment-friendly effects;

- Protecting the Group's intellectual property rights: Technicians shall report their service inventions in a timely manner, while the general manager office shall assist them in the file and protection of patents. In case of external infringement, the general manager office will work with the legal department for settlement, with no exclusion of litigation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8 ANTI-CORRUPTION

Any misconduct in commercial activities, such as corruption, bribery, extortion, fraud or money laundering, violating the enterprise's interests, violating the principle of fair trade or damaging the enterprise's reputation, will seriously disrupt the Group's normal management and operations. The Group therefore firmly opposes and expressly prohibits these kinds of misconducts.

Policy-based Anti-corruption and Prevention First

In strict compliance with the Anti-Unfair Competition Law (《反不正當競爭法》) and according to the enterprise's actual situation, the Group develops Administrative Measures for Anti-corruption and Anti-bribery (《反腐敗反賄賂管理辦法》) to intensify the management of key processes vulnerable to more frequent corruptions such as materials procurement, outsourcing, infrastructure project, marketing and sales, equipment procurement and maintenance, quality supervision and other economic activities, and of key post personnel during the processes. In view of that, the Group adopts the following measures:

- In organization structure, a leading organization to control commercial bribery is established under the leadership of administration department in cooperation with respective departments to combat commercial bribery. The administration department is responsible for the supervision over and inspection of commercial bribery prevention;

- In publicity and education, personnel in key process and at key posts are required to sign the Undertakings for Prevention of Commercial Bribery (《預防商業賄賂承諾書》) with units that they have economic interactions with, in order to strengthen the publicity and education of policy-based anti-corruption;

- In personnel management, each department is required to reinforce the management of personnel at key posts, and shall take their performance of the Undertaking for Prevention of Commercial Bribery as an important part of inspection and assessment, and as the important basis of appointment and removal;

- For the safe of prevention first, we conduct investigation and research, such as investigating relevant departments openly and secretly, to grasp the characteristics and rules of dirty dealing and commercial bribery. We also study and put forward specific solutions and measures to realize effective prevention from education, policy, supervision and other aspects.

Enhanced Supervision and Honesty and Self-discipline

In order to improve supervision mechanism, the Group sets up a report box and announce the report hotline to prevent commercial bribery and accept whistle-blowing of corruption cases among the Group's employees and external partners. Once reported, the administration department shall curb or deal with the case timely upon careful investigation and prudent consideration, and notify such case to relevant departments. In case that the reported act involves criminal activities, it shall be transferred to the judiciary authorities.

The supervision measures is not just intended to identify corruption, embezzlement and commercial bribery issues in business activities, but also intended to correct the wrong doers' misconduct and relief them from crime risk. The strict institutional construction, rigorous supervision mechanism and down-to-earth publicity and education enable our staff to truly feel a kind of corruption-free, self-disciplined clean and upright enterprise culture, where they dare not, must not and want not to commit corruption.

During the reporting period, there was no misconduct detected in the Group's commercial activities.

9 COMMUNITY INVESTMENT

Community can be the broad environment where an enterprise survives on.

The Group has put in place the Corporate Social Responsibility Task Management Policy (《企業社會責任工作管理制度》) and Management Policy on Community Engagement and Community Investment (《社區參與及社區投資管理制度》), and has integrated corporate social responsibility task into its daily management and work plan, including that each of the primary business department organically integrates social responsibility task with its own work, penetrate social responsibility task into its principal business as well as seriously conducting environment protection, employees' volunteer activities, protection of the stakeholders' interests, the collection and report of information about corporate social responsibility and other works each subordinated company take charge of. The leading group of corporate social responsibility at headquarters of the Group is responsible for the overall guidance, implementation and supervision of corporate social responsibility task, and also makes decisions with respect to specific matters.

We are concerned about the undertakings of education in local community. During the reporting year, the Group donated RMB100,000 to Education Awards Foundation of Jiading District, Shanghai as the "Educational Development Fund for Jiangqiao Town". It is hoped that our donations for schools will help needy children to continue their studies. It is also hoped that they will achieve academic success one day in the future, which will not only improve their personal and family difficulties, but will also enable them to make greater contribution to the society.

We are concerned about the medical and health demands in local community. In active response to the calls for blood donation in local community, we organize staff to participate in blood donation annually and provide such staff with additional holidays and nutrition subsidies, demonstrating that the Group supports for blood donation. During the reporting year, up to 12 staff of the Group had participated in blood donation with an aggregate of 3,200 ml of blood donated.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG GENERAL DISCLOSURE REFERENCE LIST

Subject Areas, Aspects, General Disclosures and KPIs			Index	
Aspect	**Content**		**Section**	**Page**
A. Environment				
A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. *Note:* Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		4.1	52
	KPI A1.1	The types of emissions and respective emissions data.		52-54
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		54
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		53
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).		53
	KPI A1.5	Description of measures to mitigate emissions and results achieved.		52-54
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.		53

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<tr><td rowspan="6">A2: Use of Resources</td><td colspan="2">General Disclosure
Policies on the efficient use of resources, including energy, water and other raw materials.

Note: Resources may be used in production, in storage, in transportation, in buildings, and in electronic equipment, etc.</td><td rowspan="6">4.2</td><td>54</td></tr>
<tr><td>KPI A2.1</td><td>Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).</td><td>55</td></tr>
<tr><td>KPI A2.2</td><td>Water consumption in total and intensity (e.g. per unit of production volume, per facility).</td><td>55</td></tr>
<tr><td>KPI A2.3</td><td>Description of energy use efficiency initiatives and results achieved.</td><td>54</td></tr>
<tr><td>KPI A2.4</td><td>Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.</td><td>54</td></tr>
<tr><td>KPI A2.5</td><td>Total packaging materials used for finished products (in tonnes) and, if applicable, with reference to per unit produced.</td><td>55</td></tr>
<tr><td rowspan="2">A3: The Environment and Natural Resources</td><td colspan="2">General Disclosure
Policies on minimising the issuer’s significant impact on the environment and natural resources.</td><td rowspan="2">4.3</td><td>55</td></tr>
<tr><td>KPI A3.1</td><td>Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.</td><td>55</td></tr>
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Subject Areas, Aspects, General Disclosures and KPIs			Index	
Aspect	**Content**		**Section**	**Page**
B. Social				
B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		5.1	55-56
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.		56
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.		*Note 1*
B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		5.2	56-57
	KPI B2.1	Number and rate of work-related fatalities.		57
	KPI B2.2	Lost days due to work injury.		57
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.		57
B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note:* Training refers to vocational training. It may include internal and external courses paid by the employer.		5.3	57
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).		*Note 1*
	KPI B3.2	The average training hours completed per employee by gender and employee category.		*Note 1*

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B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		5.4	58
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.		58
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.		*Note 2*
B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.		6	58–59
	KPI B5.1	Number of suppliers by geographical region.		58
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, as well as how they are implemented and monitored.		58–59
B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		7	59-61
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.		60
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.		60
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.		61
	KPI B6.4	Description of quality assurance process and recall procedures.		60
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.		60

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<tr><td rowspan="3">B7: Anticorruption</td><td colspan="2">General Disclosure
Information on:
(a) the policies; and
(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.</td><td rowspan="3">8</td><td>62–63</td></tr>
<tr><td>KPI B7.1</td><td>Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.</td><td>63</td></tr>
<tr><td>KPI B7.2</td><td>Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.</td><td>62-63</td></tr>
<tr><td rowspan="3">B8: Community Investment</td><td colspan="2">General Disclosure
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</td><td rowspan="3">9</td><td>63</td></tr>
<tr><td>KPI B8.1</td><td>Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).</td><td>63</td></tr>
<tr><td>KPI B8.2</td><td>Resources contributed (e.g. money or time) to the focus area.</td><td>63</td></tr>
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Note 1: The Group disclosed other quantitative indicators.

Note 2: Such indicator is not applicable as there was no such incident within the Group during the reporting period.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Dr. Liang Dongke (梁棟科), aged 42, is the founder of the business of the Group. He was appointed as a Director on June 7, 2006 and as the general manager of the Company on June 30, 2010, appointed as the Chairman of the Board on April 26, 2016 and designated as an executive Director on December 8, 2018. Dr. Liang is primarily in charge of the overall management, business, strategic development, and scientific research and development of the Group. In addition, Dr. Liang holds the following positions in the subsidiaries of the Group:

Name of subsidiary	Position	Period
Zhuhai Derui Medical Instruments Co., Ltd. (珠海德瑞醫療器械有限公司)	Executive director and general manager	February 26, 2016 to present
Shanghai Pukon	Director and chairman of the board of directors	March 28, 2018 to February 4, 2020
Shanghai Qimu	Director and chairman of the board of directors	August 17, 2018 to present
Shanghai Puhui	Executive director	November 14, 2018 to present
Shanghai Healing	Executive director General manager	February 15, 2019 to present January 13, 2020 to present
Hongkong INT Medical Instruments Company Limited (香港瑛泰醫療器械有限公司)	Executive director	February 21, 2019 to present
Shanghai Kindly Medical Instruments Automation Research Center Co., Ltd. (上海康德萊醫療器械自動化研究所有限公司)	Executive director	March 22, 2019 to present

Dr. Liang has over 13 years of experience in the medical devices industry. Dr. Liang obtained a Bachelor of Engineering in material science and engineering from Shandong Industrial University (山東工業大學) (now part of Shandong University) in Shandong, the PRC and a Master of Engineering in material science from Shandong University in Shandong, the PRC in July 2000 and December 2002, respectively, and a Ph.D. in biomedical engineering from Dalian University of Technology in Liaoning, the PRC in July 2006. Dr. Liang was qualified as a senior engineer by the Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) in October 2014 and has been a distinguished professor (特聘教授) in Zhuhai College of Jilin University since September 2016. Dr. Liang also served as the director of KDL from February 16, 2017 to May 4, 2017.

His awards and recognitions include "Shanghai Pioneer in Outstanding Technologies" (上海市優秀技術帶頭人) awarded by the Shanghai Science and Technology Committee (上海市科學技術委員會) in April 2014, "Entrepreneur Talents in Technological Innovation" (科技創新創業人才) awarded by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) in February 2015, and being selected as one of the scientific and technological innovation leaders in "The Plan for Ten Thousand Talents" (萬人計劃) in June 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Liang is the husband of Dr. Song Yuan, the secretary to the Board and the deputy general manager and one of the joint company secretaries of the Company. Please refer to the paragraph headed "Senior Management" below for her biographical details.

Mr. Wang Cailiang (王彩亮), aged 50, was appointed as a Director on June 25, 2010, designated as an executive Director on December 8, 2018, and appointed as the deputy general manager of the Company on December 9, 2018. Mr. Wang is primarily in charge of product registration, quality control system, and advancement of internal control of the Group.

Mr. Wang has over 20 years of experience in the medical devices industry. Mr. Wang obtained his bachelor's degree in biological chemistry from ShanghaiTech University in Shanghai, the PRC in July 1993.

Mr. Wang joined KDL in December 1999 and had served as its deputy general manager from December 1999 to May 2012, its vice-chairman of the board of directors and deputy general manager from September 2010 to May 2012, its general manager from May 2012 to September 2015, its chairman of the board of directors from February 2017 to October 2018 and its director from September 2010 to February 2020. Mr. Wang has also served as the director of Shanghai Gongye Investment Co., Ltd. (上海共業投資有限公司), one of the Controlling Shareholders, and KDL since August 2007 and September 2010, respectively.

Non-executive Directors

Mr. Zhang Weixin (張維鑫), aged 46, was appointed as a non-executive Director on December 8, 2018. Mr. Zhang is primarily responsible for supervising the management of the Board.

Mr. Zhang has over 23 years of experience in the medical devices industry. From 1996 to 1998, Mr. Zhang served as the deputy general manager of Shanghai Safe Medical Device Polymer Co., Ltd. (上海賽爾富醫械塑膠有限公司), the predecessor of Zhuhai Kindly Medical Instruments Co., Ltd. (珠海康德萊醫療器械有限公司), which is a subsidiary of KDL (one of the Controlling Shareholders which is engaged in the research and development, manufacturing and sales of medical puncture devices and is listed on the Shanghai Stock Exchange (stock code: 603987)). Mr. Zhang was the deputy general manager of KDL from 1998 to 2002, and the director and the general manager of Shanghai Meihua Amsino Equipment Co., Ltd. (上海美華醫療器具股份有限公司), a former subsidiary of KDL which sells medical equipment, chemicals and other non-hazardous materials, from November 2001 to March 2008 and from March 2006 to March 2008, respectively. Mr. Zhang has served as the chairman of the board of directors of Shanghai Gongye Investment Co., Ltd. (上海共業投資有限公司), a company engaged in business consulting, investment and domestic trading, since June 2006.

After obtaining his bachelor's degree in economics through online courses from China University of Geosciences in Wuhan, the PRC in July 2007, Mr. Zhang served as general manager of KDL from August 2007 to May 2012, its director since September 2010, its deputy general manager from May 2012 to February 2017, and its general manager since February 2017. Mr. Zhang has been the director of Shanghai Kindly Pipe Co., Ltd. (上海康德萊制管有限公司), a subsidiary of KDL engaged in the production and sale of needle tubes, since March 2017, and the director and the chairman of the board of directors of Zhejiang Kindly Medical Devices Co., Ltd. (浙江康德萊醫療器械股份有限公司), another subsidiary of KDL engaged in the production of medical puncture devices, since May 2009 and February 2018, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Chen Hongqin (陳紅琴), aged 50, was a Director from September 21, 2015 to May 25, 2017, and was reappointed as a non-executive Director on December 8, 2018. Ms. Chen is primarily responsible for supervising the management of the Board.

Ms. Chen has over 18 years of experience in equipment manufacturing and management in the medical devices industry. Ms. Chen obtained her bachelor's degree in mining equipment from the Guizhou Institute of Technology (貴州工學院) in Guizhou Province, the PRC in July 1991 and obtained a senior engineer qualification certificate granted by the Shanghai Municipal Human Resources and Social Security Bureau in October 2012.

Prior to joining the Group, Ms. Chen worked as an assistant engineer at State-Run No.126 Factory (國營第一二六廠) from October 1992 to March 1997 and as an engineer at China Guihang Group Xin'an Machinery Factory (中國貴航集團新安機械廠) from March 1997 to December 2001. Ms. Chen has held a number of management positions since 2002, including the quality director and management representative of KDL from January 2002 to March 2016, the officer of the general manager office of KDL Holding, one of the Controlling Shareholders, from March to December 2016, the deputy general officer and manager of the general manager office of KDL from February 2017 to February 2018, the assistant to the general manager of KDL Holding from March 2018 to January 2019, and the assistant to the manager (總裁) of KDL since February 2019. Ms. Chen has also served as the director of KDL and KDL Holding since February 2017 and September 2018, respectively.

Mr. Fang Shengshi (方聖石), aged 32, was appointed as a non-executive Director on December 8, 2018. Mr. Fang is primarily responsible for supervision of the management of the Board.

Mr. Fang received a bachelor's degree in management from Shanghai Lixin University of Accounting and Finance (formerly known as Shanghai Lixin Institute of Commerce) in Shanghai, the PRC in July 2010. Mr. Fang was a practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) between December 2012 and November 2015, and has been its non-practicing member since December 2015. He obtained an intermediate-level accounting qualification accredited by the Shanghai Municipal Human Resources and Social Security Bureau in November 2016. In addition, Mr. Fang was qualified as a Tax Adviser by the China Certified Tax Agents Association in December 2016, he has also been a member of the China Certified Tax Agents Association since May 2017 and has held a Legal Professional Qualification Certificate granted by the Ministry of Justice of the PRC since February 2017.

Mr. Fang has over 8 years of experience in audit, investment and financial management. From August 2010 to September 2015, Mr. Fang worked at BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所特殊普通合夥), during which he was responsible for auditing. From October 2015 to December 2016, Mr. Fang was the vice-president of Shanghai Jisheng Equity Investment Management Co., Ltd. (上海紀升股權投資管理有限公司) overseeing project financing and providing financial consulting services. Since January 2017, Mr. Fang has served as an investment director at Shanghai Huaige Industrial Development Co., Ltd. (上海懷格實業發展有限公司). Since August 2017, Mr. Fang has been a limited partner of Ningbo Huaige Health Investment Management Partnership (Limited Partnership) (寧波懷格健康投資管理合夥企業(有限合夥)), which engages in business activities such as investment management. Mr. Fang also holds various directorships in other healthcare and investment companies, including Ningbo Huaige Medical Investment Management Co., Ltd. (寧波懷格醫療投資管理有限公司) since July 2017, Hunan Cofoe Medical Technology Development Co., Ltd. (湖南可孚醫療科技發展有限公司) since September 2017, and Shanghai Bestudy Medical Technology Co., Ltd. (上海百試達醫藥科技有限公司) since March 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Dai Kerong (戴尅戎), aged 85, was appointed as an independent non-executive Director on December 8, 2018. Mr. Dai is primarily responsible for supervising and providing independent advice to the Board.

After graduating from medical studies in Shanghai First Medical Institute (now part of The Shanghai Medical College of Fudan University) in Shanghai, the PRC in 1955, Mr. Dai has been a tenured professor at Shanghai Jiao Tong University ("**SJTU**") and currently serves as director for a number of centers under Shanghai's Ninth People's Hospital, SJTU School of Medicine (上海交通大學醫學院附屬第九人民醫院 (the "**Ninth People's Hospital**")), including the Shanghai Joint Surgery Clinical Medical Center (上海市關節外科臨床醫學中心) and Engineering Research Center of Digital Medicine and Clinical Translation, Ministry of Education (數字醫學臨床轉化教育部工程研究中心).

Mr. Dai has received a number of state and city level awards throughout his career, including a Second Class State Award for Inventions granted by State Scientific and Technological Commission (國家科學技術委員會) in December 1989, a Third Class Shanghai Science and Technology Progress Award granted by the Shanghai People's Government (上海市人民政府) in December 1994, a Second Class State Science and Technology Progress Award granted by Shanghai Municipal People's Government in December 2003 and a Second Class State Science and Technology Progress Award granted by the State Council of the PRC in January 2005.

Mr. Dai is a foreign correspondence member (外籍通信院士) of Académie Nationale de Médecine in France and has been admitted as an academician of the Chinese Academy of Engineering (中國工程院院士) since December 2003.

Mr. Jian Xigao (蹇錫高), aged 74, was appointed as an independent non-executive Director on December 8, 2018. Mr. Jian is primarily responsible for supervising and providing independent advice to the Board.

Mr. Jian obtained his bachelor's degree in polymer chemical engineering and master's degree in polymer materials science from Dalian University of Technology (formerly known as Dalian Institute of Technology) in Liaoning, the PRC in 1969 and 1981, respectively.

Mr. Jian is currently a professor at the Dalian University of Technology, the head of its Polymer Materials Research Institute (高分子材料研究所所長) and director of the Liaoning High Performance Resin Engineering Technology Research Center (遼寧省高性能樹脂工程技術研究中心主任). In September 2016, he was appointed as an independent director of Red Avenue New Materials Group Co Ltd (彤程新材料集團股份有限公司), a chemical manufacturer listed on the Shanghai Stock Exchange (stock code: 603650).

Mr. Jian has received a number of state level awards, including a Second Class State Technological Invention Award granted by the State Council of the PRC in January 2004, a Second Class State Technological Invention Award granted by the State Council of the PRC in December 2011, a Patent Gold (專利金獎) Award for Chinese Outstanding Patented Invention granted by World Intellectual Property Organization and State Intellectual Property Office of the PRC in November 2015 and an extraordinary gold medal (特別金獎) at the Geneva International Exhibition of Inventions in April 2016. Mr. Jian has been admitted as an academician of the Chinese Academy of Engineering (中國工程院院士) in January 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. Ge Junbo (葛均波), aged 57, was appointed as an independent non-executive Director on December 8, 2018. Dr. Ge is primarily responsible for supervising and providing independent advice to the Board.

After obtaining his PhD in medical studies from Johannes Gutenberg University of Mainz in Germany in February 1993, Dr. Ge is currently working at Zhongshan Hospital, Fudan University (復旦大學附屬中山醫院) as director of the cardiology division (心內科主任). In January 2018, Dr. Ge was appointed as a director of Lanhai Medical Investment Co., Ltd. (覽海醫療產業投資股份有限公司), a company engaging in medical services and listed on the Shanghai Stock Exchange (stock code: 600896).

Dr. Ge has received a number of state level awards, including a Second Class State Science and Technology Progress Award granted by the State Council of the PRC in February 2007, a Second Class State Technological Invention Award granted by the State Council of the PRC in December 2011, and was elected as an academician of the Chinese Academy of Sciences (中國科學院院士) in December 2011.

Dr. Ge received the National May Day Labor Medal (全國五一勞動獎章) from the All-China Federation of Trade Unions (中華全國總工會) in April 2012 and the Bethune Award (白求恩獎章) from the Ministry of Human Resources and Social Security (人力資源和社會保障部), the National Health and Family Planning Commission (國家衛生和計劃生育委員會) and the National Administration of Traditional Chinese Medicine (國家中醫藥管理局) in August 2017.

Mr. Hui Hung Kwan (許鴻群), aged 48, was appointed as an independent non-executive Director on December 8, 2018. Mr. Hui is primarily responsible for supervising and providing independent advice to the Board.

Mr. Hui has more than 25 years of experience in accounting. After graduating with a bachelor's degree in business administration from the Chinese University of Hong Kong in Hong Kong in December 1994, he has held various positions, including audit manager at Li, Tang, Chen & Co. from June 1994 to June 2004. From June 2004 to October 2010, Mr. Hui served as the chief financial officer of C&G Environmental Protection Holdings Limited, a company listed on the main board of the Singapore Exchange Limited (stock code: D79). He was the chief financial officer of Premiere Eastern Energy Pte. Limited (東潤能源有限公司) from November 2010 to December 2012 and the independent non-executive director of Tus International Limited (formerly known as Jinheng Automotive Safety Technology Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 872) from July 2009 to June 2015. Mr. Hui has also served as the chief financial officer of China Creative Global Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1678) since June 2013 and the independent non-executive director of Gansu Qingheyuan Halal Food Co., Ltd. (甘肅清河源清真食品股份有限公司) since September 2018. Mr. Hui has been an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) and a fellow of the Association of Chartered Certified Accountants since September 1997 and October 2002, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Ms. Wang Li (王莉), aged 57, was elected by our Shareholders and appointed as a Supervisor on September 21, 2015. Ms. Wang graduated from the Jilin Institute of Chemical Technology in Jilin, the PRC with a bachelor's degree in chemical engineering in July 1987.

She has over 18 years of experience in the healthcare and medical apparatus industry. Ms. Wang has obtained an intermediate-level economist qualification conferred by the Ministry of Personnel of the PRC in November 1998. Ms. Wang had been the general manager of Shanghai KDL Enterprise Development Group Pharmaceutical Co., Ltd. (上海康德萊企業發展集團藥業有限公司) from June 2001 to December 2006, the project manager of KDL Holding, one of the Controlling Shareholders, from November 2007 to December 2008, the general manager of Tianjin KDL Medical Products Co., Ltd. (天津康德萊醫療產品有限公司), a former subsidiary of KDL from January 2011 to December 2013, and the chairperson of the board of supervisors of KDL from January 2014 to February 2017 and from February 2020 to present. In addition, Ms. Wang has been the director of Beijing Kangbaishi Trading Co., Ltd. (北京康百世商貿有限公司) since June 2018, the director of Nanchang KDL Medical Technologies Co., Ltd. (南昌康德萊醫療科技有限公司) since August 2018, and the director of Zhuhai Dejiayun Information Technology Co., Ltd. (珠海德加雲信息技術有限公司) since January 2019.

Ms. Chen Jie (陳潔), aged 37, was elected by the Shareholders and appointed as a Supervisor on March 3, 2017. Ms. Chen obtained an associate degree (專科) in accounting from Shanghai Lixin University of Accounting and Finance (formerly known as Shanghai Lixin Institute of Commerce) in Shanghai, the PRC in July 2004 and a bachelor's degree from Tongji University in Shanghai, the PRC in January 2011.

She served as an accountant in Shanghai Sieton (Group) Co., Ltd. (上海協通(集團)有限公司) from July 2004 to August 2005 and in Shanghai Sieton Toyota Motor Sales Service Co., Ltd. (上海協通豐田汽車銷售服務有限公司) from June 2005 to March 2007. Ms. Chen joined the Company as the manager of the administrative department in December 2008. Ms. Chen received a preliminary-level accounting qualification accredited by the Ministry of Finance of the PRC in May 2006. Moreover, Ms. Chen has been the supervisor of Shanghai Qimu, Shanghai Puhui and Shanghai Healing since August 2018, November 2018 and February 2019, respectively, and has been the director of Shanghai Pukon from February 2020 to present.

Mr. Xu Jianhai (徐建海), aged 35, was elected by the employees and appointed as an employee representative Supervisor on September 21, 2015. Mr. Xu obtained a bachelor's degree in biotechnology from Hebei University in Hebei, the PRC in June 2007.

Mr. Xu worked as the person-in-charge of the laboratory of KDL from June 2007 to September 2008, and has been the manager of the quality control department of the Company since October 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

Dr. Liang Dongke (梁棟科) is the general manager of the Company. Please refer to the paragraph headed "Directors – Executive Directors" above for his biographical details.

Mr. Wang Cailiang (王彩亮) is the deputy general manager of the Company. Please refer to the paragraph headed "Directors – Executive Directors" above for his biographical details.

Dr. Song Yuan (宋媛), aged 40, was appointed as the secretary to the Board on September 28, 2018, as the deputy general manager of the Company on December 9, 2018 and as one of the joint company secretaries on May 22, 2019. Dr. Song is in charge of information disclosure, investor relations, equity investment and convention of Board meetings and shareholder meetings of the Group.

Dr. Song graduated with a bachelor's degree in polymer material science and engineering from Shandong University in Shandong, the PRC in July 2002, and completed a successive postgraduate and doctoral program in material science and engineering (polymer) in Dalian University of Technology in Liaoning, the PRC in October 2008. She worked as a clerk in KDL Holding, one of the Controlling Shareholders, from February to July 2010. Dr. Song was the secretary to the board of directors of KDL from August 2010 to September 2018, and had held directorship in the Company from May 2017 to December 2018. Dr. Song is the wife of Dr. Liang Dongke.

Ms. Zhao Yan (趙燕), aged 44, was the finance controller (also known as chief financial officer) of the Company from September 21, 2015 to February 20, 2020 and is in charge of the management of financial affairs of the Group.

In addition, Ms. Zhao has served as the supervisor of Zhuhai Derui since February 26, 2016. Ms. Zhao obtained an associate degree (大專) in accounting from Xi'an Jiaotong University in Xi'an, the PRC in December 2000 and a bachelor's degree in finance through online courses from SJTU in August 2005. She received an intermediate-level accounting qualification accredited by the Ministry of Finance of the PRC in May 2004.

Ms. Zhao has over 19 years of experience in accounting and finance. Ms. Zhao joined KDL in May 2000 and served as the accounting manager from May 2000 to November 2007, and the manager of the finance department of the Company from April 2007 to October 2015. She had held directorship in the Company from May 2017 to December 2018.

Mr. Shi Qi (史奇), aged 36, was appointed as the financial controller (also known as chief financial officer) of the Company from February 21, 2020 and is in charge of the management of financial affairs of the Group. Mr. Shi has previously served PricewaterhouseCoopers Zhong Tian LLP as associate, senior associate, manager and senior manager between August 2006 and April 2018, and has taken the role as the finance director in Chuangxian Cultural Media (Shanghai) Co., Ltd. (創線文化傳媒(上海)有限公司) from April 2018 to August 2019.

Mr. Shi is a Certified Public Accountant of China graduated from Shanghai Maritime University with a bachelor's degree in June 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Joint Company Secretaries

Dr. Song Yuan (宋媛) was appointed as one of the joint company secretaries of the Company on May 22, 2019. Please refer to the paragraph headed "Senior Management" above for her biographical details.

Ms. Leung Shui Bing (梁瑞冰) was appointed as one of the joint company secretaries of the Company on May 22, 2019. Ms. Leung is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider).

She has over 15 years of experience in the company secretarial field. Ms. Leung obtained a bachelor's degree in Business and Management Studies (Accounting and Finance) from the University of Bradford in the United Kingdom in July 2008, and a master's degree in Corporate Governance from The Open University of Hong Kong in August 2017.

She was admitted as an associate member of The Hong Kong Institute of Chartered Secretaries in December 2017 and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom in December 2017. Ms. Leung is currently one of the joint company secretaries of IntelliCentrics Global Holdings Ltd., a company listed on Main Board of the Stock Exchange (stock code: 6819).

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Independent auditor's report to the shareholders of
Shanghai Kindly Medical Instruments Co., Ltd.
(Incorporated in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Shanghai Kindly Medical Instruments Co., Ltd. ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 82 to 154, which comprise the consolidated statement of financial position as at 31 December 2019, 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 year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on page 104.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue primarily derived from the sale of interventional medical devices to domestic customers and for export. The Group recognises revenue at the point in time when control of the goods is transferred to the customer. Depending on the terms of the contracts, this point in time will either be when the goods are delivered to the customer's premises or a location designated by the customer for domestic sales, or in accordance with the terms and conditions of sales for export sales. We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations and because the impact of any errors in the recognition of revenue could be material to the consolidated financial statements.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition; • inspecting, on a sample basis, sales contracts with key customers to identify terms and conditions relating to goods acceptance and assessing the Group's policies in respect of the recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including shipping documents and goods acceptance notes, as well as relevant sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; • obtaining confirmations, on a sample basis, from major customers of the Group sales transactions during the year and, for unreturned confirmations, performing alternative procedures by comparing details of the transactions with relevant underlying documentation; and • inspecting manual journal entries relating to revenue recognition during the year which were considered to meet specific risk-based criteria, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tse, Wong Pui.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 March 2020

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	Note	2019 RMB'000	2018 RMB'000
Revenue	4	**286,457**	203,059
Cost of sales		**(112,015)**	(84,662)
Gross profit		**174,442**	118,397
Other income	5	**28,173**	9,694
Distribution costs		**(23,959)**	(17,600)
Administrative expenses		**(34,175)**	(20,504)
Research and development expenses		**(30,764)**	(22,098)
Reversal of impairment losses		**21**	111
Profit from operations		**113,738**	68,000
Finance costs	6(a)	**(1,825)**	(1,527)
Profit before taxation	6	**111,913**	66,473
Income tax	7	**(15,378)**	(8,237)
Profit for the year		**96,535**	58,236
Attributable to:			
Equity shareholders of the Company		**99,614**	58,451
Non-controlling interests		**(3,079)**	(215)
Profit for the year		**96,535**	58,236
Earnings per share *(RMB)*	10		
Basic and diluted *(RMB)*		**0.79**	0.68

The notes on pages 88 to 154 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(d).

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

	2019 RMB'000	2018 RMB'000
Profit for the year	**96,535**	58,236
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of an overseas subsidiary	**500**	–
Other comprehensive income	**500**	–
Total comprehensive income for the year	**97,035**	58,236
Attributable to:		
Equity shareholders of the Company	**100,114**	58,451
Non-controlling interests	**(3,079)**	(215)
Total comprehensive income for the year	**97,035**	58,236

The notes on pages 88 to 154 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2019
(Expressed in Renminbi Yuan)

	Note	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	11	**114,573**	59,544
Right-of-use assets	12(a)	**44,621**	58,024
Prepayment of lease		**–**	10,000
Intangible assets	13	**5,899**	572
Other non-current assets		**7,978**	4,486
Deferred tax assets	21(b)	**1,847**	1,784
		174,918	134,410
Current assets			
Inventories	15	**43,421**	39,015
Trade and other receivables	16	**14,939**	7,085
Other current assets		**7,117**	3,366
Financial assets at fair value through profit or loss	17	**21,402**	–
Cash and cash equivalents	18	**1,036,783**	298,164
		1,123,662	347,630
Current liabilities			
Trade and other payables	19	**42,588**	24,049
Contract liabilities	20	**9,681**	11,533
Lease liabilities	12(b)	**206**	5,397
Deferred income	22	**494**	494
Current taxation	21(a)	**6,234**	1,261
		59,203	42,734
Net current assets		**1,064,459**	304,896
Total assets less current liabilities		**1,239,377**	439,306
Non-current liabilities			
Lease liabilities	12(b)	**1,620**	54,782
Deferred income	22	**3,442**	3,214
Deferred tax liabilities	21(b)	**28**	–
		5,090	57,996
NET ASSETS		**1,234,287**	381,310

The notes on pages 88 to 154 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At 31 December 2019
(Expressed in Renminbi Yuan)

	Note	**31 December 2019 *RMB'000***	31 December 2018 *RMB'000*
CAPITAL AND RESERVES			
Share capital	*23(b)*	**166,000**	60,000
Reserves		**1,050,381**	312,025
Total equity attributable to equity shareholders of the Company		**1,216,381**	372,025
Non-controlling interests	*14*	**17,906**	9,285
TOTAL EQUITY		**1,234,287**	381,310

Approved and authorised for issue by the board of directors on 19 March 2020.

LIANG DONG KE
Director

WANG CAI LIANG
Director

(Company Stamp)

The notes on pages 88 to 154 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 (note 23(b))	Capital reserve RMB'000 (note 23(c))	Statutory surplus reserve RMB'000 (note 23(c))	Exchange reserve RMB'000 (note 23(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		19,600	103,280	9,314	–	68,020	200,214	–	200,214
Changes in equity for 2018									
Profit/(loss) for the year		–	–	–	–	58,451	58,451	(215)	58,236
Share capital increase by capital reserve transfer	23(b)	22,400	(22,400)	–	–	–	–	–	–
Capital injection from equity shareholders of the Company	23(b)	18,000	162,000	–	–	–	180,000	–	180,000
Capital injection from non-controlling interest		–	–	–	–	–	–	9,500	9,500
Dividends approved in respect of previous year	23(d)	–	–	–	–	(66,640)	(66,640)	–	(66,640)
Appropriation for surplus reserve	23(c)	–	–	5,639	–	(5,639)	–	–	–
Balance at 31 December 2018 and 1 January 2019		**60,000**	**242,880**	**14,953**	**–**	**54,192**	**372,025**	**9,285**	**381,310**
Changes in equity for 2019									
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**99,614**	**99,614**	**(3,079)**	**96,535**
Other comprehensive income		**–**	**–**	**–**	**500**	**–**	**500**	**–**	**500**
Share capital increase by capital reserve transfer	23(b)	**60,000**	**(60,000)**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of H shares	23(b)	**46,000**	**751,624**	**–**	**–**	**–**	**797,624**	**–**	**797,624**
Capital injection from non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**11,700**	**11,700**
Dividends approved in respect of previous year	23(d)	**–**	**–**	**–**	**–**	**(53,382)**	**(53,382)**	**–**	**(53,382)**
Appropriation for surplus reserve	23(c)	**–**	**–**	**9,490**	**–**	**(9,490)**	**–**	**–**	**–**
Balance at 31 December 2019		**166,000**	**934,504**	**24,443**	**500**	**90,934**	**1,216,381**	**17,906**	**1,234,287**

The notes on pages 88 to 154 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 December 2019
(Expressed in Renminbi Yuan

	Note	2019 RMB'000	2018 RMB'000
Operating activities			
Cash generated from operations	18(b)	104,343	77,197
Payment for interest element of leases liabilities	12(d)	(1,825)	(1,527)
Tax paid	21(a)	(10,440)	(9,178)
Net cash generated from operating activities		92,078	66,492
Investing activities			
Payment for the purchase of property, plant and equipment		(73,800)	(34,554)
Proceeds from sale of property, plant and equipment		150	1,708
Payment for the purchase of intangible assets		(317)	(602)
Refund of deposit for purchase of land use right		3,000	–
Payment for the purchase of land use right	12(d)	(35,699)	–
Prepayment for the leased property	12(d)	–	(10,000)
Interest received from bank deposits		9,950	3,864
Payment for purchase of financial assets measured at fair value through profit or loss		(565,000)	–
Proceeds from sale of financial assets measured at fair value through profit or loss		547,945	–
Net cash used in investing activities		(113,771)	(39,584)
Financing activities			
Capital injection received from equity shareholders of Company	23(b)	–	180,000
Capital injection received from non-controlling interests		6,300	9,500
Net proceed from issuance of H shares	23(b)	803,148	–
Payment for capital element of lease liabilities	12(d)	(1,877)	(964)
Dividends paid to equity shareholders of the Company	23(d)	(53,382)	(66,640)
Net cash generated from financing activities		754,189	121,896
Net increase in cash and cash equivalents		732,496	148,804
Cash and cash equivalents at the beginning of year	18(a)	298,164	146,702
Effects of foreign exchange rate changes		6,123	2,658
Cash and cash equivalents at the end of year	18(a)	1,036,783	298,164

The notes on pages 88 to 154 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Shanghai Kindly Medical Instruments Co., Ltd.("the Company") was established in Shanghai, People's Republic of China (the "PRC") on 7 June 2006 as a limited liability company. The registered office and principal place of business of the Company is Block 2, No.925 Jin Yuan Yi Road, Jiading District, Shanghai PRC.

The Company and its subsidiaries (together, "the Group") are principally engaged in the research and development, manufacturing and sales of interventional and implantable medical devices in the PRC.

The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 November 2019.

Information about subsidiaries

The following list contains subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place and date of incorporation/ establishment	Particulars of registered and paid-in capital	Proportion of ownership interests held by the Company	Principal activities
Shanghai Kindly Medical Instruments Automation Research Centre Co., Ltd. ("Shanghai KDL Research Center")	23 February 2000 the PRC	RMB5,000,000/ RMB5,000,000	100%	Manufacturing of moulds and processing
Zhuhai Derui Medical Instruments Co., Ltd. ("Zhuhai Derui")	26 February 2016 the PRC	RMB20,000,000/ RMB20,000,000	100%	Manufacturing of medical devices
Shanghai Pukon Medical Instruments Co., Ltd. ("Shanghai Pukon")	28 March 2018 the PRC	RMB20,000,000/ RMB20,000,000	85%	Research and development, manufacturing and sales of semi-finished medical devices
Shanghai Qimu Medical Instruments Co., Ltd. ("Shanghai Qimu")(i)	17 August 2018 the PRC	RMB20,000,000/ RMB10,000,000	35%	Research and development, manufacturing and sales of medical devices
Shanghai Puhui Medical Instruments Co., Ltd. ("Shanghai Puhui")(i)	14 November 2018 the PRC	RMB20,000,000/ RMB 5,500,000	45%	Research and development, manufacturing and sales of medical devices
Shanghai Healing Medical Instruments Co., Ltd. ("Shanghai Healing")	15 February 2019 the PRC	RMB20,000,000/ RMB20,000,000	69%	Research and development, manufacturing and sales of medical devices
Hongkong INT Medical Instruments Company Limited ("Hongkong Int")	21 February 2019 Hong Kong	HKD36,000,000/ HKD22,000,000	100%	Import and export trade, investment, and consultancy

1 GENERAL INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Note:

(i) The Company set up Shanghai Qimu and Shanghai Puhui together with other individual investors in 2018, and the Company owned 35% equity interest in Shanghai Qimu and 45% equity interest in Shanghai Puhui, respectively. Management evaluated the Company's control over Shanghai Qimu and Shanghai Puhui with consideration of the purpose and design of the entity, governance structure, the Company's power over the relevant activities and other relevant factors. According to the investment agreements, the Company is able to nominate the sole executive director of Shanghai Qimu and Shanghai Puhui during the period when it is the single largest shareholder of two entities, management concluded that the Company has control over Shanghai Qimu and Shanghai Puhui since their respective incorporation date.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued a new HKFRS, HKFRS 16, Leases and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

As disclosed in the listing documents of the Company dated 28 October 2019, the Group has adopted all applicable new and revised HKFRSs, including HKFRS 16, which is effective for the accounting period beginning on 1 January 2019, consistently throughout the track record periods presented in the Group's historical financial information, including the financial statements for the year ended 31 December 2018.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the assets and liabilities are stated at their fair value as explained in the accounting policies set out in notes 2(d) and 2(e).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 24(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(r)(ii)).

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

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

(ii) Equity investments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Derivative financial instruments

Derivative financial instruments are recognised 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 recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)). The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of the original assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in profit or loss in the period in which it is incurred.

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

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

Buildings hold for own use	20 years
Machinery	5–10 years
Motor vehicles	5–10 years
Furniture, fixture and equipments	5–10 years
Leasehold improvements	10 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.

(g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets *(Continued)*

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill, brands as well as intellectual properties is recognised as an expense in the period in which it is incurred.

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

Software	3–5 years
Patent	16.6 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(h) 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.

As a lessee

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

As a lessee *(Continued)*

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated amortisation and impairment losses (see note 2(i)(ii)). Amortisation of right-of-use asset is charged to profit or loss on a straight line basis over the un expired term of lease.

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 Group account for a lease modification as a separate lease if both (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group allocate the consideration in the modified contract, determine the lease term of the modified lease and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The Group account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables).

Financial assets measured at fair value 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;

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments *(Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets

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

— property, plant and equipment;

— intangible assets;

— right-of-use assets; 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 goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, 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 recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets (Continued)

— ***Reversals of impairment losses***

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

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

(j) Inventories and other contract cost

(i) Inventories

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories and other contract cost *(Continued)*

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 2(j)(i)), property, plant and equipment (see note 2(f)) or intangible assets (see note 2(g)). Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 2(r).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(r)).

(l) Trade and other receivables

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(i)(i)).

(m) 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. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(i)(i).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Trade and other payables

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

(o) 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.

Short-term employee benefit is in the form of a benefit in kind (e.g. free or discounted goods or services), then measurement of these benefit is based on the Group's net marginal cost of providing the benefit, unless other HKFRSs specifically require fair value measurement of the asset or obligation (i.e the benefit is in the form of low-interest loans to employees).

Loans given to employees at lower-than-market interest rates are generally short-term employee benefits. Loans granted to employees are financial instruments in the scope of HKFRS 9 Financial instruments. Therefore, low-interest loans to employees are measured at fair value initially, any difference between the fair value of the loan and the amount advanced is an employee benefit.

(ii) Termination benefits

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

(p) Income tax

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

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

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

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

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 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 Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities

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

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

(r) Revenue and other income

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

Revenue is recognised when control over a product 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.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

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

(i) Sale of medical devices, accessories and moulds

Revenue is recognised when the customer takes possession of and accepts the products.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(i)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue and other income *(Continued)*

(iii) Government grants

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

(iv) Dividends

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

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(s) Translation of foreign currencies

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) 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.

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 JUDGEMENTS AND ESTIMATES

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

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

Note 24 contain information about the assumptions and risk factors relating to financial instruments. Other judgements made by management in the application of HKIFRS that have significant effects on the financial statement and major sources of estimation uncertainty are discussed as follows:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realisable value.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded during the reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation/amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences.

As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, 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 recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(d) Impairment of non-current assets

Internal and external sources of information are reviewed by the Group at the end of the reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or the cash-generating unit to which it belongs is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amount, which would affect profit or loss in future years.

4 REVENUE AND SEGMENT REPORTING

The Group derives revenue principally from the sales of interventional medical devices. Sales returns are only allowed under certain specific circumstances, which is determined and approved by management and within certain period of time agreed by buyer and seller.

(a) Disaggregation of revenue

(i) Disaggregation of revenue from contracts with customers by major products is as follows:

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
— Sales of interventional medical devices		
Cardiovascular devices	**256,513**	175,676
Orthopaedics and other devices	**1,113**	1,098
Subtotal	**257,626**	176,774
— Sales of medical accessories	**19,822**	20,589
— Moulds and others	**9,009**	5,696
	286,457	203,059

The Group's customer base is diversified. There is no individual customer with whom transactions have exceeded 10% of the Group's revenue for the years ended 31 December 2019 and 2018.

During the year ended 31 December 2019, revenue from Shanghai Kindly Enterprise Development Group Co., Ltd.* 上海康德萊企業發展集團股份有限公司 ("KDL") and its subsidiaries/associate (excluding the Group, and herein referred to as "KDL Group") was RMB13,047,000 (2018: RMB14,056,000), which represents 4.6% (2018: 6.9%) of total revenue for the year.

During the years ended 31 December 2019 and 2018, the Group recognised its revenue from contract with customers at point in time in accordance with the accounting policies as set forth in note 2(r)(i).

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for medical devices other accessories and moulds, as the Group will be entitled to those revenue when it satisfies the remaining performance obligations under the contracts sales that had an original expected duration of one year or less.

* *English name is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(a) Disaggregation of revenue *(Continued)*

(ii) Disaggregation of revenue by geographical location of external customers is as follows:

	2019 **RMB'000**	2018 RMB'000
Mainland China	**192,586**	133,978
Europe	**31,910**	22,229
The United States	**14,018**	6,106
Other countries	**47,943**	40,746
	286,457	203,059

The geographical location of customers is based on the location at which the customers operate. All of the non-current assets of the Group are physically located in the PRC.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified one reportable segment, the cardiovascular interventional business, which is primary engaged in sales, manufacture, research and development of cardiovascular interventional medical devices as well as related accessories and moulds. Other segments, which are currently engaged in research and development of other interventional and implantable medical devices, such as neurological interventional medical devices and endocardia implantable medical devices, etc, are combined in all other segments.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to segment on "segment net profit".

In addition to receiving segment information concerning segment net profit, management is provided with segment information concerning revenue from external customers used by the segments in their operations.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	2019		
	Cardiovascular interventional business *RMB'000*	**All others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**273,443**	**13,014**	**286,457**
Inter-segment revenue	**3,470**	**6,879**	**10,349**
Segment revenue	**276,913**	**19,893**	**296,806**
Segment net profit/(loss)	**100,219**	**(1,664)**	**98,555**

	2018		
	Cardiovascular interventional business *RMB'000*	All others *RMB'000*	Total *RMB'000*
Revenue from external customers	198,022	5,037	203,059
Inter-segment revenue	–	1,630	1,630
Segment revenue	198,022	6,667	204,689
Segment net profit	58,858	62	58,920

(ii) Reconciliation of revenue and segment profit

	2019 *RMB'000*	2018 *RMB'000*
Revenue		
Segment revenue	**296,806**	204,689
Elimination of inter-segment revenue	**(10,349)**	(1,630)
Consolidated revenue	**286,457**	203,059
Profit		
Segment net profit	**98,555**	58,920
Elimination of inter-segment net profit	**(2,020)**	(684)
Consolidated net profit	**96,535**	58,236

NOTES TO THE FINANCIAL STATEMENTS

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Government grants *(note)*	**4,639**	6,660
Net loss on sale of property, plant and equipment	**(568)**	(3,330)
Interest income	**9,950**	3,864
Net realised and unrealised gains from fair value changes on financial assets measured at fair value through profit or loss	**4,347**	–
Foreign exchange gains	**5,771**	1,352
Others	**4,034**	1,148
	28,173	9,694

Note: Majority of the government grants are subsidies received from government for encouragement of research and development projects and compensation on the capital expenditure of medical device production lines.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**1,825**	1,527

(b) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	**66,367**	45,317
Contributions to defined contribution retirement plan	**9,147**	6,954
	75,514	52,271

(i) Pursuant to the relevant labour rules and regulations in the PRC, the Company and its subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the Company and its subsidiaries in the PRC are required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(ii) Staff costs includes remuneration of directors and senior management (notes 8 and 9).

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2019 RMB'000	2018 RMB'000
Depreciation and amortisation		
— property, plant and equipment *(note 11)*	**11,495**	7,771
— right-of-use assets *(note 12)*	**6,758**	3,119
— intangible assets *(note 13)*	**390**	54
	18,643	10,944
Reversal of impairment loss on trade and other receivables	**21**	111
Auditors' remuneration		
— audit services	**1,430**	31
— other services	**100**	–
Research and development costs#	**30,764**	22,098
Cost of inventories##	**112,015**	84,662

\# During the year ended 31 December 2019, research and development costs includes staff costs and depreciation and amortisation of RMB16,407,000 (2018: RMB10,320,000), which amount is also included in the respective total amounts disclosed separately above.

\## During the year ended 31 December 2019, cost of inventories includes staff costs and depreciation and amortisation expenses of RMB46,396,000 (2018: RMB31,927,000), which amount is also included in the respective total amounts disclosed separately above.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019 RMB'000	2018 RMB'000
Current tax — PRC corporate income tax ("CIT")	**15,413**	8,959
Deferred tax	**(35)**	(722)
Total	**15,378**	8,237

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

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

	2019 **RMB'000**	2018 *RMB'000*
Profit before taxation	**111,913**	66,473
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned *(note (i))*	**27,980**	16,618
Effect of preferential tax rate *(notes (ii) & (iii))*	**(9,936)**	(5,961)
Effect of super deduction on research and development expenses *(note (iv))*	**(5,537)**	(2,077)
Others	**2,871**	(343)
Actual tax expense	**15,378**	8,237

Notes:

PRC CIT

(i) Effective from 1 January 2008, under the PRC Corporate Income Tax Law, the PRC statutory income tax rate is 25%. The Group's subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

(ii) High and New Technology Enterprise ("HNTE")

According to the PRC income tax law and its relevant regulations, entities that qualified as HNTE are entitled to a preferential income tax rate of 15%. The Company obtained its renewed certificate of HNTE on 24 November 2016 and was subject to income tax at 15% for the year ended 31 December 2018. The Company obtained its renewed certificate of HNTE on 8 October 2019 and was subject to income tax at 15% for the three years ending 31 December 2021.

The 15% preferential tax rate applicable to HNTE is subject to renewal approval jointly by the relevant authorities, upon expiry of the three-year grant period, according to the then prevailing income tax regulations.

(iii) Small and Micro Enterprise ("SME")

According to the PRC income tax law and its relevant regulations issued in 2018, entities that qualified as SME are entitled to a preferential income tax rate of 10%. Zhuhai Derui, Shanghai Pukon and Shanghai Qimu were qualified as SME in 2018 and enjoy the preferential income tax rate of 10% for the year ended 31 December 2018.

According to the PRC income tax law and its relevant regulations issued in 2019, entities that qualified as SME are entitled to a preferential income tax rate of 5% (taxable income less than RMB1,000,000) or 10% (taxable income ranges between RMB1,000,000 to RMB3,000,000).

Shanghai KDL Research Center, Shanghai Qimu, Shanghai Puhui and Shanghai Healing were qualified as SME and entitled to a preferential tax rate of 5% for the year ended 31 December 2019.

(iv) According to the PRC income tax law and its relevant regulations, an additional 75% of qualified research and development expenses so incurred is allowed to be deducted from taxable income for the three years ending 31 December 2020.

HONG KONG PROFIT TAX

The Company's subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at 8.25% of the taxable profit less than HKD 2,000,000 or 16.5% of the taxable profit exceeding HKD 2,000,000. No provision for Hong Kong profits tax has been made as the subsidiary in Hong Kong has no assessable profits for the year ended 31 December 2019.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

For the year ended 31 December 2019	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	2019 Total *RMB'000*
Executive directors				
Mr. Liang Dongke (梁棟科)	–	1,650	77	1,727
Mr. Wang Cailiang (王彩亮)	–	848	77	925
Non-executive directors				
Mr. Zhang Weixin (張維鑫)	–	–	–	–
Ms. Chen Hongqin (陳紅琴)	–	–	–	–
Mr. Fang Shengshi (方聖石)	–	–	–	–
Independent non-executive directors				
Mr. Dai Kerong (戴尅戎)	120	–	–	120
Mr. Ge Junbo (葛均波)	120	–	–	120
Mr. Jian Xigao (蹇錫高)	120	–	–	120
Mr. Hui Hung Kwan (許鴻群)	120	–	–	120
	480	2,498	154	3,132

NOTES TO THE FINANCIAL STATEMENTS

8 DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2018	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	2018 Total *RMB'000*
Executive directors				
Mr. Liang Dongke (梁棟科)	–	1,091	70	1,161
Mr. Wang Cailiang (王彩亮)	–	90	12	102
Non-executive directors				
Mr. Zhang Xianmiao (張憲淼) (resigned on 7 December 2018) *(i)*	–	–	–	–
Ms. Song Yuan (宋媛) (resigned on 7 December 2018) *(i)*	–	181	24	205
Ms. Zhao Yan (趙燕) (resigned on 7 December 2018) *(i)*	–	304	37	341
Mr. Zhang Weixin (張維鑫) (appointed on 7 December 2018) *(iii)*	–	–	–	–
Ms. Chen Hongqin (陳紅琴) (appointed on 7 December 2018) *(i)*	–	–	–	–
Mr. Fang Shengshi (方聖石) (appointed on 7 December 2018) *(i)*	–	–	–	–
Independent non-executive directors				
Mr. Dai Kerong (戴尅戎) (appointed on 7 December 2018) *(i)*	–	–	–	–
Mr. Ge Junbo (葛均波) (appointed on 7 December 2018) *(i)*	–	–	–	–
Mr. Jian Xigao (蹇錫高) (appointed on 7 December 2018) *(i)*	–	–	–	–
Mr. Hui Hung Kwan (許鴻群) (appointed on 7 December 2018) *(i)*	–	–	–	–
	–	1,666	143	1,809

Notes:

(i) On 7 December 2018, Mr. Zhang Xianmiao, Ms. Song Yuan and Ms. Zhao Yan were resigned as non-executive directors. Mr. Zhang Weixin, Ms. Chen Hongqin and Mr. Fang Shengshi were appointed as non-executive directors.

On 7 December 2018, Mr. Dai Kerong, Mr. Ge Junbo, Mr. Jian Xigao and Mr. Hui Hung Kwan were appointed as independent non-executive directors.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2019, of the five individuals with the highest emoluments, two (2018: two) are directors respectively whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 **RMB'000**	2018 *RMB'000*
Salaries and other emoluments	**2,282**	1,853
Retirement scheme contributions	**231**	178
	2,513	2,031

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

	2019 ***Number of individuals***	2018 *Number of individuals*
RMBnil–RMB1,000,000	**3**	3

10 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB99,614,000 (2018: RMB58,451,000), and the weighted average number of shares of 126,679,000 (2018: 86,170,000) in issue, calculated as follows:

Weighted average number of ordinary shares

	2019 *'000*	2018 *'000*
Issued ordinary shares at the beginning of the year	**60,000**	19,600
Effect of increase share capital by capital reserve transfer on 25 April 2018 *(note 23(b))*	**–**	22,400
Effect of issuance of domestic shares *(note 23(b))*	**–**	1,085
Effect of increase share capital by capital reserve transfer on 20 April 2019 *(note 23(b))*	**60,000**	43,085
Effect of issuance of H shares *(note 23(b))*	**6,679**	–
Weighted average number of ordinary shares	**126,679**	86,170

There were no potential dilutive ordinary shares during the year and therefore dilutive earnings per share are the same as the basic earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fixture and equipments RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:							
At 1 January 2018	–	49,393	2,345	2,058	–	20,202	73,998
Additions	10,848	15,092	651	1,551	–	6,224	34,366
Disposals	–	(7,693)	(122)	(42)	–	–	(7,857)
At 31 December 2018 and 1 January 2019	10,848	56,792	2,874	3,567	–	26,426	100,507
Additions	32,674	19,854	662	1,504	2,626	9,922	67,242
Disposals	–	(1,212)	(194)	(364)	–	–	(1,770)
At 31 December 2019	43,522	75,434	3,342	4,707	2,626	36,348	165,979
Accumulated amortisation and depreciation:							
At 1 January 2018	–	(22,747)	(1,385)	(1,403)	–	(10,476)	(36,011)
Charge for the year	(146)	(5,084)	(297)	(337)	–	(1,907)	(7,771)
Written back on disposals	–	2,661	117	41	–	–	2,819
At 31 December 2018 and 1 January 2019	(146)	(25,170)	(1,565)	(1,699)	–	(12,383)	(40,963)
Charge for the year	(1,443)	(5,695)	(566)	(1,018)	–	(2,773)	(11,495)
Written back on disposals	–	521	184	347	–	–	1,052
At 31 December 2019	(1,589)	(30,344)	(1,947)	(2,370)	–	(15,156)	(51,406)
Net book value:							
At 31 December 2019	41,933	45,090	1,395	2,337	2,626	21,192	114,573
At 31 December 2018	10,702	31,622	1,309	1,868	–	14,043	59,544

12 LEASES

(a) Right-of-use assets

The Group leases land and buildings for own use. The leases of buildings typically do not include an option to renew the lease for an additional period after the end of the contract term. None of the leases includes variable lease payments.

Information about leases for which the Group is a lessee is presented below:

	Property *RMB,000*	Land use right *RMB,000*	Total *RMB,000*
Cost			
At 1 January 2018	–	–	–
Additions	61,143	–	61,143
At 31 December 2018 and 1 January 2019	61,143	–	61,143
Additions	10,099	35,699	45,798
Termination of lease	(58,739)	–	(58,739)
At 31 December 2019	12,503	35,699	48,202
Accumulated depreciation			
At 1 January 2018	–	–	–
Charge for the year	(3,119)	–	(3,119)
At 31 December 2018 and 1 January 2019	(3,119)	–	(3,119)
Charge for the year	(6,308)	(450)	(6,758)
Written off on termination of lease	6,296	–	6,296
At 31 December 2019	(3,131)	(450)	(3,581)
Net book value			
At 31 December 2019	9,372	35,249	44,621
At 31 December 2018	58,024	–	58,024

NOTES TO THE FINANCIAL STATEMENTS

12 LEASES *(Continued)*

(a) Right-of-use assets *(Continued)*

(i) In 2018, the Group entered into certain long-term (i.e. more than 12 months) lease contracts for properties with KDL and third party landlords.

In August 2019, the Group terminated the long-term lease contract with KDL and derecognised the respective night-of-use assets of RMB52,443,000 and lease liabilities of RMB56,575,000 thereafter. After the termination of lease with KDL, the Group purchased the said property from KDL at cash consideration of RMB61,305,000, of which RMB28,631,000 was paid for the land use right and the remaining RMB32,674,000 was paid for the property located on the said land (see note 11).

(ii) In January 2019, the Group purchased a land use right in Zhuhai with an amount of RMB 7,068,000 and made the full payment. The Group recognised the land use right as right-of-use asset with a useful life of 50 years.

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

	31 December 2019 ***RMB'000***	31 December 2018 *RMB'000*
Leasehold properties for own use, carried at depreciated cost, with remaining lease term of:		
— within 10 years	**9,372**	58,024

	31 December 2019 ***RMB'000***	31 December 2018 *RMB'000*
Land use right for own use, carried at depreciated cost, with remaining lease term of:		
— between 10 and 50 years	**35,249**	–

12 LEASES *(Continued)*

(b) Lease liabilities

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

	31 December 2019		31 December 2018	
	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*
Within 1 year or on demand	**206**	**287**	5,397	5,651
More than 1 years but less than 2 years	**209**	**280**	5,912	6,499
More than 2 years but less than 5 years	**624**	**781**	19,247	23,289
More than 5 years	**787**	**844**	29,623	43,401
	1,620	**1,905**	54,782	73,189
	1,826	**2,192**	60,179	78,840
Less: total future interest expense		**(366)**		(18,661)
Present value of the lease liabilities		**1,826**		60,179

(c) Amounts recognised in consolidated statements of profit or loss:

	2019 *RMB'000*	2018 *RMB'000*
Lease charges relating to short-term leases	**604**	2,362
Depreciation charges on right-of-use assets	**6,758**	3,119
Interest on lease liabilities	**1,825**	1,527
Total	**9,187**	7,008

NOTES TO THE FINANCIAL STATEMENTS

12 LEASES *(Continued)*

(d) Amounts recognised in the consolidated statements of cash flows:

	2019	2018
	RMB'000	*RMB'000*
Payments for short-term lease	**604**	2,401
Payments for interest element of lease liabilities	**1,825**	1,527
Payments for capital element of lease liabilities	**1,877**	964
Prepayments for leases	**–**	10,000
Payment for the land use rights	**35,699**	–
Total cash outflow for leases	**40,005**	14,892

13 INTANGIBLE ASSETS

	Software	**Patent**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost			
At 1 January 2018	115	–	115
Additions	602	–	602
At 31 December 2018 and 1 January 2019	717	–	717
Additions	317	5,400	5,717
At 31 December 2019	1,034	5,400	6,434
Accumulated amortisation			
At 1 January 2018	(91)	–	(91)
Charge for the year	(54)	–	(54)
At 31 December 2018 and 1 January 2019	(145)	–	(145)
Charge for the year	(173)	(217)	(390)
At 31 December 2019	(318)	(217)	(535)
Net book value			
At 31 December 2019	716	5,183	5,899
At 31 December 2018	572	–	572

In 2019, a non-controlling shareholder of a subsidiary of the Group transferred the ownership of a patent of a new type of aortic valve stent to the Group as capital injection, with a fair value of RMB5,400,000 and a remaining useful life of 16.6 years.

14 NON-CONTROLLING INTERESTS IN SUBSIDIARIES

The following table lists out the information relating to Shanghai Pukon, Shanghai Qimu, Shanghai Puhui and Shanghai Healing, the subsidiaries of the Group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	31 December 2019				
	Shanghai Pukon *RMB'000*	Shanghai Qimu *RMB'000*	Shanghai Puhui *RMB'000*	Shanghai Healing *RMB'000*	Total *RMB'000*
NCI percentage	15%	65%	55%	31%	
Current assets	26,212	3,839	3,177	7,994	
Non-current assets	8,705	2,702	1,120	9,051	
Current liabilities	(7,563)	(349)	(197)	(745)	
Non-current liabilities	(28)	–	–	–	
Net assets	27,326	6,192	4,100	16,300	
Carrying amount of NCI	4,099	4,025	4,729	5,053	17,906
Revenue	19,777	–	–	–	
Profit/(loss) for the period	6,815	(3,359)	(1,401)	(3,700)	
Profit/(loss) allocated to NCI	1,022	(2,183)	(771)	(1,147)	(3,079)
Cash flows from/(to) operating activities	8,310	(3,825)	(1,785)	(6,469)	
Cash flows to investing activities	(5,329)	(3,161)	(3,584)	(8,540)	
Cash flows from financing activities	–	–	5,500	20,000	

	31 December 2018			
	Shanghai Pukon *RMB'000*	Shanghai Qimu *RMB'000*	Shanghai Puhui *RMB'000*	Total *RMB'000*
NCI percentage	15%	65%	55%	
Current assets	17,035	8,753	–	
Non-current assets	8,087	1,364	–	
Current liabilities	(4,610)	(566)	–	
Net assets	20,512	9,551	–	
Carrying amount of NCI	3,077	6,208	–	9,285
Revenue	6,667	–	–	
Profit/(loss) for the year	512	(449)	–	
Profit/(loss) allocated to NCI	77	(292)	–	(215)
Cash flows from/(to) operating activities	1,166	(703)	–	
Cash flows to investing activities	(7,890)	(1,400)	–	
Cash flows from financing activities	20,000	10,000	–	

NOTES TO THE FINANCIAL STATEMENTS

15 INVENTORIES

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Raw materials	**17,867**	14,311
Work in progress	**8,490**	7,007
Finished goods	**16,310**	16,691
Others	**754**	1,006
	43,421	39,015

The analysis of the amount of inventories recognised as an expense and included in profit or loss was presented in note 6(c).

16 TRADE AND OTHER RECEIVABLES

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Trade receivables (a)		
Receivables from third parties	**11,507**	4,150
Receivables from related parties *(note 26)*	**3,254**	2,698
Less: losses allowance on trade receivables	**(60)**	(81)
Trade receivables, net	**14,701**	6,767
Others	**238**	318
Trade and other receivables, net	**14,939**	7,085

(a) Ageing analysis

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

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Within 3 months	**13,598**	6,767
3 to 6 months	**1,103**	–
	14,701	6,767

Trade receivables are generally due within 30 to 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 24(a).

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Financial assets at FVTPL		
— Net value-based wealth management products issued by banks	**16,893**	–
— Variable income-based wealth management products issued by banks	**4,509**	–
	21,402	–

The wealth management products are issued by banks in mainland China. The wealth management products are at variable rates on return and principles are unguaranteed, and are redeemable at the agreed trade periods with prior notice.

Further details on the Group's credit policy and credit risk arising from wealth management products issued by banks are set out in note 24(a).

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash at bank *(i)*	**1,036,758**	298,149
Cash on hand	**25**	15
Cash and cash equivalents	**1,036,783**	298,164

(i) Cash at bank includes deposits placed at banks in mainland China with original maturities of three months or less. These deposits are guaranteed for principle repayment with fixed or determinable returns. The balance of these deposits amounts to RMB 844,984,000 as at 31 December 2019 (2018: RMB 226,636,000).

Further details on the Group's credit policy and credit risk arising from cash at bank are set out in note 24(a).

NOTES TO THE FINANCIAL STATEMENTS

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 RMB'000	2018 RMB'000
Profit before taxation		**111,913**	66,473
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	**11,495**	7,771
Depreciation of right-of-use assets	6(c)	**6,758**	3,119
Amortisation of intangible assets	6(c)	**390**	54
Finance costs	6(a)	**1,825**	1,527
Interest income	5	**(9,950)**	(3,864)
Loss on sale of property, plant and equipment	5	**568**	3,330
Net realised and unrealised gains from fair value changes on financial assets measured at fair value through profit or loss	5	**(4,347)**	–
Reversal of impairment loss	6(c)	**(21)**	(111)
Foreign exchange gains and others		**(9,755)**	(2,658)
Operating profits before changes in working capital		**108,876**	75,641
Changes in working capital:			
Increase in inventories		**(4,406)**	(9,547)
(Increase)/decrease in operating receivables		**(11,517)**	2,575
Increase in trade and other payables		**13,014**	6,203
Increase/(decrease) in deferred income		**228**	(1,793)
(Decrease)/increase in contract liabilities		**(1,852)**	4,118
Cash generated from operations		**104,343**	77,197

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(c) 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.

	Leases liabilities *RMB'000* *(note 12)*
At 1 January 2018	–
Change from financing cash flows:	
Payment for capital element of lease liabilities	(964)
Total change from financing cash flows	(964)
Other change:	
Lease liabilities recognised during the year	61,143
Total other change	61,143
At 31 December 2018 and 1 January 2019	60,179
Change from financing cash flows:	
Payment for capital element of lease liabilities	(1,877)
Total change from financing cash flows	(1,877)
Other change:	
Lease liabilities recognised during the year	99
Termination of lease	(56,575)
Total other change	(56,476)
At 31 December 2019	1,826

NOTES TO THE FINANCIAL STATEMENTS

19 TRADE AND OTHER PAYABLES

	31 December 2019 ***RMB'000***	31 December 2018 *RMB'000*
Trade payables *(i)*	**16,430**	10,309
Payroll payables	**14,754**	10,319
Amounts due to related parties *(note 26)*	**277**	736
Listing expenses payable	**5,524**	–
Others	**5,603**	2,685
	42,588	24,049

(i) As of the end of the reporting period, the ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	31 December 2019 ***RMB'000***	31 December 2018 *RMB'000*
Within 3 months	**16,116**	10,028
Over 3 months but within 6 months	**152**	226
Over 6 months but within 1 year	**19**	47
Over 1 year	**143**	8
	16,430	10,309

All of the trade and other payables are expected to be settled within one year.

20 CONTRACT LIABILITIES

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Advances received from customer	**9,681**	11,533

When the Group receives an advance before the delivery of the products, this will give rise to contract liabilities. The Group typically receives 100% advance from a majority of its customers before the delivery of the products.

Movement in contract liabilities

	2019 *RMB'000*	2018 *RMB'000*
At the beginning of year	**11,533**	7,415
Increase in contract liabilities as a result of receiving advances from customers	**201,239**	140,502
Decrease in contract liabilities as a result of recognising revenue during the year	**(203,091)**	(136,384)
At the end of year	**9,681**	11,533

21 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	2019 *RMB'000*	2018 *RMB'000*
PRC CIT		
At the beginning of the year	**1,261**	1,480
Provision for the year	**15,413**	8,959
Tax paid	**(10,440)**	(9,178)
At the end of year	**6,234**	1,261

21 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Continued)

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax

The components of deferred tax recognised in the consolidated statements of financial position and the movements during the year are as follows:

	Credit loss allowance *RMB'000*	Right-of-use assets *RMB'000*	Lease liabilities *RMB'000*	Intercompany unrealised profit *RMB'000*	Tax losses *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2018	30	–	–	1,032	–	–	1,062
(Charged)/credited to profit or loss	(18)	(8,724)	9,048	(99)	515	–	722
At 31 December 2018 and 1 January 2019	12	(8,724)	9,048	933	515	–	1,784
(Charged)/credited to profit or loss	(2)	8,460	(8,766)	(128)	(22)	493	35
At 31 December 2019	**10**	**(264)**	**282**	**805**	**493**	**493**	**1,819**

(ii) Reconciliation to the consolidated statement of financial position is as follows:

	2019 **RMB'000**	2018 *RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**1,847**	1,784
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(28)**	–
	1,819	1,784

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB 13,628,000 (2018: RMB 449,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Cumulative tax losses incurred by Hong Kong subsidiaries of RMB19,000 (2018: nil), do not expire under the current tax legislation, while cumulative tax losses incurred by PRC subsidiaries amounting to RMB13,609,000 (2018: RMB449,000) will expire within five years under the current tax legislation.

22 DEFERRED INCOME

	31 December 2019 RMB'000	31 December 2018 RMB'000
Government grants		
At the beginning of year	**3,708**	5,501
Grants received	**960**	2,220
Charged to profit or loss	**(732)**	(4,013)
At the end of year	**3,936**	3,708
Representing		
— Current portion	**494**	494
— Non-current portion	**3,442**	3,214
Total	**3,936**	3,708

Deferred income of the Group mainly represents various grants received from the government to compensate the capital expenditure on production lines and expenditure incurred for research and developments projects.

Government grants are recognised as other income over the useful lives of relevant property, plant and equipment or when the research and development projects commenced.

NOTES TO THE FINANCIAL STATEMENTS

23 CAPITAL, RESERVES AND DIVIDENDS

(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 individual components of equity between the beginning and the end of the year are set out below:

The Company	*Note*	Share capital *RMB'000*	Capital reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2018		19,600	103,280	9,104	69,169	201,153
Changes in equity for 2018:						
Profit for the year		–	–	–	56,493	56,493
Dividends approved in respect of the previous year	*23(d)*	–	–	–	(66,640)	(66,640)
Share capital increase by capital reserve transfer	*23(b)*	22,400	(22,400)	–	–	–
Capital injection from equity shareholders	*23(b)*	18,000	162,000	–	–	180,000
Appropriation for surplus reserve		–	–	5,639	(5,639)	–
Balance at 31 December 2018 and 1 January 2019		**60,000**	**242,880**	**14,743**	**53,383**	**371,006**
Profit for the year		**–**	**–**	**–**	**96,174**	**96,174**
Dividends approved in respect of the previous year	*23(d)*	**–**	**–**	**–**	**(53,382)**	**(53,382)**
Share capital increase by capital reserve transfer	*23(b)*	**60,000**	**(60,000)**	**–**	**–**	**–**
Issuance of H shares	*23(b)*	**46,000**	**751,624**	**–**	**–**	**797,624**
Appropriation for surplus reserve		**–**	**–**	**9,490**	**(9,490)**	**–**
At 31 December 2019		**166,000**	**934,504**	**24,233**	**86,685**	**1,211,422**

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital

	2019 No. of shares *('000)*	2019 *RMB'000*	2018 No. of shares *('000)*	2018 *RMB'000*
Ordinary shares, issued and fully paid:				
At 1 January	60,000	60,000	19,600	19,600
Transfer from capital reserve *(i)*	60,000	60,000	22,400	22,400
Shares issued *(ii)*	46,000	46,000	18,000	18,000
At 31 December	166,000	166,000	60,000	60,000
Representing:				
Domestic shares issued	120,000	120,000	60,000	60,000
H shares issued	46,000	46,000	–	–
Total ordinary shares issued at 31 December	166,000	166,000	60,000	60,000

(i) Share capital increase by capital reserve transfer

Pursuant to the resolution of shareholders passed on 25 April 2018, the Company transferred capital reserve of RMB22,400,000 to share capital and issued additional 22,400,000 shares at RMB 1 per share.

Pursuant to the resolution of shareholders passed on 20 April 2019, the Company transferred capital reserve of RMB60,000,000 to share capital and issued additional 60,000,000 shares at RMB 1 per share.

NOTES TO THE FINANCIAL STATEMENTS

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

(ii) Issuance of shares

Prior to the initial public offering ("IPO")

On 8 August 2018 and 12 October 2018, Ningbo Huaige Taiyi Equity Investment Partnership (Limited Partnership)* 寧波懷格泰益股權投資合伙企業(有限合伙) ("Ningbo Huaige Taiyi"), Ningbo Tongchuang Suwei Investment Partnership (Limited Partnership)* 寧波同創速維投資合伙企業(有限合伙) ("Ningbo Tongchuang Suwei"), Ningbo Int Investment Partnership (Limited Partnership)* 寧波瑛泰投資合伙企業(有限合伙) ("Ningbo Int"), the Company, and the then shareholders (including KDL) entered into an agreement for subscription of the Company's shares. Pursuant to the agreement, the Company issued a total of 18,000,000 new shares, including (i) 12,600,000 new shares to Ningbo Huaige Taiyi; (ii) 3,000,000 new shares to Ningbo Tongchuang Suwei; (iii) 1,200,000 new shares to Dr. Liang Dongke; and (iv) 1,200,000 new shares to Ningbo Int for a total cash consideration of RMB 180,000,000 (representing RMB 10 per share issued). The subscription was completed on 11 December 2018.

Upon the completion of capital injection, total number of issued shares of the Company increased to 60,000,000 shares as at 31 December 2018. The share capital increased by RMB 18,000,000 (representing the par value) and corresponding capital premium of RMB 162,000,000 was recognised in capital reserve.

As at 31 December 2018, KDL, Ningbo Huaige Taiyi, Ningbo Tongchuang Suwei, Ningbo Int, Dr. Liang Dongke and all other domestic-share shareholders hold 35.71%, 21%, 5%, 2%, 7.95% and 28.34% shareholding of the Company, respectively.

After the IPO

On 8 November 2019, 46,000,000 H shares of the Company were listed on the Stock Exchange at RMB1 per share and at the issue price of HK$20.8 each, with total proceeds of HK$956,800,000 (equivalent to approximately RMB855,531,000) raised. The share capital increased by RMB46,000,000 and corresponding premium of RMB751,624,000 (after deduction of listing expenses) was recognised in capital reserve.

As at 31 December 2019, KDL, Ningbo Huaige Taiyi, Ningbo Tongchuang Suwei, Ningbo Int, Dr. Liang Dongke, all other domestic-share shareholders and H-share shareholders hold 25.82%, 15.18%, 3.61%, 1.45%, 5.75%, 20.48% and 27.71% shareholding of the Company, respectively.

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

(iii) Ningbo Int

Ningbo Int is a special purpose vehicle established for the participated employee to hold indirect equity interest in the Company, which is the share incentive scheme of the Company. On 29 November 2018, 46 employees of the Company ("Participants") set up Ningbo Int as a limited liability partnership company with the initial capital contribution of RMB12,120,000 (representing 12,120,000 shares of RMB 1 per share). According to the partnership agreement of Ningbo Int dated on 29 November 2018 (the "Ningbo Int Partnership Agreement"), Mr. Liang Dongke is the general partner (the "GP") of Ningbo Int and all other Participants are limited partners (the "LPs").

As set forth in note 23(b)(ii), Ningbo Int subscribed for 1,200,000 shares issued by the Company at a cash consideration of RMB 12,000,000 (representing RMB 10 per share issued, which is same as the subscription price paid by Ningbo Huaige Taiyi and Ningbo Tongchuang Suwei), and then holds 2% equity interests in the Company as at 31 December 2018. Shareholding of Ningbo Int was diluted to 1.45% as at 31 December 2019 as a result of the IPO.

In addition, the Participants, Ningbo Int and the Company entered into a supplementary agreement to the Ningbo Int Partnership Agreement. Pursuant to the supplementary agreement, the Participants shall remain in service for five years commencing from 1 January 2019 (the "Lockup Period"). During the Lock-up Period, the Participants are not allowed to transfer, pledge or dispose their interests in Ningbo Int unless certain exit conditions are met, such as termination of employment with the Company or retirement, etc. If the exit conditions are met, the GP will acquire the interests of Ningbo Int from the Participants at the initial subscription price paid by the Participants.

(c) Nature and purpose of reserves

(i) Capital reserve

Under PRC rules and regulations, capital reserve is non-distributable other than in liquidation and may be utilised for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law, all PRC subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the PRC accounting standard, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Nature and purpose of reserves *(Continued)*

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

(d) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2019 **RMB'000**	2018 *RMB'000*
Final dividend proposed after the end of the reporting period of RMB0.175 per ordinary share (2018: RMB1.27 per ordinary share)	**29,050**	53,382

On 19 March 2020, the directors of the Company proposed a final dividend for the year ended 31 December 2019 of RMB 0.175 per ordinary shares, which has not been recognised as a liability at 31 December 2019.

In accordance with the Company's article of association, in distributing its profit after tax of the relevant financial year, the lower of the profit after tax as shown in the financial statements prepared under HKFRSs and PRC accounting standards shall be applied.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019 **RMB'000**	2018 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, RMB1.27 per ordinary share (2018: RMB3.4 per ordinary share)	**53,382**	66,640

Pursuant to the shareholders' approval of the Company held on 20 April 2019, a final cash dividend of RMB 1.27 per ordinary share in respect of the year ended 31 December 2018 based on 42,000,000 ordinary shares (outstanding shares prior to the issuance of domestic shares as mentioned in note 23(b)(ii)) with total amount of RMB 53,382,000 was paid on 29 April 2019.

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Distributability of reserve

As 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was RMB86,510,000 (2018: RMB53,383,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder 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.

The Group monitors its capital structure on the basis of the debt-to-equity ratio. For this purpose, the Group defines debt as total leases liabilities and defines equity as total equity.

As at 31 December 2019 and 2018, the Group's net debt-to-equity ratio was as follows:

		31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Current liabilities:			
Lease liabilities	*12*	**206**	5,397
Non-current liabilities:			
Lease liabilities	*12*	**1,620**	54,782
Total debt		**1,826**	60,179
Total equity		**1,234,287**	381,310
Debt-to-equity ratio		**0.1%**	15.8%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 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 exposure to credit risk arising from cash at banks, deposits placed at banks and wealth management products, is limited because the counterparties are state-owned or reputable banks and financial institutions, for which the management believes are of high credit quality. Accordingly, the Group's credit risk is primarily attributable to trade and other receivables. Management monitors the exposure to credit risk on an ongoing basis.

The Group normally require its distributors to make full prepayment prior to the delivery of the products. The Group offer credit sales to its medical device manufacturers and other customers, with credit periods from 30 to 90 days. The Group's exposure to credit risk arising from trade receivables is influenced mainly by the individual characteristics of each customer. The default risk of the industry or country in which the customers operate also has an influence on credit risk. As at 31 December 2019 and 2018, 74% and 87% of the total trade receivables were due from the Group's top five largest customers. Normally, the Group does not obtain collateral from customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group measures loss allowances for trade receivables at lifetime ECL. The Group determines ECL by using a provision matrix, estimated based on historical credit loss experience, the past default experience of the debtor, general economic conditions of the industry and country in which the debtors operates and an assessment of both the current and the forecast duration of condition as of the end of the reporting period. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2019 and 2018:

	As at 31 December 2019		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 3 months	**0.36%**	**13,647**	**(49)**
3–6 months	**1.00%**	**1,114**	**(11)**
		14,761	**(60)**

	As at 31 December 2018		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Within 3 months	1.18%	6,848	(81)
		6,848	(81)

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's shareholders when the borrowings exceed certain predetermined levels of authority. 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 readily realisable marketable securities 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 as of the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current as at the end of reporting periods) and the earliest date the Group can be required to pay:

	As at 31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Lease liabilities	**287**	**280**	**781**	**844**	**2,192**	**1,826**
Trade and other payables	**27,834**	**–**	**–**	**–**	**27,834**	**27,834**
	28,121	**280**	**781**	**844**	**30,026**	**29,660**

	As at 31 December 2018					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*	Carrying amount *RMB'000*
Lease liabilities	5,651	6,499	23,289	43,401	78,840	60,179
Trade and other payables	13,730	–	–	–	13,730	13,730
	19,381	6,499	23,289	43,401	92,570	73,909

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(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 deposits with banks, wealth management products issued by banks and financial institution and lease liabilities. Instruments bearing interest at variable rates and fixed rates expose the Group to cashflow interest rate risk and fair value interest rate risk respectively. The Group regularly reviews its strategy on interest rate risk management in the light of the prevailing market condition. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's financial assets and liabilities as of the end of the reporting period.

	2019		2018	
	Effective interest rate %	***RMB'000***	Effective interest rate %	*RMB'000*
Fixed rate instruments:				
Lease liabilities	**4.9%**	**(1,826)**	4.9%	(60,179)
Deposits placed with banks	**3.7%–4.1%**	**844,984**	3.2%–4.0%	226,636
		843,158		166,457
Variable rate instruments:				
Cash at bank	**0.0001%–0.35%**	**191,774**	0.0001%–0.35%	71,513
Financial assets at fair value through profit or loss	**3.5%-3.85%**	**21,402**		–
		1,056,334		237,970

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

The following table details the effect on the Group's profit after tax for the reporting period and retained profits as at the end of the reporting period that an increase/decrease of 100 basis points in interest rates would have.

	As at 31 December 2019				As at 31 December 2018			
	Increase/ (decrease) of basis point	Effect on profit after tax RMB'000	Effect on retained earnings RMB'000	Effect on non-controlling interests RMB'000	Increase/ (decrease) of basis point	Effect on profit after tax RMB'000	Effect on retained earnings RMB'000	Effect on non-controlling interests RMB'000
Interest rates	100	9,010	8,902	108	100	2,040	2,017	23
	(100)	(9,010)	(8,902)	(108)	(100)	(2,040)	(2,017)	(23)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances 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 ("EUR"), United States dollars ("USD") and Hong Kong Dollar ("HKD").

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's exposure as at the end of the reporting reriods to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	31 December 2019			31 December 2018	
	USD RMB'000	EUR RMB'000	HKD RMB'000	USD RMB'000	EUR RMB'000
Trade and other receivables	2,214	–	–	280	–
Cash and cash equivalents	44,189	1,113	178,095	43,057	477
Trade and other payables	(376)	(350)	–	(255)	–
Net exposure arising from recognised assets and liabilities	46,027	763	178,095	43,082	477

(ii) Sensitivity analysis

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

	As at 31 December 2019			As at 31 December 2018		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on non-controlling interests RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on non-controlling interests RMB'000
USD	10%	3,887	(3)	10%	3,662	*
	(10%)	(3,887)	3	(10%)	(3,662)	(*)
EUR	10%	72	(10)	10%	41	–
	(10%)	(72)	10	(10%)	(41)	–
HKD	10%	15,130	–	10%	–	–
	(10%)	(15,130)	–	(10%)	–	–

* The balance represents an amount less than RMB1,000.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of 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 the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy *(Continued)*

A valuation report with analysis of changes in fair value measurement is prepared by the finance team at each interim and annual reporting date, and is reviewed and approved by the head of finance department. Discussion of the valuation process and results with the head of finance department and the directors is held twice a year, to coincide with the reporting dates.

	As at 31 December 2019			
	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Financial assets at FVTPL				
— Net value-based wealth management products issued by banks	–	16,893	–	16,893
— Variable income-based wealth management products issued by banks	–	–	4,509	4,509

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of net value-based wealth management products issued by banks have been estimated using the market approach by reference to the prices provided by the counterparty banks which represented the prices they would pay to redeem the products at the end of each reporting period.

Information about Level 3 fair value measurements

The fair value of variable income-based wealth management products issued by banks and financial institution is determined by discounting the cash flow associated with the product which is based on the expected rate of return in the product manual. The expected rate of return is not guaranteed and depends on the market price of underlying financial instruments, including bonds and debentures, monetary funds, listed shares and other financial assets, etc.

The valuation requires the directors to make estimates about the expected future cash flows including expected rate of return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation techniques are reasonable, and that they were the most appropriate values at the end of the reporting period.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(e) Fair value measurement *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Information about Level 3 fair value measurements *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of these wealth management products together with a quantitative sensitivity analysis at 31 December 2019:

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Variable income-based wealth management products issued by banks	Discounted cash flow method	Expected rate on return	3.50% to 3.85%	0.5% increase/(decrease) in expected rate on return would result in increase/(decrease) in fair value by RMB23,000

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The movements during the year in the balance of these Level 3 fair value measurements was as follows:

	Variable income-based wealth management products		
	Issued by Banks *RMB'000*	Issued by Financial Institutions *RMB'000*	Total *RMB'000*
At 31 December 2018 and 1 January 2019	–	–	–
Purchase of wealth management products	11,000	150,000	161,000
Net realised and unrealised gains recognised in profit or loss	237	2,106	2,343
Redemption of wealth management products	(6,728)	(152,106)	(158,834)
At 31 December 2019	**4,509**	**–**	**4,509**

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

All financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019 and 2018.

25 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2019 and 2018 not provided for in the financial statements were as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	–	2,006
Authorised but not contracted for	418,768	–
Total	418,768	2,006

(b) Operating lease commitments

At 31 December 2019 and 2018, the total future minimum lease payments under non-cancellable short term (i.e. within 12 months) operating leases for properties are payable as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within 1 year	–	139

26 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 employees as disclosed in note 9.

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	4,223	2,150

Total remuneration is included in "Staff costs" (note 6(b)).

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Related party transactions

During the reporting period, the directors are of the view that the following companies are related parties:

Name of party	Relationship
KDL#	Single largest shareholder of the Company
Guangdong Kindly Medical Group Co., Ltd.*# (Chinese name as 廣東康德莱醫療器械集團有限公司)	Subsidiary of KDL
Zhejiang Kindly Medical Devices Co., Ltd.*# (Chinese name as 浙江康德莱醫療器械股份有限公司)	Subsidiary of KDL
Nanchang Kindly Medical Technology Co., Ltd.*# (Chinese name as 南昌康德莱醫療科技有限公司)	Associate of KDL
Shanghai Kindly International Trade Co., Ltd.*# (Chinese name as 上海康德莱國際商貿有限公司)	Subsidiary of KDL
Wenzhou Kindly Medical Devices Co., Ltd.*# (Chinese name as 温州康德莱醫療器械有限公司)	Subsidiary of KDL
Hunan Kindly Medical Device Co., Ltd. (Chinese name as 湖南康德莱醫療器械有限責任公司)	Subsidiary of KDL
Guangdong Kindly Medical Device Industry Services Co., Ltd.*^ (Chinese name as 廣東康德莱醫療器械產業服務有限公司)*#	Subsidiary of KDL
Beijing Kangbaishi Trade Co., Ltd. *# (Chinese name as 北京康百世商貿有限公司)	Subsidiary of KDL
Shanghai Kindly Pipe Manufacture Co., Ltd. *# (Chinese name as 上海康德莱制管有限公司)	Subsidiary of KDL
Shanghai Kindly Holdings Group Co., Ltd.*^ (Chinese name as 上海康德莱控股集團有限公司, "KDL Holding")	Controlling shareholder of KDL
Zhuhai Kindly Medical Industry Investments Co., Ltd.*^ (Chinese name as 珠海康德莱醫療產業投資有限公司,)	Subsidiary of KDL Holding
Zhuhai Gongsheng Medical Industry Services Co., Ltd.*^ (Chinese name as 珠海共生醫療產業服務有限公司)	Subsidiary of KDL Holding
Ningbo Huaige Health Investment Management Partnership (Limited Partnership)* # (Chinese name as 寧波懷格健康投資管理合伙企業(有限合伙), "Ningbo Huaige Health")	General partner of Ningbo Huaige Taiyi, which holds 15.18% equity interest in the Company

* English translation is for identification purpose only.

\# KDL and its subsidiaries/associates (excluding the Group) are herein referred to as "KDL Group".

^ KDL Holding and its subsidiaries/associates (excluding KDL Group and the Group) are herein referred to as "KDL Holding Group".

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Related party transactions *(Continued)*

During the reporting period, the Group entered into the following material related party transactions:

	2019	2018
	RMB'000	*RMB'000*
Rental fee charged by:		
— *KDL Group*	**4,006**	4,888
— *KDL Holding Group*	**373**	196
Purchase of property and land use right from KDL	**61,305**	–
Sales of property, plant and equipment to KDL	**–**	1,179
Sales of goods to KDL Group	**13,047**	14,056
Purchase of raw materials from KDL Group	**1,749**	2,207
Consulting fee charged by Ningbo Huaige Health	**700**	278

(c) Related party balances

The outstanding balances arising from the above transactions as at the end of the reporting period are as follows:

	31 December	31 December
	2019	2018
	RMB'000	*RMB'000*
Amounts due from related parties		
Trade related:		
KDL Group	**2,960**	2,647
KDL Holding Group	**294**	51
Total	**3,254**	2,698
Amounts due to related parties		
Trade related:		
KDL Group	**277**	236
Ningbo Huaige Health (i)	**–**	500
Total	**277**	736

NOTES TO THE FINANCIAL STATEMENTS

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Related party balances *(Continued)*

Notes:

(i) In April 2018, the Company entered into a two-year contract with Ningbo Huaige Health for consultancy services provided to the Company relating to strategic plan and financial advisory, etc. at a total fee of RMB 3,000,000. In December 2018, Ningbo Huaige Health became a related party of the Company upon Ningbo Huaige Taiyi, its controlled entity, injected capital of RMB 126 million into the Company as set forth in note 23(b)(ii). Thus, the consulting fee charged by Ningbo Huaige Health was presented as a related party transaction since 11 December 2018.

(ii) The trade-related outstanding balances with related parties are unsecured, non-interest bearing and are repayable on demand.

(d) Other related party transactions

(i) Pursuant to an agreement dated 20 June 2018, KDL authorised the Company using its trademark "康德莱" or "KDL"* on products for 20 years, commencing from 31 October 2018 to 31 October 2038. No fee is to be charged by KDL from 31 October 2018 to 31 October 2028. KDL is to charge the Company a royalty fee at an agreed amount which shall be no more than 1% of the Group's total sales of products with "康德莱" or "KDL"* trademark from 31 October 2028 to 31 October 2038.

(ii) KDL authorised the Company using its trademark "康德莱" or "KDL"* as its company name in an indefinite period with free of charge.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of (i) sales of goods to KDL Group, (ii) rental fee charged by KDL Group and KDL Holding Group and (iii) purchase of property and land use right from KDL as disclosed in note 26(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Directors' Report under heading "Connected Transactions".

The related party transaction in respect of (i) purchase of raw materials from KDL Group and (ii) consulting fee charged by Ningbo Huaige Health as disclosed in note 26(b) and transactions disclosed in note 26(d) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets		
Property, plant and equipment	97,262	50,599
Right-of-use assets	37,610	57,824
Prepayment of lease	–	10,000
Intangible assets	716	572
Other non-current assets	6,105	4,073
Deferred tax assets	544	456
Interests in subsidiaries	79,133	36,126
	221,370	159,650
Current assets		
Inventories	34,703	29,674
Trade and other receivables	12,963	5,469
Amounts due from subsidiaries	905	2,016
Other current assets	–	2,038
Financial assets at fair value through profit or loss	12,772	–
Cash and cash equivalents	995,461	271,742
	1,056,804	310,939
	1,278,174	470,589
Current liabilities		
Trade and other payables	30,763	15,952
Amounts due to subsidiaries	17,978	8,118
Contract liabilities	6,751	10,805
Lease liabilities	156	5,193
Deferred income	494	494
Current taxation	5,573	1,025
	61,715	41,587
Net current assets	995,089	269,352
Total assets less current liabilities	1,216,459	429,002

NOTES TO THE FINANCIAL STATEMENTS

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

	Note	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current liabilities			
Lease liabilities		**1,595**	54,782
Deferred income		**3,442**	3,214
		5,037	57,996
NET ASSETS		**1,211,422**	371,006
CAPITAL AND RESERVES			
Share capital	*23(a)*	**166,000**	60,000
Reserves	*23(a)*	**1,045,422**	311,006
TOTAL EQUITY		**1,211,422**	371,006

Approved and authorised for issue by the board of directors on 19 March 2020.

LIANG DONG KE
Director

WANG CAI LIANG
Director

(Company Stamp)

28 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

As at 31 December 2019, the directors considered the immediate controlling company of the Group is KDL, which is incorporated in the PRC. KDL is listed on the Shanghai Stock Exchange and produces its financial statements available for public use.

As at 31 December 2019, the directors considered the ultimate controlling company of the Group is KDL Holding, which is jointly controlled by Mr. Zhang Xianmiao, Ms. Zheng Aiping* (鄭愛平) and Mr. Zhang Wei* (張偉) (together referred to as "Zhang Family") and incorporated in the PRC. KDL Holding does not produce its financial statements available for public use.

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following, which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised conceptual framework for financial reporting 2018	1 January 2020
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020
Amendments to HKFRS 10 and HKAS 28, Sales 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, new standards and interpretations 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 results of operations and financial position.

* English translation is for identification purpose only.

30 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

(i) On 19 March 2020, the Company, Shanghai Huaige Enterprise Management Partnership (Limited Partnership) * 上海懷格企業管理合伙企業(有限合伙) ("Huaige Enterprise") and Ningbo Huaige Health conditionally entered into the Int Subscription Memorandum in relation to the establishment of, and investment in, Shanghai Huaige Int Phase I Venture Investment Partnership (Limited Partnership)* 上海懷格瑛泰一期創業投資合伙企業(有限合伙)(the "Int Fund"). Under the Int Subscription Memorandum, the target total capital contribution by the general partner and all the limited partners of the Int Fund no less than RMB110 million and no more than 200 million, and the capital contribution by the Company as a limited partner will be RMB50 million.

The Int Fund will be registered in the PRC as a limited partnership with the primary objective of venture investment in, among others, equity interests, convertible loans and/or financial assets in relation to start-ups or early-stage businesses in the medical devices industry mainly in the PRC. The investment priorities of the Int Fund include start-ups or early-stage businesses principally engaged in the research and development of cardiovascular interventional devices, neuro interventional procedural medical devices and other interventional medical devices.

On 19 March 2020, the Company and Ningbo Huaige Health conditionally entered into the Ruixin Subscription Memorandum in relation to the established of, and investment in, Jingning Huaige Ruixin Venture Investment Partnership (Limited Partnership)* 景寧懷格瑞信創業投資合伙企業(有限合伙) (the "Ruixin Fund"). Under the Ruixin Subscription Memorandum, the total contribution by the general partner and all the limited partners of the Ruixin Fund is no less than RMB300 million and no more than 400 million, and the capital contribution by the Company as a limited partner will be RMB50 million.

The Ruixin Fund will be registered in the PRC as a limited partnership with the primary objective of investments in equity interest of entities in the medical devices, pharmaceutical, biologics, medical services and Contract Research Organisation services industries mainly in the PRC with a focus of investing in other equity funds in the medical device and biomedical fields.

As of date of this report, the establishment of the Int Fund and the Ruixin Fund have yet to be completed subject to obtaining independent shareholders' approval. Further details of the Int Subscription Memorandum and the Ruixin Subscription Memorandum are set out in the Company's announcement dated 19 March 2020.

(ii) On 19 March 2020, the directors proposed a final dividend of RMB 0.175 per ordinary share.

(iii) The wide spread of the novel Coronavirus in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. Looking forward to 2020, it is expected that the operation of the Group, the progress of use of proceeds raised from IPO as well as the progress of research and development of pipeline products might be affected to certain extent. The Group has resumed to work in early February 2020 and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response in the future.

* English translation is for identification purpose only.

DEFINITIONS

"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"AGM"	the annual general meeting of the Company for the year 2019 to be convened and held on May 18, 2020
"Board of Directors" or "Board"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company"	Shanghai Kindly Medical Instruments Co., Ltd. (上海康德萊醫療器械股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Hong Kong Stock Exchange (Stock code: 1501)
"Controlling Shareholder(s)"	has the meaning ascribed under the Listing Rules and unless the context otherwise requires, refers to Shanghai Kindly Enterprise Development Group Co., Ltd. (上海康德萊企業發展集團股份有限公司), Shanghai Kindly Holding Group Co., Ltd. (上海康德萊控股集團有限公司), Mr. Zhang Xianmiao (張憲淼), Ms. Zheng Aiping (鄭愛平) and Mr. Zhang Wei (張偉) as a group of Controlling Shareholders of the Company, and each of them, a "Controlling Shareholder"
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in RMB and are unlisted Shares which are currently not listed or traded on any stock exchange
"Group" or "we" or "our"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Hong Kong Stock Exchange
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	Any entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"Listing"	the listing of the H Shares of the Company on the Main Board of the Stock Exchange
"Listing Date"	November 8, 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Non-Competition Undertaking"	the non-competition undertakings dated October 14, 2019 provided by the Controlling Shareholders in favor of the Company
"NMPA"	the National Medical Products Administration of China
"PCI"	percutaneous coronary intervention
"PRC" or "China"	the People's Republic of China, for the purpose of this annual report, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Proposed Final Dividend"	the proposed final dividend distribution plan of RMB0.175 per Share (equivalent to approximately HK$0.195 per Share) (inclusive of applicable tax) subject to the approval by the Shareholders at the AGM as described under the section headed "Final Dividend" on page 11 of this annual report
"Prospectus"	the prospectus of the Company dated October 28, 2019 in relation to global offering of H Shares of the Company
"PTCA"	percutaneous coronary angioplasty, a minimally invasive procedure to open up blocked coronary arteries, allowing blood to circulate unobstructed to the heart muscle
"Reporting Period"	the year ended December 31, 2019
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning ascribed thereto in the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company