



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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. Liang Dongke (梁棟科) (*Chairman*)
Mr. Lin Sen (林森) (appointed as executive Director on 16 May 2022)
Mr. Wang Cailiang (王彩亮) (ceased as an executive Director on 16 May 2022)

NON-EXECUTIVE DIRECTORS

Mr. Zhang Weixin (張維鑫)
Ms. Chen Hongqin (陳紅琴)
Dr. Song Yuan (宋媛) (appointed as non-executive Director on 16 May 2022)
Mr. Wang Ruiqin (王瑞琴) (appointed as non-executive Director on 16 May 2022)
Mr. Fang Shengshi (方聖石) (ceased as non-executive Director on 16 May 2022)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jian Xigao (蹇錫高)
Mr. Hui Hung Kwan (許鴻群)
Mr. Xu Congli (徐從禮) (appointed as independent non-executive Director on 16 May 2022)
Mr. Dai Kerong (戴尅戎) (ceased as independent non-executive Director on 16 May 2022)

SUPERVISORS

Ms. Ma Huifang (馬慧芳) (*Chairperson*) (appointed as chairperson of the Supervisory Committee and Supervisor on 16 May 2022)
Ms. Chen Jie (陳潔)
Mr. Shen Xiaoru (沈曉如) (appointed as Supervisor on 16 May 2022)
Ms. Wang Li (王莉) (ceased as Supervisor on 16 May 2022)
Mr. Xu Jianhai (徐建海) (ceased as Supervisor on 16 May 2022)

AUDIT COMMITTEE

Mr. Hui Hung Kwan (許鴻群) (*Chairman*)
Mr. Xu Congli (徐從禮) (appointed as member on 16 May 2022)
Dr. Song Yuan (宋媛) (appointed as member on 16 May 2022)
Mr. Jian Xigao (蹇錫高) (ceased as member on 16 May 2022)
Mr. Fang Shengshi (方聖石) (ceased as member on 16 May 2022)

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. Jian Xigao (蹇錫高)
Mr. Xu Congli (徐從禮) (appointed as member on 16 May 2022)
Mr. Dai Kerong (戴尅戎) (ceased as member on 16 May 2022)

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)

AUDITORS

International auditor:

KPMG

(Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance)

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

Domestic auditor:

BDO China Shu Lun Pan Certified Public Accountants LLP

4th Floor
No. 61 Nanjing East Road
Shanghai 200002
PRC

CORPORATE INFORMATION

LEGAL ADVISERS

As to Hong Kong law:

O'Melveny & Myers

31st Floor, AIA Central
1 Connaught Road Central
Hong Kong

As to PRC law:

DeHeng Shanghai Law Office

Floor 23, Sinar Mas Plaza
No.501 East Da Ming Road
Shanghai
PRC

REGISTERED OFFICE IN THE PRC

Block 2, No. 925 Jin Yuan Yi Road
Jiading District, Shanghai
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Block 2, No. 925 Jin Yuan Yi Road
Jiading District, Shanghai
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
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, Shanghai
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 31 December 2022 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 RMB585.88 million, representing an increase of approximately 26.08% or approximately RMB121.20 million as compared to approximately RMB464.68 million for the year ended 31 December 2021. The Group's revenue generated from sales of interventional medical devices in the Reporting Period was approximately RMB505.48 million, representing an increase of approximately 15.89% or approximately RMB69.32 million as compared to approximately RMB436.16 million for the year ended 31 December 2021. The Group's profit for the Reporting Period was approximately RMB133.83 million, representing a decrease of approximately 4.7% as compared to approximately RMB140.45 million for the year ended 31 December 2021. The basic and diluted earnings per share in the Reporting Period were RMB0.79 and RMB0.78, as compared to RMB0.86 and RMB0.86 for the year ended 31 December 2021.

OPERATION REVIEW

As of 31 December 2022, the Group was comprised of 14 wholly-owned or holding subsidiaries engaging in the design and development of medical devices used in fields including cardiovascular intervention or implantation, neurological intervention or implantation, peripheral intervention or implantation, urinary intervention, the design and development of equipment and moulds used for production of medical devices.

In terms of distribution network, as of 31 December 2022, our PRC distributors cover 23 provinces, 4 directly-administered municipalities and 5 autonomous regions in the PRC, covering 2,317 domestic hospitals in the PRC including 908 Tier III hospitals. In addition, we had 207 overseas customers covering over 58 countries and regions.

RESEARCH AND DEVELOPMENT

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

- obtained 9 new products certificates, 6 of which have obtained NMPA registration certificates for Class III medical devices; and 3 of which have obtained SMPA registration certificates for Class II medical devices;
- obtained one product approval, including Introducer Set, which have obtained United States FDA approval; and
- commenced clinical trial for the Hanchor Valve and the absorbable fluid gelatin Matrix.

As of 31 December 2022, we had 260 registered patents, 184 patents under application and 5 registered software.

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 held and took part in several online and offline exhibition promotions and other academic promotion meetings. By the end of 2022, our PRC distributors cover 23 provinces, 4 directly-administered municipalities and 5 autonomous regions in the PRC, and covering 2,317 domestic hospitals in the PRC including 908 Tier III hospitals. In addition, we had 207 overseas customers covering over 58 countries and regions.

OUTLOOK

In 2023, the Company will continue to deeply develop various fields of medical devices, and orderly promote the Company's strategic planning and business layout. Looking forward to 2023, we will (1) further develop the product pipeline, allocate more resources for research and development, further progress on the research and development, core product pipeline and obtaining approvals for new products; (2) fully leverage on our brand recognition and sales distribution network to further expand our market share, and strengthen and maintain our leading position in the interventional medical devices industry; and (3) fully use of the Group's investment in the research and development center in Shanghai and the new factory in Zhuhai to further enhance automation and scale production.

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

20 March 2023

FINANCIAL SUMMARY

| | For the year ended 31 December | | | | |
|---|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2022 RMB'000 | 2021 RMB'000 | 2020 RMB'000 | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 585,883 | 464,675 | 358,428 | 286,457 | 203,059 |
| Gross Profit | 332,486 | 275,745 | 234,415 | 174,442 | 118,397 |
| Profit from operations | 145,286 | 156,324 | 137,177 | 113,738 | 68,000 |
| Net profit for the year | 133,833 | 140,445 | 116,517 | 96,535 | 58,236 |
| Profitability | | | | | |
| Gross profit margin | 56.7% | 59.3% | 65.4% | 60.9% | 58.3% |
| Net profit margin | 22.8% | 30.2% | 32.5% | 33.7% | 28.7% |
| Earnings per share (RMB) | | | | | |
| Basic | 0.79 | 0.86 | 0.73 | 0.79 | 0.68 |
| Diluted | 0.78 | 0.86 | 0.73 | 0.79 | 0.68 |
| | As at 31 December | | | | |
| | 2022 RMB'000 | 2021 RMB'000 | 2020 RMB'000 | 2019 RMB'000 | 2018 RMB'000 |
| Assets | | | | | |
| Total assets | 1,827,334 | 1,621,545 | 1,422,684 | 1,298,580 | 482,040 |
| Total liabilities | 273,230 | 183,625 | 95,036 | 64,293 | 100,730 |
| Total equity attributable to equity shareholders of the Company | 1,512,015 | 1,395,472 | 1,305,650 | 1,216,381 | 372,025 |

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 mould and equipment, product injection, product assembly, product packaging to sterilisation in the PRC. Our major products are primarily used for cardiovascular surgeries.

In 2022, the COVID-19 epidemic (“**COVID-19**”) was sealed off in Shanghai and COVID-19 was still severe in China. Non-emergency surgeries were postponed. Despite the impact of the COVID-19, the Company’s business still maintained growth, with an overall year-on-year growth rate of approximately 26.08%.

In China, the government introduced reform policies to support the healthy and orderly development of the medical industry. The Central Committee of the Communist Party of China and the State Council issued “Opinions on Deepening the Reform of the Medical Security System”, calling for the incorporation of drugs, diagnosis and treatment items, and medical consumables with high clinical value and good economic evaluation into the scope of medical insurance payment, continued reform of centralized volume and full implementation of volume-based procurement of medical consumables. In 2022, the State Council issued “the 14th Five-Year Plan for National Medical Security”, further promoting the normalization and institutionalization of centralized volume procurement, and continuously expanding the scope of centralized volume procurement of high-value medical consumables. National Healthcare Security Administration issued the “Notice on Issuing the Three-year Action Plan for the Reform of DRG/DIP Payment Mode”, aiming to establish a national unified, top-down linkage and internal and external coordination of payment mechanism, and continue to expand the coverage area of DRG/DIP payment mode. The Company, with comprehensive medical device registration certificates, strong research and development capabilities and leading brand marketing system, will have a greater advantage in the future DRG/DIP competition.

The Group’s revenue in the Reporting Period was approximately RMB585.88 million, representing an increase of approximately 26.08% or approximately RMB121.20 million as compared to approximately RMB464.68 million for the year ended 31 December 2021, due to the growth in sales volume of interventional medical devices as a result of proactively expanding our distribution network and the growth in sale volume of agent business. The Group’s revenue generated from sales of interventional medical devices in the Reporting Period was approximately RMB505.48 million, representing an increase of approximately 15.89% or approximately RMB69.32 million as compared to approximately RMB436.16 million for the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Comprehensive medical device registration certificates

During the Reporting Period, the Group has obtained 6 National Medical Products Administration of China (“NMPA”) registration certificates for Class III medical devices, 3 Shanghai Medical Products Administration (“SMPA”) registration certificates for Class II medical devices and 1 United States Food and Drug Administration (“FDA”) approvals. As at 31 December 2022, we have an aggregate of 31 NMPA registration certificates for Class III medical devices, 23 SMPA registration certificates for Class II medical devices, 36 European CE certificates and 18 United States FDA approvals.

Strong research and development capabilities

Our research and development team consists of professionals who possess doctorate degrees and master’s degrees and numerous talents who have over 10 years of experience in research and development of production, with adequate capabilities in the development of innovation products and sustainable improvement of research and development. As at 31 December 2022, we had 260 registered patents, 184 patents under application and 5 registered software.

Extensive distribution and sales network

We have an extensive distribution network and have developed and maintained stable relationships with our distributors. By the end of 2022, our PRC distributors cover 23 (2021: 23) provinces, 4 (2021: 4) directly-administered municipalities and 5 (2021: 5) autonomous regions in the PRC, and covering 2,317 (2021: 2,100) domestic hospitals in the PRC including 908 (2021: 817) Tier III hospitals. In addition, we had 207 (2021: 184) overseas customers covering over 58 (2021: 51) countries and regions.

ACTIVITIES REVIEW

Subsidiaries

As at 31 December 2022, the Group was comprised of 14 (2021: 12) wholly-owned or holding subsidiaries engaging in the design and development of medical devices used in fields including cardiovascular intervention or implantation, neurological intervention or implantation, peripheral intervention or implantation, urinary intervention, and the design and development of equipment and moulds used for production of medical devices.

Renewal of Continuing Connected Transactions

Reference is made to the announcements of the Company dated 14 January 2022 and 20 January 2022 in relation to renewal of the continuing connected transactions under a procurement framework agreement dated 31 December 2018 entered into between the Company and 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 a procurement framework agreement dated 31 December 2018 entered into between the Company and Zhejiang Kindly Medical Devices Co., Ltd.* (浙江康德萊醫療器械股份有限公司), both of which as amended and supplemented by a supplemental procurement framework agreement dated 14 October 2019 entered into by and between the Company and KDL (collectively, the “**2019 Medical Accessories and Molds Sales Framework Agreement**”). The Company and KDL entered into the 2022 medical accessories and molds sales framework agreement on 14 January 2022 (the “**2022 Medical Accessories and Molds Sales Framework Agreement**”) to update and renew the 2019 Medical Accessories and Molds Sales Framework Agreement for the three years ending 31 December 2024 and the annual transaction amounts shall not exceed RMB10 million of each year. As at the date of the agreement (i.e., 14 January 2022), KDL was one of the controlling shareholders of the Company, which held approximately 25.82% equity interest in the Company. As such KDL is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions under 2022 Medical Accessories and Molds Sales Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

As the highest applicable percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14 of the Listing Rules for the transactions under the 2022 Medical Accessories and Molds Sales Framework Agreement are more than 0.1% but less than 5%, the transactions under the 2022 Medical Accessories and Molds Sales Framework Agreement is subject to the reporting, announcement, annual review requirements but is exempted from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Re-election and Appointment of Directors and Supervisors

Reference is made to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022 in relation to, among others, the re-election and appointment of Directors and Supervisors.

At the Company's annual general meeting held on 16 May 2022 (the "2022 AGM"), Dr. Liang Dongke was re-elected as an executive Director; Mr. Lin Sen was appointed as an executive Director; Mr. Zhang Weixin and Ms. Chen Hongqin were re-elected as non-executive Directors; Dr. Song Yuan and Mr. Wang Ruiqin were appointed as non-executive Directors; Mr. Jian Xigao and Mr. Hui Hung Kwan were re-elected as independent non-executive Directors and Mr. Xu Congli was appointed as an independent non-executive Directors, of the Third Session of the Board. For biographical details of the Directors of the Third Session of the Board and other information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, please refer to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022.

At the employee representatives' meeting of the Company held on 18 March 2022, Ms. Chen Jie was appointed democratically as an employee representative Supervisor of the Third Session of the Supervisory Committee and should come into effect from the convening date of the 2022 AGM (i.e. 16 May 2022) until the date of the annual general meeting to be convened in 2025. At the 2022 AGM, Ms. Ma Huifang and Mr. Shen Xiaoru were appointed as the shareholder representative Supervisors of the Third Session of the Supervisory Committee. For biographical details of the Supervisors of the Third Session of the Supervisory Committee and other information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, please refer to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022.

Adoption of the H Share Award and Trust Scheme

Reference is made to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022 in relation to, among others, the adoption of the H Share Award and Trust Scheme. The adoption of H Share Award and Trust Scheme was approved by the Shareholders at the 2022 AGM. For the principal terms of the H Share Award and Trust Scheme, please refer to the circular of the Company dated 11 April 2022. The H Share Award and Trust Scheme involves no issue of new shares or granting of option for any new securities of the Company. The H Share Award and Trust Scheme constitutes a share scheme involving existing shares under Chapter 17 of the Listing Rules as effective since 1 January 2023.

As at 31 December 2022, the Company has not granted any H Shares to any participant under the H Share Award and Trust Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Change of Company Name

Reference is made to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022 in relation to, among others, the proposed change of the English name of the Company from “Shanghai Kindly Medical Instruments Co., Ltd.” to “Shanghai INT Medical Instruments Co., Ltd.” and change of the Chinese name of the Company from “上海康德萊醫療器械股份有限公司” to “上海康德瑛泰醫療器械股份有限公司” (the “**Change of Company Name**”). The Change of Company Name was approved by the Shareholders at the 2022 AGM. The Company is in the process of registration with the authorities in the PRC. Thereafter, the Company will carry out necessary filing procedures with the Companies Registry in Hong Kong and will further apply to the Stock Exchange for the change in the English and Chinese stock short names for trading in the H Shares on the Stock Exchange.

The Board considered the proposed name of “上海康德瑛泰醫療器械股份有限公司 (Shanghai INT Medical Instruments Co., Ltd.)” will be helpful to establish an independent corporate identity, strengthen market recognition of the Company’s own brand, and will be aligned with the Company’s future strategic development plan.

Connected Transaction of Establishment of Limited Partnership

On 18 August 2022, the Company conditionally entered into a partnership agreement with 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) (as the general partner and fund manager) and other investors (as the limited partners) in relation to establishment of, and investment in, Chengdu Huaige Guosheng Venture Investment Partnership (Limited Partnership)* 成都懷格國生創業投資合夥企業(有限合夥) (“**Chengdu Huaige Fund**”). The Company will participate in the Chengdu Huaige Fund as a limited partner and will make a capital commitment of RMB50 million. The Chengdu Huaige Fund will be registered in the PRC as a limited partnership with the primary objective of investments in equity interest of entities in early-stage or growth stage businesses in the healthcare and biotechnology sectors.

Further details are set out in the announcements of the Company dated 18 August 2022 and 23 August 2022.

OUTLOOK FOR 2023

In 2023, the Company will continue to deeply develop various fields of medical devices, and orderly promote the Company’s strategic planning and business layout. Looking forward to 2023, we will (1) further develop the product pipeline, allocate more resources for research and development, further progress on the research and development, core product pipeline and obtaining approvals for new products; (2) fully leverage on our brand recognition and sales distribution network to further expand our market share, and strengthen and maintain our leading position in the interventional medical devices industry; and (3) fully use of the Group’s investment in the research and development center in Shanghai and the new factory in Zhuhai to further enhance automation and scale production.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

The Group's revenue in the Reporting Period was approximately RMB585.88 million, representing an increase of approximately 26.08% or approximately RMB121.20 million as compared to approximately RMB464.68 million for the year ended 31 December 2021, due to the growth in sales volume of interventional medical devices as a result of proactively expanding our distribution network and the growth in sale volume of agent business.

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 RMB505.48 million (2021: approximately RMB436.16 million), representing approximately 86.28% of the total revenue as compared to approximately 93.86% for the year ended 31 December 2021. The Group's revenue generated from sales of medical accessories was approximately RMB16.85 million (2021: approximately RMB12.02 million), representing approximately 2.88% (2021: approximately 2.59%) of the total revenue. The Group's revenue generated from agent business was approximately RMB50.33 million (2021: approximately RMB14.00 million), representing approximately 8.59% (2021: approximately 3.01%) of the total revenue.

Cost of Sales

The Group's cost of sales in the Reporting Period was approximately RMB253.40 million, representing an increase of approximately 34.12% or approximately RMB64.47 million as compared to approximately RMB188.93 million for the year ended 31 December 2021. It was mainly due to the growth of sale expansion during the Reporting Period.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit was approximately RMB332.49 million, as compared to approximately RMB275.75 million for the year ended 31 December 2021. Gross profit margin decreased from approximately 59.34% to approximately 56.75% as compared to the year ended 31 December 2021. The decrease in gross profit margin was mainly due to the increase in the proportion of revenue from agent business with lower gross profit margin.

Other Income

During the Reporting Period, other income was approximately RMB34.04 million, representing an decrease of approximately 32.15% or approximately RMB16.13 million as compared to approximately RMB50.17 million for the year ended 31 December 2021. Net realised and unrealised gains from fair value changes on financial assets measured at fair value through profit or loss for the Reporting Period was approximately RMB7.36 million (2021: approximately RMB29.29 million).

Finance Costs

During the Reporting Period, the finance cost was approximately RMB0.82 million as compared to approximately RMB0.63 million for the year ended 31 December 2021. The finance costs were interests arising from lease liabilities and loans and borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Distribution Costs

The distribution costs of the Group in the Reporting Period were approximately RMB56.39 million, increased by approximately 87.85% or approximately RMB26.37 million as compared to approximately RMB30.02 million for the year ended 31 December 2021. It constituted approximately 9.63% of the total revenue as compared to approximately 6.46% for the year ended 31 December 2021. The increase in distribution costs was primarily due to: (1) the sales team was expanded; and (2) the exhibition promotions in the PRC and overseas.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB64.29 million, as compared to approximately RMB49.05 million for the year ended 31 December 2021. The rise was mainly due to 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 RMB140.94 million, of approximately RMB41.31 million (2021: RMB19.85 million) was capitalised as intangible assets and the remaining approximately RMB99.63 million (2021: RMB89.96 million) was charged to profit or loss, representing an increase of 28.35% or RMB31.13 million as compared to approximately RMB109.81 million for the year ended 31 December 2021. The rise was primarily due to the Group's continued development 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 RMB10.64 million, representing a decrease of approximately 30.24% or approximately RMB4.61 million as compared to approximately RMB15.25 million for the year ended 31 December 2021. The effective income tax rate was approximately 7.36% for the Reporting Period as compared to approximately 9.81% for the year ended 31 December 2021. The decrease was due to an increase in assets expected to be tax-deductible in 2022.

Profit for the year

The Group's profit for the year in the Reporting Period was approximately RMB133.83 million, representing a decrease of approximately 4.71% as compared to approximately RMB140.45 million for the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a sound financial position during the Reporting Period. As at 31 December 2022, the Group's cash and bank balance amounted to approximately RMB518.27 million (2021: approximately RMB640.55 million). For the year ended 31 December 2022, net cash flow from operating activities of the Group amounted to approximately RMB180.46 million (2021: approximately RMB72.76 million).

The Group recorded total current assets of approximately RMB801.94 million as at 31 December 2022 (31 December 2021: approximately RMB858.44 million) and total current liabilities of approximately RMB239.67 million as at 31 December 2022 (31 December 2021: approximately RMB153.22 million). The current ratio (calculated by dividing the current assets by the current liabilities) of the Group was approximately 3.35 as at 31 December 2022 (31 December 2021: approximately 5.60).

BORROWINGS AND GEARING RATIO

As at 31 December 2022, the Group's loan of approximately RMB32.68 million was borrowed from bank in the PRC. As such, the gearing ratio is 3.14% (2021: 0.93%).

CAPITAL STRUCTURE

Total equity attributable to equity shareholders of the Company amounted to approximately RMB1,512.02 million as at 31 December 2022 as compared to approximately RMB1,395.47 million as at 31 December 2021.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of RMB0.24 per share (equivalent to HK\$0.27 per share) (inclusive of applicable tax) (the "**Proposed Final Dividend**") for the year ended 31 December 2022 (2021: RMB0.26 per share). Subject to the approval of the Proposed Final Dividend by the Shareholders at the annual general meeting of the Company (the "**2023 AGM**") to be held on Thursday, 18 May 2023, the Proposed Final Dividend will be distributed on or about Wednesday, 28 June 2023 to the Shareholders whose names appear on the register of members of the Company on Saturday, 3 June 2023 (the "**Record Date**").

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

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 16 March 2007 and amended on 24 February 2017 and 29 December 2018 (the latest amendment which has taken effect on the even date), and its implementation regulations which came into effect on 1 January 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.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE GLOBAL OFFERING

Upon completion of the Global Offering, the Company raised net proceeds of approximately RMB797.62 million (after deducting the listing fees and other expenses). As at 31 December 2022, the Company has utilized approximately RMB571.59 million of the net proceeds. As disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 28 October 2019 and the announcements of the Company dated 7 July 2020, 31 March 2021 and 20 June 2022, the details of intended application of net proceeds are set out as follows:

| | Revised allocation of the net proceeds | | After revision/ unutilized net proceeds as at 1 January 2022 | Utilized net proceeds during the Reporting Period | Utilized net proceeds up to 31 December 2022 | Unutilized net proceeds up to 31 December 2022 | Expected timeline of full utilization of the unutilized net proceeds |
|---|--|-----------------------------|---|---|--|--|---|
| | (RMB million) | (Approximate percentage) | (RMB million) | (RMB million) | (RMB million) | (RMB million) | |
| Set up a research and development center and an additional production facility in Jiading, Shanghai | 271.99 | 34.10% | 73.85 | 73.85 | 271.99 | - | Not applicable |
| Purchase additional and replacement of existing production equipment and automate production lines | 110.07 | 13.80% | 78.89 | 26.17 | 57.35 | 52.72 | December 2023 |
| Expand our distribution network and coverage, collaborate with local distributors and intensify our marketing efforts | 13.00 | 1.63% | - | - | 13.00 | - | Not applicable |
| General corporate purposes and fund our working capital | 79.84 | 10.01% | - | - | 79.84 | - | Not applicable |
| Zhuhai Derui New Factory Project | 110.00 | 13.79% | 20.87 | 20.87 | 110.00 | - | Not applicable |
| Construction of the Shandong INT Innovative Medical Instruments Industrial Park | 156.33 | 19.60% | 149.48 | 32.56 | 39.41 | 116.92 | June 2024 |
| Potential acquisitions | 56.39 | 7.07% | 56.39 | - | - | 56.39 | December 2023 |
| Total | 797.62 | 100.00% | 379.48 | 153.45 | 571.59 | 226.03 | |

As at the date of this report, the unutilized net proceeds has been deposited into short-term deposits in the bank account maintained by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE REMUNERATION AND RELATIONS

As at 31 December 2022, the Group had a total of 1,632 employees, comparing to 1,189 employees as at 31 December 2021. The total cost of employees for the Reporting Period amounted to approximately RMB190.67 million (2021: approximately RMB133.93 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 has adopted two share schemes, including the Share Incentive Scheme and the H Share Award and Trust Scheme to recognise the contributions of certain employees and help in retaining them for the Group's operation and further development. The Group also 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 Reporting Period.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2022 and 31 December 2021, the Group had below significant investments, (all of which are minority stake investments).

| | At 31 December 2022 | | | | | | At 31 December 2021 | | | | | |
|--|-------------------------|--------------------|------------|----------------------|------------------|-------------------|-------------------------|--------------------|------------|----------------------|------------------|-------------------|
| | Percentage of interests | Cost of investment | Fair value | Size relative to the | | | Percentage of interests | Cost of investment | Fair value | Size relative to the | | |
| | | | | Group's total assets | Accumulated gain | Dividend received | | | | Group's total assets | Accumulated gain | Dividend received |
| % | RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | |
| Recognised as "financial assets at fair value through profit or loss" | | | | | | | | | | | | |
| Jingning Huaige Ruixin Venture Investment Partnership (Limited Partnership)* (景寧康格瑞信創業投資合夥企業(有限合夥)) (the "Ruixin Fund") | 15.83 | 50,000 | 71,180 | 3.90 | 21,180 | - | 15.83 | 50,000 | 63,071 | 3.89 | 13,071 | - |
| Shanghai Huaige Int Start-up Investment Limited Partnership (L.P.)* (上海康格瑞泰創業投資合夥企業(有限合夥)) (the "Int Fund") | 25.00 | 50,000 | 57,671 | 3.16 | 7,671 | - | 25.00 | 50,000 | 60,103 | 3.71 | 10,103 | - |
| Chengdu Huaige Guosheng Venture Investment Partnership (Limited Partnership)* (成都康格國生創業投資合夥企業(有限合夥)) (the "Chengdu Huaige Fund") | 12.14 | 25,000 | 26,602 | 1.46 | 1,602 | - | - | - | - | - | - | - |
| | | 125,000 | 155,454 | 8.52 | 30,454 | - | | 100,000 | 123,174 | 7.60 | 23,174 | - |

MANAGEMENT DISCUSSION AND ANALYSIS

The primary objective of the Ruixin Fund is investments in equity interest of entities in the medical devices, pharmaceutical, biologics, medical services and contract research organisation services industries mainly in the PRC and investments in other equity funds with focus of investing in the medical device and biomedical fields.

The primary objective of the Int Fund is 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.

The primary objective of the Chengdu Huaige Fund is venture investments in equity interests of early-stage or growth stage businesses in the healthcare and biotechnology sectors. The investment in the Chengdu Huaige Fund provides the Company with an opportunity to facilitate its strategic development in the healthcare and biotechnology and other related industries, enhance its competitiveness, and strengthen its market position.

Save as disclosed above, the Group has no other significant investment 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 31 December 2022 and 2021, the Group did not have any material contingent liabilities.

FINANCIAL INSTRUMENTS

As at 31 December 2022, the Group did not enter into foreign forward contracts.

The Group did not have any other 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 RMB301.06 million for the Reporting Period (2021: approximately RMB316.41 million).

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

During the Report Period, the Group's operations were primarily based in the PRC. The Group's 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 31 December 2022, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

The Group's outstanding capital commitments authorized but not contracted for at 31 December 2022 not provided for in the financial statements amounted to approximately RMB162.08 million (2021: approximately RMB527.20 million). The Group's outstanding capital commitment contracted for at 31 December 2022 not provided for in the financial statements amounted to approximately RMB104.18 million (2021: approximately RMB71.28 million).

REPORT OF THE DIRECTORS

The Board is pleased to present this annual report for the year 2022 and the audited consolidated financial statements of the Group for the year ended 31 December 2022. These financial statements were prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and have been audited by KPMG.

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 8 November 2019. The Prospectus of the Company dated 28 October 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 devices, which are mainly used in cardiovascular surgeries.

The activities and particulars of the Company’s principal subsidiaries are shown under note 14 to the consolidated financial statements. An analysis of the Group’s revenue and operating profit for the year by principal activities is set out in the section headed “Management Discussion and Analysis” in this annual report.

BUSINESS REVIEW

The description of principal risks and uncertainties that the Group may be facing, 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 “Corporate Governance Report” and “Management Discussion and Analysis” on pages 43 to 59 and on pages 7 to 18 of this annual report, respectively.

Also, the financial risk management objectives and policies of the Group can be found in note 27 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. In addition, discussions on the relationships with its staff, customers and suppliers is also contained in the section headed “Environmental, Social and Governance Report” on pages 60 to 92 of 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 requirements for treatment and disposal of waste and discharge from its production. The Group believes that it has maintained a good relationship with the communities in proximity of its production facilities.

To the best of the Group’s knowledge, during the Reporting Period, the Group had complied with the applicable environment laws and regulations in the PRC in all material respects. Please refer to pages 60 to 92 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 Governance Reporting Guide in Appendix 27 to the Listing Rules.

REPORT OF THE DIRECTORS

DIVIDEND

The Board recommends the payment of the Proposed Final Dividend of RMB0.24 per Share (equivalent to HK\$0.27 per Share) (inclusive of applicable tax) for the year ended 31 December 2022 (2021: RMB0.26 per Share). Subject to the approval of the Proposed Final Dividend by the Shareholders at the AGM to be held on Thursday, 18 May 2023, the Proposed Final Dividend will be distributed on or about Wednesday, 28 June 2023 to the Shareholders whose names appear on the register of members of the Company on Saturday, 3 June 2023 (the “**Record Date**”).

The Proposed 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 RMB0.24 per Share (equivalent to HK\$0.27 per Share) (inclusive of applicable tax). In order to qualify for the final dividend, the holders of H Shares 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, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong and the holders of Domestic Shares must lodge all share certificates accompanied by the transfer documents with the Company’s registered office at Block 2, No. 925 Jin Yuan Yi Road, Jiading District, Shanghai, the PRC, before 4:30 p.m. on Thursday, 25 May 2023. For the purpose of ascertaining the Shareholders who qualify for the final dividend, the register of members for H Shares will be closed from Monday, 29 May 2023 to Saturday, 3 June 2023, 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 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 16 March 2007 and amended on 24 February 2017 and 29 December 2018 (the latest amendment which has taken effect on the even date), and its implementation regulations which came into effect on 1 January 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.

REPORT OF THE DIRECTORS

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%.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five 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 31 December 2022, the percentage of the major customers and suppliers in the Group's total sales and purchase are as follows:

| | Percentage in the Group's total | |
|--|---------------------------------|---------------|
| | Sales | Purchases |
| Largest customer | 8.29% | |
| Total of the five largest customers | 22.38% | |
| Largest supplier | | 8.14% |
| Total of the five largest suppliers | | 27.95% |

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.

TAX RELIEF AND EXEMPTION

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

REPORT OF THE DIRECTORS

SHARE CAPITAL

Share capital of the Company as at 31 December 2022 was as follows:

| | Number of shares | Approximate percentage of total issued share capital |
|-----------------|------------------|--|
| Domestic Shares | 63,786,608 | 37.97% |
| H Shares | 104,213,392 | 62.03% |

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 26 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVE

As at 31 December 2022, the Company had distributable reserve accounting to approximately RMB306.57 million (as at 31 December 2021: approximately RMB248.13 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 RMB0.24 per Share (equivalent to HK\$0.27 per Share) (inclusive of applicable tax) for the year ended 31 December 2022.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

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

Executive Directors

Dr. Liang Dongke (梁棟科) (*Chairman*)

Mr. Lin Sen (林森)

Mr. Wang Cailiang (王彩亮) (ceased as an executive Director on 16 May 2022)

Non-executive Directors

Mr. Zhang Weixin (張維鑫)

Ms. Chen Hongqin (陳紅琴)

Dr. Song Yuan (宋媛)

Mr. Wang Ruiqin (王瑞琴)

Mr. Fang Shengshi (方聖石) (ceased as non-executive Director on 16 May 2022)

Independent Non-executive Directors

Mr. Jian Xigao (蹇錫高)

Mr. Hui Hung Kwan (許鴻群)

Mr. Xu Congli (徐從禮)

Mr. Dai Kerong (戴剋戎) (ceased as independent non-executive Director on 16 May 2022)

Supervisors

Ms. Ma Huifang (馬慧芳) (*Chairperson*)

Ms. Chen Jie (陳潔)

Mr. Shen Xiaoru (沈曉如)

Ms. Wang Li (王莉) (ceased as Supervisor on 16 May 2022)

Mr. Xu Jianhai (徐建海) (ceased as Supervisor on 16 May 2022)

The biographical information of the Directors and Supervisors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 93 to 98 of this annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES OF THE COMPANY PURSUANT TO RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

Save as disclosed in the 2022 annual report of the Company, there is no change of information of Directors, Supervisors and chief executives of the Company during the Reporting Period which is required to be disclosed pursuant to 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 significance in which the Group's Directors and Supervisors have direct or indirect material interests during the Reporting Period and the year ended 31 December 2022.

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 31 December 2022.

REPORT OF THE DIRECTORS

NON-COMPETITION AGREEMENT

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 on, 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 31 December 2022 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 31 December 2022.

For the avoidance of doubt, 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) ceased to be the Controlling Shareholders of the Company immediately after the 2022 AGM on 16 May 2022 due to the change of Board composition.

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, 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 five highest paid individuals are set out in note 8 and note 9 to the consolidated financial statements, respectively. For the year ended 31 December 2022, 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 the Supervisors have 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) to the consolidated financial statements.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

At no time during the Reporting Period and as at the date of this report, there was or is, any permitted indemnity provision being in force for the benefit at any of the Directors or Supervisors of the Company (whether made by the Company or otherwise) or the directors or supervisors of an associated corporation of the Company (if made by the Company).

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 31 December 2022, 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 register 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 held/ interested | Approximate percentage in Domestic Shares ⁽⁴⁾ | Percentage in total number of Shares ⁽⁴⁾ |
|---------------------------------------|-----------------|------------------------------------|-----------------------------------|--|---|
| Dr. Liang Dongke (梁棟科) ⁽²⁾ | Domestic Shares | Beneficial owner | 10,542,854 (L) | 16.53% | 6.28% |
| | Domestic Shares | Interest of controlled corporation | 3,400,000 (L) | 5.33% | 2.02% |
| Dr. Song Yuan (宋媛) ⁽²⁾ | Domestic Shares | Interest of spouse | 13,942,854 (L) | 21.86% | 8.30% |
| Mr. Lin Sen (林森) | Domestic Shares | Beneficial owner | 7,142,858 (L) | 11.20% | 4.25% |
| Mr. Wang Ruiqin (王瑞琴) | Domestic Shares | Beneficial owner | 7,142,858 (L) | 11.20% | 4.25% |

Notes:

- (1) The letter "L" stands for long position.
- (2) 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.
- (3) The calculation is based on percentage of shareholding in a total of 168,000,000 Shares, which consist of 63,786,608 Domestic Shares and 104,213,392 H Shares as at 31 December 2022.

Save as disclosed above, as of 31 December 2022, to the best 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 31 December 2022, 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 positions 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 of the Company):

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 ⁽¹⁾ | Percentage in total number of Shares ⁽¹⁾ |
|--|-----------------|------------------------------------|------------------|--|---|
| 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 ”) ⁽²⁾ | Domestic Shares | Beneficial owner | 9,843,750 (L) | 15.43% | 5.86% |
| 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 ”) ⁽²⁾ | Domestic Shares | Interest of controlled corporation | 9,843,750 (L) | 15.43% | 5.86% |
| 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 ”) ⁽²⁾ | Domestic Shares | Interest of controlled corporation | 9,843,750 (L) | 15.43% | 5.86% |

REPORT OF THE DIRECTORS

| Name | Class of Shares | Nature of Interest | Number of Shares | Approximate percentage in the respective class of share capital ⁽¹¹⁾ | Percentage in total number of Shares ⁽¹¹⁾ |
|--|-----------------|------------------------------------|------------------|---|--|
| Mr. Wang Kai (王鏜) ⁽²⁾ | Domestic Shares | Beneficial owner | 5,571,428 (L) | 8.73% | 3.32% |
| | Domestic Shares | Interest of controlled corporation | 9,843,750 (L) | 15.43% | 5.86% |
| Ms. Zhao Wei (趙威) ⁽²⁾ | Domestic Shares | Interest of spouse | 5,571,428 (L) | 8.73% | 3.32% |
| | Domestic Shares | Interest of controlled corporation | 9,843,750 (L) | 15.43% | 5.86% |
| Ms. Chen Saiying (陳賽英) ⁽³⁾ | Domestic Shares | Interest of spouse | 7,142,858 (L) | 11.20% | 4.25% |
| Ms. Han Chunyan (韓春燕) ⁽⁴⁾ | Domestic Shares | Interest of spouse | 7,142,858 (L) | 11.20% | 4.25% |
| Mr. Chen Xing (陳星) ⁽⁵⁾ | Domestic Shares | Beneficial owner | 7,071,430 (L) | 11.09% | 4.21% |
| Ms. Han Xue (韓雪) ⁽⁵⁾ | Domestic Shares | Interest of spouse | 7,071,430 (L) | 11.09% | 4.21% |
| Mr. Huang Chubin (黃楚彬) ⁽⁶⁾ | Domestic Shares | Beneficial owner | 7,071,430 (L) | 11.09% | 4.21% |
| Ms. Li Xiuqun (李秀群) ⁽⁶⁾ | Domestic Shares | Interest of spouse | 7,071,430 (L) | 11.09% | 4.21% |
| Ningbo Tongchuang Suwei Investment Partnership (Limited Partnership) (寧波同創速維投資合夥企業(有限合夥)) (“Ningbo Tongchuang Suwei”) ⁽⁷⁾ | Domestic Shares | Beneficial owner | 6,000,000 (L) | 9.41% | 3.57% |
| Mr. Chai Yanpeng (柴燕鵬) ⁽⁷⁾ | Domestic Shares | Interest of controlled corporation | 6,000,000 (L) | 9.41% | 3.57% |
| 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”) ⁽⁸⁾ | H Shares | Beneficial owner | 42,857,142 (L) | 41.12% | 25.51% |

REPORT OF THE DIRECTORS

| Name | Class of Shares | Nature of Interest | Number of Shares | Approximate percentage in the respective class of share capital ⁽¹¹⁾ | Percentage in total number of Shares ⁽¹¹⁾ |
|---|-----------------|--|------------------|---|--|
| Shanghai Kindly Holding Group Co., Ltd. (上海康德萊控股集團有限公司) ("KDL Holding") ⁽⁸⁾ | H Shares | Interest of controlled corporation | 42,857,142 (L) | 41.12% | 25.51% |
| Kindly Holding Co., Ltd. (康德萊控股有限公司) ⁽⁸⁾ | H Shares | Interest of controlled corporation | 42,857,142 (L) | 41.12% | 25.51% |
| Shanghai Gongye Investment Co., Ltd. (上海共業投資有限公司) ("Gongye") ⁽⁸⁾ | H Shares | Interest of controlled corporation | 42,857,142 (L) | 41.12% | 25.51% |
| Mr. Zhang Xianmiao (張憲淼) ⁽⁸⁾ | H Shares | Interest of controlled corporation; interest jointly held with another person | 42,857,142 (L) | 41.12% | 25.51% |
| Ms. Zheng Aiping (鄭愛平) ⁽⁸⁾ | H Shares | Interest of controlled corporation; interest jointly held with another person | 42,857,142 (L) | 41.12% | 25.51% |
| Mr. Zhang Wei (張偉) ⁽⁸⁾ | H Shares | Interest of controlled corporation; interest jointly held with another person | 42,857,142 (L) | 41.12% | 25.51% |
| Ningbo Huaige Taiyi ⁽²⁾ | H Shares | Beneficial owner | 15,356,250 (L) | 14.74% | 9.14% |
| Ningbo Huaige Gongxin ⁽²⁾ | H Shares | Interest of controlled corporation | 15,356,250 (L) | 14.74% | 9.14% |
| Ningbo Huaige Health ⁽²⁾ | H Shares | Interest of controlled corporation | 15,356,250 (L) | 14.74% | 9.14% |

REPORT OF THE DIRECTORS

| Name | Class of Shares | Nature of Interest | Number of Shares | Approximate percentage in the respective class of share capital ⁽¹¹⁾ | Percentage in total number of Shares ⁽¹¹⁾ |
|---|-----------------|------------------------------------|------------------|---|--|
| Mr. Wang Kai (王鏞) ⁽²⁾ | H Shares | Interest of controlled corporation | 15,356,250 (L) | 14.74% | 9.14% |
| Ms. Zhao Wei (趙威) ⁽²⁾ | H Shares | Interest of controlled corporation | 15,356,250 (L) | 14.74% | 9.14% |
| OrbiMed Capital LLC ⁽⁹⁾ | H Shares | Investment manager | 11,468,000 (L) | 11.00% | 6.83% |
| Worldwide Healthcare Trust PLC ⁽⁹⁾ | H Shares | Beneficial owner | 7,412,800 (L) | 7.11% | 4.41% |
| Mr. Ke Wei (柯偉) | H Shares | Beneficial owner | 6,070,000 (L) | 5.82% | 3.61% |
| China Orient Asset Management (International) Holding Limited ⁽¹⁰⁾ | H Shares | Interest of controlled corporation | 9,466,400 (L) | 9.08% | 5.63% |
| China Orient International Fund Management Limited ⁽¹⁰⁾ | H Shares | Interest of controlled corporation | 9,466,400 (L) | 9.08% | 5.63% |
| China Orient Multi-Strategy Fund ⁽¹⁰⁾ | H Shares | Interest of controlled corporation | 8,259,200 (L) | 7.93% | 4.92% |
| China Orient Multi-Strategy Master Fund ⁽¹⁰⁾ | H Shares | Beneficial owner | 8,259,200 (L) | 7.93% | 4.92% |

REPORT OF THE DIRECTORS

Notes:

- (1) The letter "L" stands for long position.
- (2) 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.
- (3) Ms. Chen Saiying is the spouse of Mr. Lin Sen. Under section 316(1)(a) of the SFO, Ms. Chen Saiying is deemed to be interested in the equity interests held by Mr. Lin Sen.
- (4) Ms. Han Chunyan is the spouse of Mr. Wang Ruiqin. Under section 316(1)(a) of the SFO, Ms Han Chunyan is deemed to be interested in the equity interests held by Mr. Wang Ruiqin.
- (5) Ms. Han Xue is the spouse of Mr. Chen Xing. Under section 316(1)(a) of the SFO, Ms. Han Xue is deemed to be interested in the equity interests held by Mr. Chen Xing.
- (6) Ms. Li Xiuqun is the spouse of Mr. Huang Chubin. Under section 316(1)(a) of the SFO, Ms. Li Xiuqun is deemed to be interested in the equity interests held by Mr. Huang Chubin.
- (7) To the best of the Directors' knowledge, Ningbo Tongchuang Suwei is a limited partnership established in the PRC. Mr. Chai Yanpeng is the general partner of Ningbo Tongchuang Suwei. As such, under the SFO, Mr. Chai Yanpeng is deemed to be interested in the equity interests held by Ningbo Tongchuang Suwei.
- (8) 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.
- (9) Taking into account the 155,200 H Shares, 3,900,000 H Shares and 7,412,800 H Shares to be held by OrbiMed New Horizons Master Fund, L.P., 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.
- (10) To the best of the Directors' knowledge, China Orient Multi-Strategy Master Fund is controlled as to 100% by China Orient Multi-Strategy Fund, which is in turn controlled as to 98.30% by China Orient International Fund Management Limited, 100% of the voting power of which is controlled by China Orient Asset Management (International) Holding Limited.
- (11) The calculation is based on the percentage of shareholding in a total of 168,000,000 Shares, which consist of 63,786,608 Domestic Shares and 104,213,392 H Shares as at 31 December 2022. Effective from 31 March 2023, the Domestic Shares and the H Shares are regarded as the same class of shares.

REPORT OF THE DIRECTORS

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 (陳臨凌) | Shanghai Healing Medical Instruments Co., Ltd. (上海翰凌醫療器械有限公司) ("Shanghai Healing") | Beneficial owner | 24.5% |
| Chen Caizheng (陳才正) | Shanghai Puhui Medical Instruments Co., Ltd. (上海璞慧醫療器械有限公司) ("Shanghai Puhui") | Beneficial owner | 21.0% |
| Ningbo Youtuo Enterprise Management Partnership (Limited Partnership)* 寧波優拓企業管理合夥企業(有限合夥) | Shanghai Puhui | Beneficial owner | 20.0% |
| 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 | 11.0% |
| Sun Peng (孫鵬) | Shanghai Qimu | Beneficial owner | 10.0% |
| Lin Peng (林鵬) | Shanghai Pumei Medical Instruments Co., Ltd. (上海璞鎂醫療器械有限公司) ("Shanghai Pumei") | Beneficial owner | 30.0% |
| Hengyi Enterprise Management (Wei Fang) Center (Limited Partnership)* (恆熠企業管理(淮坊)中心(有限合夥)) | Shanghai Pulin Medical Instruments Co., Ltd. (上海璞霖醫療器械有限公司) | Beneficial owner | 35.0% |
| Ningbo Liufang Enterprise Management Partnership (Limited Partnership)* (寧波六方企業管理合夥企業(有限合夥)) | Shanghai Puyue Medical Instruments Co., Ltd. (上海璞躍醫療器械有限公司) | Beneficial owner | 40.0% |

REPORT OF THE DIRECTORS

Save as disclosed above, as of 31 December 2022, to the best knowledge of the Directors, no other person had, or were deemed or taken to have interest 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No arrangement has been made by the Company or any of its subsidiaries for any Director or Supervisor to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate, and no rights to any share capital or debentures of the Company or any other body corporate were granted to any Director, Supervisor or their respective spouse or children under 18 years of age, nor were any such rights exercised during or at the end of the Reporting Period.

SHARE INCENTIVE SCHEME

The Board resolved to adopt, and the Shareholders approved, a share incentive scheme (the “**Share Incentive Scheme**”) of granting no more than 5,000,000 Domestic Shares in the form of restricted share (“**RS**”) to no more than 100 employees of the Group. 2,500,000 Domestic Shares will be allotted and issued to each of Dr. Liang Dongke and Ningbo Int for administration of the Share Incentive Scheme. Grantees of the RS (the “**Grantees**”) (other than Dr. Liang Dongke) will be admitted as limited partners of the Share Incentive Platforms, which are limited partners of Ningbo Int.

The Remuneration Committee may select eligible grantees amongst the Directors, Supervisors, senior management of the Group, and employees, which is subject to review and approval by the Board and the Supervisory Committee. The RS will be granted to the Grantees at a price equivalent to RMB12 per Share. The Grantees shall be subject to certain vesting conditions and a lock-up period of sixty months from (a) the date of allotment of Shares to Ningbo Int or (b) the date of grant of the RS to the Grantee, whichever is later.

The Company has previously applied to the CSRC for allotment of 2,000,000 Domestic Shares (the “**First Installment**”) to Dr. Liang Dongke and the Share Incentive Platforms, namely Jingning Int Chuangyuan Enterprise Management Partnership (Limited Partnership)* (景寧瑛泰創源企業管理合夥企業(有限合夥)) and Jingning Int Chuangqi Enterprise Management Partnership (Limited Partnership)* (景寧瑛泰創啟企業管理合夥企業(有限合夥)) pursuant to the Share Incentive Scheme. On 13 May 2022, the Company completed the registration for the First Installment with China Securities Depository and Clearing Corporation Limited. The total consideration for the Grant Price of RMB12.0 per share for the First Installment has been paid by Dr. Liang Dongke and the Share Incentive Platforms.

The Company intends to apply to the CSRC at an appropriate time for the allotment of the remaining 3,000,000 Award Shares under the Share Incentive Scheme. Further announcement(s) will be made by the Company when and where appropriate. For more details of the Share Incentive Scheme, please refer to the Company's announcements dated 21 September 2020, 17 May 2021, 19 August 2021 and 16 May 2022 and circulars dated 6 November 2020 and 16 April 2021.

REPORT OF THE DIRECTORS

On 30 December 2022, the Board resolved to make certain amendments to the Share Incentive Scheme in light of the Company's proposed adjustment to the performance target provision of the Share Incentive Scheme taking into account the ongoing impact of COVID-19 on the production and operation of the Company in 2022, and the amendments to the Listing Rules to implement the proposals of the "Consultation Conclusions on Proposed Amendments to Listing Rules relating to Share Schemes of Listed Issuers and Housekeeping Rule Amendment" published by the Stock Exchange on 29 July 2022 (the "New Chapter 17"), subject to the Shareholders' approval. The Board proposed to seek approval from the Shareholders at the forthcoming AGM to, among other things, (i) amend the performance target provision of the Share Incentive Scheme in order to extend the Review Period (as defined under the Share Incentive Scheme) to the fourth financial year ending 31 December 2023 and (ii) bring the Share Incentive Scheme in alignment with the New Chapter 17 and make certain minor housekeeping amendments to the Share Incentive Scheme for the purpose of clarifying existing practice and making consequential amendments. For more details of the proposed amendments, please refer to the Company's announcement dated 30 December 2022.

Details of the Restricted Shares granted and to be granted under the Share Incentive Scheme are set out below:

| Name of Grantee | Category of Grantee | Date of grant | Lock-up period | Number of Restricted Shares | | | | | | | Grant price |
|----------------------------------|------------------------------|----------------|------------------------------|-----------------------------|-------------------------------------|--|---------------------------------------|---|------------------------|---------|-------------|
| | | | | As at 1 January 2022 | Granted during the Reporting Period | Attributed during the Reporting Period | Cancelled during the Reporting Period | Lapsed/ Forfeited during the Reporting Period | As at 31 December 2022 | | |
| | | | | | | | | | | | |
| Dr. Liang Dongke | Director and general manager | 19 August 2021 | 60 months from date of grant | 2,847,000 | 387,300 | Nil | Nil | Nil | 3,234,300 | RMB12.0 | |
| Mr. Wang Cailiang ⁽¹⁾ | Director | 19 August 2021 | 60 months from date of grant | 141,600 | Nil | Nil | Nil | 141,600 | 0 | RMB12.0 | |
| Mr. Lin Sen | Director | 19 August 2021 | 60 months from date of grant | 141,600 | Nil | Nil | Nil | Nil | 141,600 | RMB12.0 | |
| Dr. Song Yuan | Director | 19 August 2021 | 60 months from date of grant | 141,600 | Nil | Nil | Nil | Nil | 141,600 | RMB12.0 | |
| Mr. Wang Ruiqin | Director | 19 August 2021 | 60 months from date of grant | 100,000 | Nil | Nil | Nil | Nil | 100,000 | RMB12.0 | |
| Others | Employees | 19 August 2021 | 60 months from date of grant | 1,628,200 | Nil | Nil | 36,500 | 209,200 | 1,382,500 | RMB12.0 | |

Note:

(1) Mr. Wang Cailiang ceased as a Director on 16 May 2022 and did not hold any position at the Company since June 2022.

REPORT OF THE DIRECTORS

As at 1 January 2022 and at 31 December 2022, the total number of awards available for grant under the scheme mandate is nil and nil, respectively, because all 5,000,000 Domestic Shares in the form of Restricted Shares under the Share Incentive Scheme (being the only share scheme of the Company that involves issuance of new shares) have been fully granted.

The number of shares that may be issued in respect of awards granted under all schemes of the Company during the Reporting Period divided by the weighted average number of ordinary shares in issue for the Reporting Period is approximately 1.8%.

H SHARE AWARD AND TRUST SCHEME

Reference is made to the announcements of the Company dated 18 March 2022 and 16 May 2022 and the circular of the Company dated 11 April 2022 in relation to, among others, the adoption of the H Share Award and Trust Scheme. The adoption of H Share Award and Trust Scheme was approved by the Shareholders at the 2022 AGM held on 16 May 2022. For the principal terms of the H Share Award and Trust Scheme, please refer to the circular of the Company dated 11 April 2022. The H Share Award and Trust Scheme involves no issue of new shares or granting of option for any new securities of the Company. The H Share Award and Trust Scheme constitutes a share scheme involving existing shares under New Chapter 17 of the Listing Rules as effective since 1 January 2023.

As at 31 December 2022, the Company has not acquired nor granted any H Shares to any participant under the H Share Award and Trust Scheme.

The principal terms of the H Share Scheme are set out below:

The purposes of the H Share Scheme are: (i) to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company; (ii) to deepen the reform on the Company's remuneration system and to develop and constantly improve the interests balance mechanism among the Shareholders, the operational and executive management; and (iii) to (a) recognize the contributions of the leadership of the Company including the Directors; (b) encourage, motivate and retain the leadership of the Company whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (c) provide additional incentive for the leadership of the Company and long standing employee by aligning the interests of the leadership of the Company to those of the Shareholders and the Group as a whole.

Eligible Participant who may participate in the H Share Scheme include any full-time PRC or non-PRC employee of any members of the Group, who is a Director (other than independent non-executive Directors), Supervisor, senior management, key operating team member, employee, or, a consultant of the Group.

Subject to the H Share Scheme Rules, the maximum number of H Shares that will be acquired by the Trustee through on-market transactions from time to time at the prevailing market price is 10,420,000 H Shares.

Upon approval by the Board or the Delegatee, and subject to the vesting conditions set out in the H Share Scheme Rules, all Awards under the H Share Scheme shall be vested in multiple tranches as specified in the Award Letter. The specific commencement and duration of each Vesting Period and the actual vesting amount of the Award granted to a Selected Participant for the respective Vesting Periods shall be specified in the Award Letter approved by the Board or the Delegatee.

REPORT OF THE DIRECTORS

If the award is vested in the form of Award Shares, the Selected Participant shall assume the Grant Cost for accepting the Award Shares, namely the Grant Cost (the product of the grant price of the Award Shares on the Grant Date multiplied by the number of Award Shares granted to a Selected Participant by the Board of Delegatee (subject to the final determination by the Board or the Delegatee), shall be deducted from the actual selling price of the Award Shares.

The H Share Award and Trust Scheme will expire on the 10th anniversary of 16 May 2022 when it was adopted at the 2022 AGM.

CONNECTED TRANSACTIONS

(1) Connected Transactions

On 18 August 2022, the Company conditionally entered into a partnership agreement (the “**Partnership Agreement**”) with 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)) (as the general partner and fund manager) and other investors (as the limited partners) in relation to the establishment of, and investment in, Chengdu Huaige Guosheng Venture Investment Partnership (Limited Partnership)* (成都懷格國生創業投資合夥企業(有限合夥)) (the “**Chengdu Huaige Fund**”). The Company will participate in the Chengdu Huaige Fund as a limited partner and will make a capital commitment of RMB50.00 million. The Chengdu Huaige Fund has been registered in the PRC as a limited partnership with the primary objective of investments in equity interest of entities in early-stage or growth stage businesses in the healthcare and biotechnology sectors.

The Chengdu Huaige Fund is established with the primary objective of investment in, among others, equity interests, of early-stage or growth stage businesses in the healthcare and biotechnology sectors. The Board considers that the investment in the Chengdu Huaige Fund provides the Company with an opportunity to facilitate its strategic development in the healthcare and biotechnology and other related industries, enhance its competitiveness, and strengthen its market position. At the Board meeting approving the Partnership Agreement, the Directors (including the independent non-executive Directors) consider that the Partnership Agreement will be entered into on normal commercial terms, such terms are fair and reasonable so far as the Company and the Shareholders are concerned and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Save for Mr. Fang Shengshi, who is a limited partner with 5.00% partnership interest of Huaige Health and a person who was a director of the Company in the last 12 months, none of the Directors have a material interest in the transaction contemplated under the Partnership Agreement and therefore have abstained from voting on the relevant resolutions.

As of the date of entering into Partnership Agreement for Chengdu Huaige Fund, Huaige Health owns approximately 1.56% in and is the general partner of the Substantial Shareholder, Ningbo Huaige Taiyi, which held 15.0% equity interest in the Company. As such, Huaige Health is an associate of Ningbo Huaige Taiyi and therefore a connected person under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Company’s capital commitment under the Chengdu Huaige Fund exceed 0.1% but are less than 5.0%, the entering into the Partnership Agreement by the Company constitutes connected transaction of the Company which is subject to the reporting and announcement requirements, but exempt from independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For more details of the Chengdu Huaige Fund, please refer to the announcements of the Company dated 18 August 2022 and 23 August 2022.

REPORT OF THE DIRECTORS

(2) Continuing Connected Transactions

During the year ended 31 December 2022, details of the Group's continuing connected transactions subject to the reporting, annual review, 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 31 December 2022 | Actual transaction value for the year ended 31 December 2022 |
|--|-----------------|------------------|---|--|--|
| Medical Accessories and Molds Sales Framework Agreement (as defined below) | 14 January 2022 | KDL | Sale of certain medical accessories and molds by the Company to KDL and/or its subsidiaries or associated companies | RMB10.0 million | RMB6.4 million |

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

Medical Accessories and Molds Sales Framework Agreement

On 14 January 2022, the Company entered into a procurement framework agreement dated 14 January 2022 with KDL to update and renew the medical accessories and molds sales framework agreement dated 31 December 2018 and supplemented by supplemental agreement dated 14 October 2019 (the "**Medical Accessories and Molds Sales Framework Agreement**"), the principal terms of which are set out as follows:

- (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;
- (iii) unless agreed by both parties after arm's length negotiations and with reference to the market prices, quantities, delivery methods of the medical accessories and/or molds and historical transaction amounts, purchase price for the medical accessories and/or molds shall be calculated according to the price list which had been determined on a cost-plus basis and as set out in the Medical Accessories and Molds Sales Framework Agreement. Such prices shall be no less favourable than prices at which the Group charges independent third parties in comparable transactions; and
- (iv) the Medical Accessories and Molds Sales Framework Agreement is effective from 14 January 2022 to 31 December 2024 and may be renewed conditional on the fulfillment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

REPORT OF THE DIRECTORS

Annual caps

For the year ended 31 December 2022, the annual transaction amount under the Medical Accessories and Molds Sales Framework Agreement shall not exceed RMB10.0 million.

During the Reporting Period, the transaction amount received/receivable by the Group from the Purchaser under the Medical Accessories and Molds Sales Framework Agreement was RMB6.4 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 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 Group in all material respects;
- (iii) are not carried out in accordance with the related transaction agreement in any material respects; and
- (iv) exceed the relevant annual caps as disclosed in the Company's announcement dated 14 January 2022.

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 29 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 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 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company’s listed securities.

EQUITY-LINKED AGREEMENT

Same as disclosed in the paragraphs headed “Share Incentive Scheme” and “H Share Award and Trust Scheme” above, the Company had not entered into any equity-linked agreement for the year ended 31 December 2022, nor did any equity-linked agreement subsist as at 31 December 2022.

BANK BORROWINGS

As at 31 December 2022, the Group’s loan of approximately RMB32.68 million was borrowed from bank in the PRC. As such, the gearing ratio is 3.14% (2021: 0.93%).

DONATIONS

For the year ended 31 December 2022, the Group (i) donated RMB100,000 to Education Awards Foundation of Jiading District, Shanghai as the “Education Development Fund for Jiangqiao Town” (2021: RMB100,000); (ii) donated RMB30,000 for the charity activity of “Beloved under the Blue Sky” (2021: Nil); and (iii) donated over 220 thousand self-produced masks to medical institutions, government agencies and customers.

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 31 December 2022.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Save for the deviation from code provision C.2.1 of Part 2 of the CG Code as disclosed in the section headed “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 section headed “Corporate Governance Report” on pages 43 to 59 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 Tuesday, 18 April 2023 to Thursday, 18 May 2023, 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 p.m. on Monday, 17 April 2023.

For the purpose of determining the entitlement to the Proposed Final Dividend, the register of members of the Company will be closed from Monday, 29 May 2023 to Saturday, 3 June 2023, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for receiving the Proposed Final Dividend (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 p.m. on Thursday, 25 May 2023.

REPORT OF THE DIRECTORS

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.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 3 March 2023, the Board, having considered the Group's business needs and efficiency in utilization of the net proceeds from the Global Offering, resolved to change the use of the unutilized net proceeds designed for potential acquisitions to set up a research and development center and an additional production facility in Jiading, Shanghai.

The Board considered the increase of planned use of net proceeds in setting up research and development center and additional production facility in Jiading, Shanghai beneficial to accelerate the completion of the Project and the progress of the Company's research and development pipeline, and the re-allocation of the unutilized net proceeds would not impede or otherwise adversely affect the Group's product portfolio or business operation. The Board confirmed that there is no material change in the business nature of the Group as set out in the Prospectus and considered that the proposed change in the use of the unutilized net proceeds will not have any material adverse impact on the operations of the Group and is in the best interests of the Company and its shareholders as a whole. For more details, please refer to the announcement of the Company dated 3 March 2023.

The Board, after considering the fact that BDO China Shu Lun Pan Certified Public Accountants LLP ("**BDO**") and KPMG has been serving as its domestic auditor and international auditor, respectively, the Company proposes to change its domestic auditor in the year of 2023 in order to ensure business synergy between domestic and international auditors and enhance the efficiency. On 20 March 2023, the Board has resolved to propose the appointment of KPMG Huazhen LLP as the domestic auditor for the year 2023, to carry out annual audit for the financial statements of the Company for the year ending 31 December 2023. BDO has confirmed to the Board that there are no matters in relation to the propose change of domestic auditor that it considered should be brought to the attention of the shareholders of the Company. The Board and the Audit Committee also confirmed that, save as the reasons disclosed above, there is no disagreement between the Company and BDO and there are no other matters in relation to the proposed change of domestic auditor that need to be brought to the attention of the Shareholders. For more details, please refer to the announcement of the Company dated 20 March 2023.

In January 2023, the Company (the "**Purchaser**") entered into an acquisition agreement with three individuals (the "**Vendors**") and Shanghai Hude Automobile Tensioning Wheel Co., Ltd.* (上海滬德汽車張緊輪有限公司) (the "**Target Company**"), pursuant to which, amongst others, the Purchaser has agreed to purchase and the Vendors have agreed to sell its entire equity interest in the Target Company at a consideration of RMB32 million in cash. Upon completion of the acquisition, the Target Company's property will be used as the Company's employee dormitory.

Save as disclosed above, there was no significant event after the Reporting Period.

REPORT OF THE DIRECTORS

AUDITORS

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 31 December 2022 prepared in accordance with HKFRS and PRC GAAP, respectively. KPMG will retire and, being eligible, offer itself for re-appointments as the international auditor of the Company at the forthcoming AGM. With the Shareholders' approval at the forthcoming AGM, KPMG Huazhen will be appointed as the domestic auditor of the Company with effect from the end of the AGM and to hold office until the conclusion of the next annual general meeting of the Company. These financial statements were prepared in accordance with HKFRS and have been audited by KPMG. There was no change in the auditors of the Company in the preceding three years.

By order of the Board

Shanghai Kindly Medical Instruments Co., Ltd.*

上海康德萊醫療器械股份有限公司

Dr. Liang Dongke

Chairman

Shanghai, the PRC
20 March 2023

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 dividend to be proposed by the Board for presentation at the forthcoming AGM. We are of the opinion that the Directors, the chief executive officer 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 2022 and has great confident in the future prospect of the Company.

By Order of the Supervisory Committee
Shanghai Kindly Medical Instruments Co., Ltd.*
上海康德萊醫療器械股份有限公司
Ma Huifang
Chairperson of the Supervisory Committee

Shanghai, the PRC
20 March 2023

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 Supervisory Committee and the management in accordance with Company Law of the People's Republic of China, 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 8 November 2019. During the Reporting Period, save for the deviation from code provision C.2.1 of Part 2 of the CG Code as described in the paragraph headed "Chairman and Chief Executive" below, the Company has complied with all the code provisions set out in Corporate Governance Code in Appendix 14 to the Listing Rules and adopted substantially all the recommended best practices therein.

THE BOARD

During the Reporting Period and as at the date of this annual report, the composition of the Board is as follows:

Executive Directors

Dr. Liang Dongke (梁棟科) (*Chairman*)

Mr. Lin Sen (林森) (appointed as executive Director on 16 May 2022)

Mr. Wang Cailiang (王彩亮) (ceased as an executive Director on 16 May 2022)

Non-executive Directors

Mr. Zhang Weixin (張維鑫)

Ms. Chen Hongqin (陳紅琴)

Dr. Song Yuan (宋媛) (appointed as non-executive Director on 16 May 2022)

Mr. Wang Ruiqin (王瑞琴) (appointed as non-executive Director on 16 May 2022)

Mr. Fang Shengshi (方聖石) (ceased as non-executive Director on 16 May 2022)

Independent non-executive Directors

Mr. Jian Xigao (蹇錫高)

Mr. Hui Hung Kwan (許鴻群)

Mr. Xu Congli (徐從禮) (appointed as independent non-executive Director on 16 May 2022)

Mr. Dai Kerong (戴剋戎) (ceased as independent non-executive Director on 16 May 2022)

The biological information of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on pages 93 to 98 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.

CORPORATE GOVERNANCE REPORT

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 C.2.1 of Part 2 of the CG Code provides that 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. With extensive experience in the medical devices industry and as the founder of the business of the Group, Dr. Liang 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 our 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), four non-executive Directors and three 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 and Workforce Diversity

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, our Board consists of seven male members and two female members with three Directors of age 41 to 50 years old, five Directors of age 51 to 60 years old and one Director 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.

The total gender diversity of the Group is balanced, at 61.8%, representing 1,009 female out of 1,632 employees (including senior management) as at 31 December 2022. To support diversity across all facets, the Group is enhancing diversity and inclusion efforts through employee networks, mentoring programmes, equitable hiring practices, policies and awareness raising events and training for all employees to support inclusive behaviours.

CORPORATE GOVERNANCE REPORT

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of Part 2 of the CG Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this 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 of the Company. The Company considers that each of its independent non-executive Director is independent in accordance with Rule 3.13 of the Listing Rules.

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 Reporting Period. 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 matters of the Group, 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.

The Company has established mechanism to ensure that each Director is normally able to seek independent professional advice, views and input in appropriate circumstances at the Company's expense, upon making request to the Board. During the Reporting Period, the Board reviewed the implementation and effectiveness of such mechanism.

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with our 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.

CORPORATE GOVERNANCE REPORT

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 31 December 2022 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) (<i>Chairman</i>) | ✓ | ✓ |
| Mr. Lin Sen (林森) ⁽⁴⁾ | ✓ | ✓ |
| Mr. Wang Cailiang (王彩亮) ⁽¹⁾ | ✓ | ✓ |
| Non-executive Directors | | |
| Mr. Zhang Weixin (張維鑫) | ✓ | ✓ |
| Ms. Chen Hongqin (陳紅琴) | ✓ | ✓ |
| Dr. Song Yuan (宋媛) ⁽⁴⁾ | ✓ | ✓ |
| Mr. Wang Ruiqin (王瑞琴) ⁽⁴⁾ | ✓ | ✓ |
| Mr. Fang Shengshi (方聖石) ⁽²⁾ | ✓ | ✓ |
| Independent Non-executive Directors | | |
| Mr. Jian Xigao (蹇錫高) | ✓ | ✓ |
| Mr. Hui Hung Kwan (許鴻群) | ✓ | ✓ |
| Mr. Xu Congli (徐從禮) ⁽⁴⁾ | ✓ | ✓ |
| Mr. Dai Kerong (戴尅戎) ⁽³⁾ | ✓ | ✓ |

Notes:

- (1) The term of office of Mr. Wang Cailiang as an executive Director expired on 16 May 2022.
- (2) The term of office of Mr. Fang Shengshi as a non-executive Director expired on 16 May 2022.
- (3) The term of office of Mr. Dai Kerong as an independent non-executive Director expired on 16 May 2022.
- (4) Appointed as Director on 16 May 2022.

CORPORATE GOVERNANCE REPORT

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.

Details of the Directors' 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 on pages 99 to 185 of this annual report.

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. None of the Directors or Supervisors has waived any emoluments for the year ended 31 December 2022.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2022, by our Group to or on behalf of any of the Directors.

BOARD MEETINGS AND GENERAL MEETING

Pursuant to code provision C.5.1 of Part 2 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 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting in accordance with code provision C.5.3 of Part 2 of the CG Code.

All Directors are provided with agenda and relevant information not less than three days before a Board meeting. They 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.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Company held 8 Board meetings and one annual general meeting in total. The attendance of Directors at Board meetings during the Reporting Period are set out below.

| Directors | Number of Board meetings attended/eligible to attend | Attendance rate |
|--|--|-----------------|
| Executive Directors | | |
| Dr. Liang Dongke (梁棟科) (<i>Chairman</i>) | 8/8 | 100% |
| Mr. Lin Sen (林森) ⁽⁴⁾ | 4/4 | 100% |
| Mr. Wang Cailiang (王彩亮) ⁽¹⁾ | 4/4 | 100% |
| Non-executive Directors | | |
| Mr. Zhang Weixin (張維鑫) | 8/8 | 100% |
| Ms. Chen Hongqin (陳紅琴) | 8/8 | 100% |
| Dr. Song Yuan (宋媛) ⁽⁴⁾ | 4/4 | 100% |
| Mr. Wang Ruiqin (王瑞琴) ⁽⁴⁾ | 4/4 | 100% |
| Mr. Fang Shengshi (方聖石) ⁽²⁾ | 4/4 | 100% |
| Independent non-executive Directors | | |
| Mr. Jian Xigao (蹇錫高) | 8/8 | 100% |
| Mr. Hui Hung Kwan (許鴻群) | 8/8 | 100% |
| Mr. Xu Congli (徐從禮) ⁽⁴⁾ | 4/4 | 100% |
| Mr. Dai Kerong (戴尅戎) ⁽³⁾ | 4/4 | 100% |

CORPORATE GOVERNANCE REPORT

| Directors | Number of AGM attended/eligible to attend | Attendance rate |
|--|---|-----------------|
| Executive Directors | | |
| Dr. Liang Dongke (梁棟科) (<i>Chairman</i>) | 1/1 | 100% |
| Mr. Lin Sen (林森) ⁽⁴⁾ | 1/1 | 100% |
| Mr. Wang Cailiang (王彩亮) ⁽¹⁾ | 1/1 | 100% |
| Non-executive Directors | | |
| Mr. Zhang Weixin (張維鑫) | 1/1 | 100% |
| Ms. Chen Hongqin (陳紅琴) | 1/1 | 100% |
| Dr. Song Yuan (宋媛) ⁽⁴⁾ | 1/1 | 100% |
| Mr. Wang Ruiqin (王瑞琴) ⁽⁴⁾ | 1/1 | 100% |
| Mr. Fang Shengshi (方聖石) ⁽²⁾ | 1/1 | 100% |
| Independent non-executive Directors | | |
| Mr. Jian Xigao (蹇錫高) | 1/1 | 100% |
| Mr. Hui Hung Kwan (許鴻群) | 1/1 | 100% |
| Mr. Xu Congli (徐從禮) ⁽⁴⁾ | 1/1 | 100% |
| Mr. Dai Kerong (戴尅戎) ⁽³⁾ | 1/1 | 100% |

Notes:

- (1) The term of office of Mr. Wang Cailiang as an executive Director expired on 16 May 2022.
- (2) The term of office of Mr. Fang Shengshi as a non-executive Director expired on 16 May 2022.
- (3) The term of office of Mr. Dai Kerong as an independent non-executive Director expired on 16 May 2022.
- (4) Appointed as Director on 16 May 2022.

CORPORATE GOVERNANCE REPORT

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 of the Group, appointment, re-appointment and removal of external auditor 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. Xu Congli, and one non-executive Director, Dr. Song Yuan.

During the Reporting Period, the Audit Committee held 3 meetings to review the interim, annual financial results and reports systems and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors, connected transactions and arrangements for employees to raise concerns about possible improprieties. A summary of the attendance record of the Audit Committee members is set out in the table below.

| Committee members | Number of meetings attended/eligible to attend | Attendance rate |
|----------------------------------|--|-----------------|
| Mr. Hui Hung Kwan | 3/3 | 100% |
| Dr. Song Yuan ⁽¹⁾ | 2/2 | 100% |
| Mr. Xu Congli ⁽²⁾ | 2/2 | 100% |
| Mr. Jian Xigao ⁽³⁾ | 1/1 | 100% |
| Mr. Fang Shengshi ⁽⁴⁾ | 1/1 | 100% |

Notes:

- (1) Dr. Song Yuan was appointed as a member of the Audit Committee on 16 May 2022.
- (2) Mr. Xu Congli was appointed as a member of the Audit Committee on 16 May 2022.
- (3) The term of office of Mr. Jian Xigao as a member of the Audit Committee expired on 16 May 2022.
- (4) The term of office of Mr. Fang Shengshi as a member of the Audit Committee expired on 16 May 2022.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Audit Committee reviewed and was of the opinion that the Group's consolidated financial statements for the year ended 31 December 2021 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2022 complied with the applicable accounting principles, standards and requirements and that adequate disclosures were made, reviewing the effectiveness of risk management and internal control system in accordance with code provision D.2.1 of the CG Code, considering the appointment and re-appointment of external auditors of the Company, reviewing their independence and their audit scope and fees. The Audit Committee therefore recommend for the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2022.

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 should seek independent professional advice to perform its responsibilities, when necessary, at the Company's expense.

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 re-appointment of Director. The Nomination Committee conducts extensive searches for candidates for Directors and senior management after considering the Company's requirements. With the consent of the nominees, a meeting of the Nomination Committee will be convened to vet the qualifications of the shortlisted nominees and recommend candidates for Directors and new senior management appointments to the Board and furnish relevant materials.

The Nomination Committee currently consists of one executive Director, Dr. Liang Dongke (chairman of the Nomination Committee), and two independent non-executive Directors, Mr. Jian Xigao and Mr. Xu Congli.

The Board has adopted a board diversity policy, more details of which are set out in "Board Diversity and Workforce Diversity" on page 44 of this annual report. 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 directors and make recommendation to the Board on the candidate(s) for directorship. During the Reporting Period, the Board and the Nomination Committee had reviewed the implementation of the Board Diversity Policy and confirmed its still effectiveness.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Nomination Committee held 1 meeting. A summary of the attendance record of the Nomination Committee members is set out in the table below.

| Committee members | Number of meetings attended/eligible to attend | Attendance rate |
|-------------------------------|--|-----------------|
| Dr. Liang Dongke | 1/1 | 100% |
| Mr. Jian Xigao | 1/1 | 100% |
| Mr. Xu Congli ⁽¹⁾ | 0/0 | N/A |
| Mr. Dai Kerong ⁽²⁾ | 1/1 | 100% |

Notes:

- (1) Mr. Xu Congli was appointed as a member of the Nomination Committee on 16 May 2022.
- (2) The term of office of Mr. Dai Kerong as a member of the Nomination Committee expired on 16 May 2022.

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 Share 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 code provision E.1.2(c) of Part 2 of the CG Code (i.e. make recommendations to the Board on the remuneration packages of individual executive Directors and senior management members).

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. During the Reporting Period, the remuneration of each of the members of senior management as named in the section headed "Directors, Supervisor and Senior Management" of this annual report within the remuneration band of RMB284,146 to RMB1,158,184.

During the Reporting Period, the Remuneration Committee held 3 meetings. A summary of the attendance record of the Remuneration Committee members is set out in the table below.

| Committee members | Number of meetings attended/eligible to attend | Attendance rate |
|-------------------|--|-----------------|
| Mr. Jian Xigao | 3/3 | 100% |
| Mr. Hui Hung Kwan | 3/3 | 100% |
| Dr. Liang Dongke | 3/3 | 100% |

CORPORATE GOVERNANCE REPORT

SUPERVISORY COMMITTEE

The 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. Ma Huifang (chairperson of the Supervisory Committee), Ms. Chen Jie and Mr. Shen Xiaoru. Ms. Chen was democratically elected as an employee representative Supervisor by our employees, and Ms. Ma and Mr. Shen were appointed as shareholder representative Supervisors. 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.

During the Reporting Period, the Supervisory Committee held 3 meetings. A summary of the attendance record of the Supervisory Committee members is set out in the table below.

| Committee members | Number of meetings attended/eligible to attend | Attendance rate |
|--------------------------------|--|-----------------|
| Ms. Ma Huifang ⁽¹⁾ | 2/2 | 100% |
| Ms. Chen Jie | 3/3 | 100% |
| Mr. Shen Xiaoru ⁽²⁾ | 2/2 | 100% |
| Ms. Wang Li ⁽³⁾ | 1/1 | 100% |
| Mr. Xu Jianhai ⁽⁴⁾ | 1/1 | 100% |

Notes:

- (1) Ms. Ma Huifang was appointed as a member of the Supervisory Committee on 16 May 2022.
- (2) Mr. Shen Xiaoru was appointed as a member of the Supervisory Committee on 16 May 2022.
- (3) The term of office of Ms. Wang Li as a member of the Nomination Committee expired on 16 May 2022.
- (4) The term of office of Mr. Xu Jianhai as a member of the Nomination Committee expired on 16 May 2022.

CORPORATE GOVERNANCE REPORT

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 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.

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.

CORPORATE GOVERNANCE REPORT

ANTI-CORRUPTION

The Group takes anti-corruption responsibilities very seriously. The Group's anti-corruption policies set out the standards of conduct to which all employees are required to adhere to. The Group has designated email for relevant stakeholders to report, in confidence, any illegal or fraudulent behaviours to the Board. Employees making such reports are assured of protection. The designated email is available on the Company's website at www.kdl-int.com. The Group has also established a regularly review on its business practices and anti-corruption measures and guidelines, as well as reported improprieties investigation.

The Group establishes an effective whistle-blowing policy for reporting suspected irregularities, fraud and corruption via specified channels for employees and the relevant third parties (e.g. customers, suppliers, creditors, debtors). All reported matters will be investigated independently and, in the meantime, all information received from a whistleblower and its identity will be kept confidential. The Group also continues to improve its internal control and monitoring system. If any irregularities are identified, the Group takes immediate action and adopts a zero-tolerance approach to corruption.

The Board and the Audit Committee will regularly review the whistle-blowing policy and mechanism to improve its effectiveness.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2022 which give a true and fair view of the affairs of the Company and 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 31 December 2022 which are put to the Board for approval. The management also provides 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 in this annual report.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

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

| Service Category | Fees Paid/Payable (RMB thousand) |
|--------------------|-------------------------------------|
| Audit services | 2,950 |
| Non-audit services | 85 |
| Total | 3,035 |

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 in 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 the Listing Services Department 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, both of Dr. Song Yuan and 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.

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 Supervisory Committee to convene the EGM or class meeting.

CORPORATE GOVERNANCE REPORT

If the Supervisory Committee 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, PRC. Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The Company has established shareholders' communication policy and 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.

The Board has reviewed the implementation of the shareholders' communication policy of the Company. Taking into account the variety of existing channels for communication and participation, the Company is of the view that its shareholders' communication policy was effective during the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

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 amendments to the Articles took effective on 26 April 2022, there was no change in the constitutional documents of the Company during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1 ABOUT THIS REPORT

Report Overview

This is the fourth Environmental, Social and Governance Report (“**ESG Report**”) issued by Shanghai Kindly Medical Instruments Co., Ltd.* (hereinafter referred to as the “**Company**”) and its subsidiaries (hereinafter referred to as the “**Group**”), which aims to present the performance of the Group in fulfilling its environmental and social responsibility practices in 2022, including key ESG issues concerned by stakeholders.

Basis of Preparation

This report is prepared for the year from 1 January 2022 to 31 December 2022 in accordance with Appendix 27 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 annual ESG Report, which covers the year from 1 January 2022 to 31 December 2022. The report in the next reporting period (year of 2023) is expected to be released in 2024.

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.

Reporting Principles

Materiality: We identify major ESG issues through materiality assessment, and the relevant process and results have been disclosed in this report.

Quantitative: The Group makes quantitative disclosure of the key performance indicators with historical data in the areas of “environmental” and “social” according to the requirements of the “Key Performance Indicators” in the Appendix 27 the Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities on the HKEX, makes quantitative disclosure of forward-looking information such as targets as much as possible, and will gradually improve the statistical process to achieve full disclosure in the future.

Balance: This report objectively, fairly and truly discloses the Group’s work performance and practice in environmental and social matters in 2022, and discloses the problems encountered and improvement measures in a responsible manner.

Consistency: We adopt a consistent statistical method for disclosure. In this report, we have maintained the same statistical method for the information as disclosed in the previous year’s report. For the information disclosed for the first time, we will adopt a consistent statistical method for ESG information disclosure in subsequent years, in order to facilitate meaningful comparisons from year to year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2 STATEMENT BY THE BOARD

Assuming full responsibility for the Group's ESG strategy and reporting, the Board of the Group is responsible for assessing and determining the Group's ESG-related risks, and ensuring that the Group has an appropriate and effective system for ESG risk management and internal monitoring.

Our development opportunities stem from people's pursuit of longer life and better quality of life. Because of this, we pay special attention to the sustainable development of the Company, establish and improve the ESG governance system, and have the review and decision-making of major ESG issues led by the Board, including identifying and evaluating ESG risks, formulating ESG strategies and policies, establishing management policies and plans, approving and reviewing ESG target management, and approving the annual ESG report and other management content.

Based on the external environment and the Group's development strategy, the Group conducted research on internal and external stakeholders during the Reporting Period, identified key ESG issues, clarified work priorities, including: product health and safety, supply chain management, customer privacy, etc., with focus on reviewing the above issues and improving performance in daily work, and carried out target management accordingly. In the future, we will continue to adjust the strategy and promotion method of sustainable development management according to the expectations of stakeholders and the actual operation of the Group, so as to continuously improve the level of sustainable development.

This report disclosed details of the progress and effectiveness of the Group's ESG work in 2022. The Board of the Group, as the highest responsible and decision-making body for ESG matters, warrants that there are no false representations or misleading statements contained in, or material omissions from this report, and accepts all responsibilities for the truthfulness, accuracy and completeness of this report.

3 CHAIRMAN'S ADDRESS

In 2022, amidst the intricate and volatile economic environment, we ploughed through the various challenges disregarding the hindrance during the adventure. In this process, we adhered to the development principle of "innovation and quality" in virtue of unswerving courage and steadfast determination, realizing over 26.08% increase in revenue. While achieving sustainable economic growth, we did not forget our responsibilities to all stakeholders:

In terms of quality improvement, with the original aspiration and mission of medical device groups, 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. We work with control team to strictly control the safety, environmental protection and quality of the supply chain, insist on "safety first and efficiency second" and select our suppliers in a strict manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In terms of responsibility to employees, we believe that employee is the primary productive force for the on-going operation of our Company, and the introduction and cultivation of talents are essential to the development of our Company. For this reason, we open diversified channels to recruit talents to achieve multi-dimensional exchanges of employees with different backgrounds and experiences, so as to inject vitality into the development of our Company. We have established a fair and just talent recruitment system without discriminating against any applicants, and this year we provided suitable positions for seven disabled people in the surrounding communities. We focus on the development and motivation of employees, and have established a perfect staff development and training system to provide a broader development platform and space for our employees. We strive to build a core team with ideals, beliefs, cohesiveness and executive ability within our Company, and we encourage our employees to work hard continuously for a promising future of Kindly Medical Instruments by creating the corporate core values of “dedication, innovation, selflessness and efficiency”.

In terms of industry innovation, we understand the importance of scientific and technological research and development to enhance the core competitiveness of products, we uphold the strategic concept of “innovation-driven development and technology-led future”, we always adhere to the development route of scientific and technological innovation, and we are committed to enhancing the product technology competitiveness through continuous investment in research and development, technological innovation accumulation, industry-university-research collaboration, transformation of scientific and technological achievements. In this year, we have carried out a number of international exchanges with our innovative medical devices, which have been recognized both at home and abroad. The Group was awarded as “2022 Shanghai Enterprise and Institution Patent Work Demonstration Unit”. Our innovation ability and comprehensive strength were recognized and stimulated. During the Reporting Period, we continued to invest manpower and material resources in R&D and filed 91 new patents application. In the future, we will continue to strengthen the implementation of our technology-driven strategy, give full play to our technological leadership, actively cultivate high-value R&D patents, and focus on promoting the transformation of technological innovation results into high-end products, quality services and market competitiveness so as to provide innovative value to our customers.

Looking ahead, we will continue our efforts to build the Company into a world-renowned group of interventional medical devices led by technological innovation. We will stay confident and build strength, uphold fundamental principles and break new ground. 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.

By order of the Board

Liang Dongke

Chairman

Shanghai, the PRC

20 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

4.1 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, in a long term, 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.

4.2 Group ESG Governance Structure

The Group established an up-to-down ESG governance structure. The Board is responsible for supervision on the Group’s environmental and social events including risk assessment, priority listing and risk management, as well as monitoring and reviewing the performance on ESG in order to guide the direction and route for the company’s sustainable development. An ESG working group comprising of the senior management and middle management from each major department and subsidiary has also 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, covering all departments relating to the Group’s daily management.

The ESG working group makes periodic reports to the Board and is responsible for the conveying and communication of the Group’s strategies, rules and regulations and feedbacks related to ESG and is an indispensable implementation force for the Group’s sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.3 Communication of Stakeholders

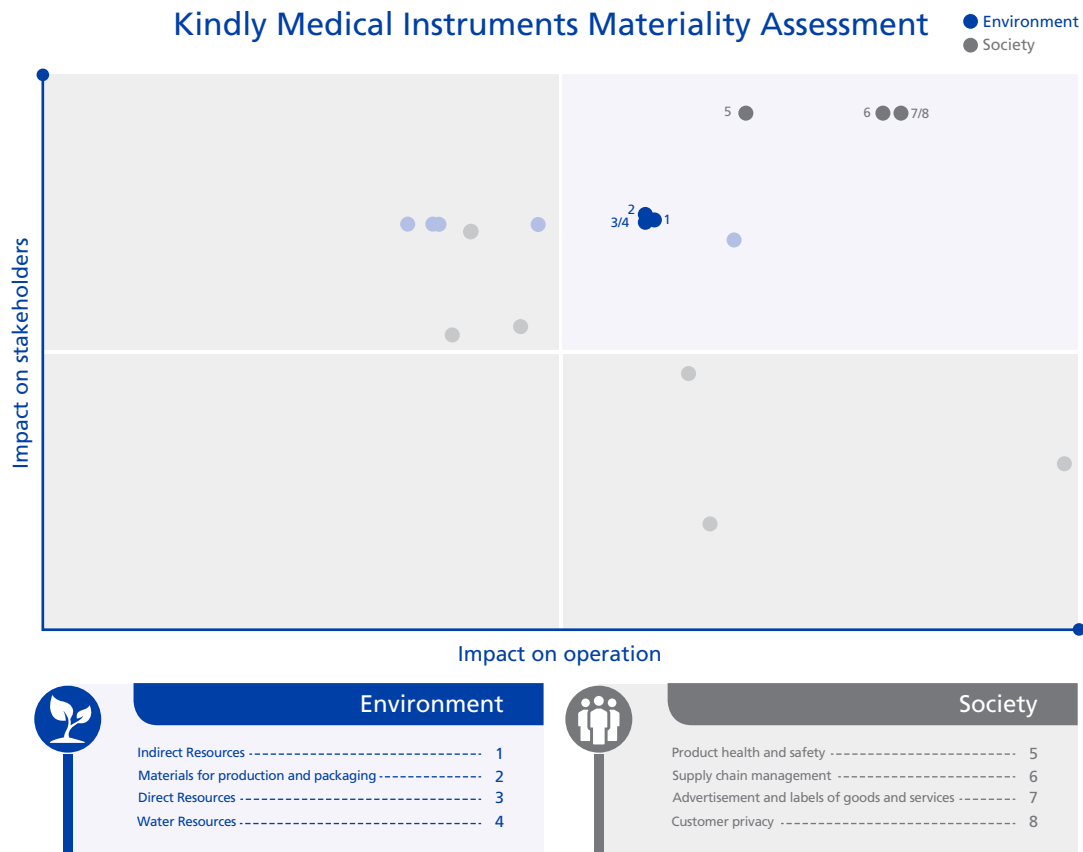
| Stakeholders | Government | Shareholders | Employees | Customers | Suppliers | Community |
|---------------------------------------|--|--|---|---|---|--|
| Target and focus | <ul style="list-style-type: none"> Respond to relevant state medical policies Operate according to science, laws and regulations Increase medical level Dispose the medical hazardous wastes Perform the duty to pay taxes in accordance with applicable tax laws | <ul style="list-style-type: none"> Business strategy and financial performance Protect shareholders' legal rights Business sustainability Incubator of emerging industries Sustainable development of Company | <ul style="list-style-type: none"> Payment and welfare Guarantee of rights and interests Career development Safety and health Corporate culture | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 medical and health system | <ul style="list-style-type: none"> Enhance information disclosures Board meetings, general meetings and investors' meetings Direct communication among shareholders Carry out relevant activities with universities or colleges to promote the incubation and implementation of industry | <ul style="list-style-type: none"> Employee representative of the Supervisory Committee Labour union Employee representative conference Employee survey and provision of feedback Enhance information disclosures | <ul style="list-style-type: none"> Feedbacks of user experience on medical devices from medical workers Cure rate of patients upon usage Complaints hotline Enhance information disclosures Feedbacks from hospitals | <ul style="list-style-type: none"> Announce the supplier management rules Contract negotiation Daily business exchange Enhance information disclosures | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Convene general meetings regularly Convene board meetings regularly Convene investors' meetings Disclose statutory issues in a timely manner Industry-university-research linkage | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Conduct centralized disposal of wastes Take action to implement garbage classification Number of persons employed | <ul style="list-style-type: none"> Stock value and dividend returns Stock market value Invest in subsidiaries | <ul style="list-style-type: none"> Number of participants of employee training Remuneration and welfare system | <ul style="list-style-type: none"> Investments in greening Feedbacks on complaints about disputes between doctors and patients Improve product precision | <ul style="list-style-type: none"> Contract performance rate Assessment of suppliers | <ul style="list-style-type: none"> Examples of good deeds Investments in social welfare causes Employee volunteer activities |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.4 Materiality Assessment

We 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 HKEX. 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.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5 ENVIRONMENTAL RESPONSIBILITY

5.1 Emissions Management

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 Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》). 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 Group strictly complies with the Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》). 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 2022 the emission of non-methane hydrocarbons of the Group is as below:

| | 2022 | 2021 |
|--|--------------|-------|
| Emission of non-methane hydrocarbons (unit: 10,000 m ³) | 5,858 | 5,841 |
| Intensity of emission of non-methane hydrocarbons (unit: 10,000 m ³ /RMB ten thousand (revenue)) | 0.10 | 0.13 |

According to the characteristics of different production processes in each link, the Group adopted the working principle of higher requirements, higher standards and stricter measures, and carried out self-inspection, re-inspection and comprehensive benchmarking approach to further reduce the Company's emissions based on the working idea of "source prevention, process control, and strict control at end". In the process of feeding, processing and molding, blending, printing, cleaning and other production operations, we adopt enclosed equipment or confined space operations (take local exhaust gas collection measures if it cannot be enclosed), and discharge waste gas to the waste gas treatment collection system. The waste gas treatment facilities are treated with activated carbon adsorption and kept in normal operation during the whole process of production facility operation (start-up, stopping and maintenance). We regularly check the operation of the waste gas treatment facilities and carry out maintenance work (replacement of activated carbon) according to the inspection results at the right time, and also carry out regular monitoring work to ensure that the waste gas emissions meet the national environmental requirements.

During the Reporting Period, no incompliance was occurred in relation to the emission of waste gas.

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For the management of waste gas emissions target, we aim to comply with emission standards and raise standards appropriately in respect of new facility construction in order to meet the increasingly strict regulatory requirements. Meanwhile, considering the new facilities to be put into use in the next 1 to 2 years, we will gradually improve management system, optimize the filtration system in production process, and establish and control waste gas emissions reduction target to reduce waste gas emissions.

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 strictly comply with the Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), making careful study and identifying 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 purchased some protective equipment, such as earbuds and posted warning signs about wearing protective equipment before entry on the gate to the noise area. All production noises are inside the plants and have no significant impact on areas around the plant.

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 strictly complies with the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and has obtained a urban 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 every year, including sewage discharge standards testing. The Group's waste water discharge is as below:

| | 2022 | 2021 |
|---|--------|-------|
| Waste water discharge (unit: m ³) | 36,435 | 9,188 |
| Intensity of waste water discharge (unit: m ³ /RMB ten thousand (revenue)) | 0.62 | 0.20 |

Description of statistics:

In 2022, along with the progress of new plant construction in Zhuhai, the production volume of Zhuhai plant almost increased by 100%. The construction of the new plant in Zhuhai and the commissioning and installation of related equipment generated a relatively large increase in waste water compared to that of 2021.

During the Reporting Period, no incompliance was identified in relation to the discharge of waste water.

For the management of waste water discharge target, in the short term, with the continuous expansion of business and employees, the total discharge will continue to maintain a growth trend, but we plan to control the increase in waste water discharge by adopting various measures, including promoting the recycling of waste water, and cause the decrease in discharge density. In the medium and long term, we will further improve water efficiency, reduce absolute consumption, and increase the use of recycled water through waste water recycling.

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Wastes

The Group strictly complies with the relevant laws and regulations in relation to environment, including the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), implementing 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.

In 2022, the hazardous wastes of the Group mainly include wastes of activated charcoal, waste ink barrels, waste saponification solution, waste solution absorbed by the spray tower and laboratory wastes and waste solution. 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 December 2022, we re-filed the "Contingency Response Plan for Environmental Emergencies" (filing number: 02-310114-2022-579-2) with the Ecology and Environment Bureau of Jiading District, which includes the procedures for handling hazardous waste to further manage the discharge, treatment and disposal of hazardous waste in a compliant and effective manner.

The Group's hazardous waste emission is as below:

| | 2022 | 2021 |
|--|-------|-------|
| Laboratory wastes (unit: kg) | 1,015 | 964 |
| Waste ink (unit: kg) | 103 | 100 |
| Wastes of activated charcoal (unit: kg) | 1,000 | 1,000 |
| Waste solution absorbed by the spray tower (unit: kg) | 2,000 | / |
| Waste saponification solution (unit: kg) | 2,085 | / |
| Hazardous waste emission (unit: kg) | 6,203 | 2,064 |
| Intensity of hazardous waste emission (unit: kg/RMB ten thousand (revenue)) | 0.11 | 0.04 |

Description of statistics:

In 2022, the Group added two new hazardous waste emission statistics: waste solution absorbed by the spray tower and waste saponification solution.

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The Group's non-hazardous waste emission is as below:

| | 2022 | 2021 |
|---|--------|--------|
| Domestic wastes (unit: kg) | 31,521 | 30,990 |
| Wastes of oil-water separators (unit: kg) | 4,260 | 4,260 |
| Non-hazardous waste emissions (unit: kg) | 35,781 | 35,250 |
| Intensity of non-hazardous waste emissions (unit: kg/person) | 21.92 | 29.52 |

The Group's waste packing materials emission is as below:

| | 2022 | 2021 |
|---|-------|-------|
| Waste paper-made packing materials (unit: kg) | 540 | 2,566 |
| Waste plastic packing materials (unit: kg) | 2,619 | 3,108 |
| Total waste packing materials (unit: kg) | 3,159 | 5,674 |

During the Reporting Period, no incompliance was identified in relation to the waste emissions. Due to our active implementation of the green development concept, waste classification and management, and effective and rational arrangement of production plans, in 2022, waste emissions grew slowly and waste packaging emissions were reduced, exceeding the expected 2022 target of no more than 10% growth.

For the management of waste discharge target, in the short term, with the completion and putting into production of new facilities in Shanghai, Zhuhai and Shandong, the Group's production capacity and employees will further increase, hence the increase in waste discharge. By implementing wastes classification, waste reduction and other management measures, the Company will continue to maintain environmentally friendly approach, keep the growth of waste discharge to minimum and cause the reduction of discharge density. In the medium and long term, we will continue to classify wastes depending on different hazard levels, increase the proportion of non-hazardous waste recycling, establish and improve our waste treatment system, further optimize production process to reduce process losses and strengthen recyclable production, and ultimately reduce or control the absolute discharge of wastes.

Greenhouse Gas Emissions

The greenhouse gas emissions will cause a greenhouse effect, raise global temperature and lead to climactic abnormalities, thus endangering the environment on which the existence and development of human beings relies. According to the Sixth Assessment Report by United Nations Intergovernmental Panel on Climate Change, climate change resulting from human has caused much extreme weather and climate occurred in regions worldwide, and observed extreme climate issues such as heatwave, heavy precipitation, drought and tropical cyclone are changing. Climate change has become an issue which can determine characteristics of our time and a common concern of all human beings. However at a decisive moment, as listed company committed to "the health undertaking of all human beings", we deeply recognize the importance and urgency to reduce greenhouse gas emissions.

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The greenhouse gas emissions of the Group primarily come from purchased electricity, liquefied petroleum gas (“LPG”) for canteens and oil for service cars. Although the Group’s greenhouse gas emissions as well as the expenses in electricity, LPG and oil consumption are not significant, given that no act of kindness, no matter how small, is ever wasted, we still 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 degrees celsius in summer;
- Advocating paperless office and secondary use of paper, regularly and quantitatively receiving paper by each department on demand, strengthening the intelligence of office software, optimizing the approval process, and reducing unnecessary energy consumption;
- Calling on employees to turn off the power of personal office equipment in a timely manner after work, and requiring the last person leaving the office to check and close doors and windows, and turn off relevant power supplies and lighting;
- Employees’ dining is subject to individual serving system. The main dishes are equally divided by the canteen staff, and the rice and soup are taken by the employees themselves, so as to refuse the waste on the tongue;
- Reducing the frequency of business trips and increasing participation in field activities through video conferencing;
- Formulating a reasonable production scheme based on sales forecast to improve productivity;
- Selecting energy-saving equipment with lower energy consumption during the procurement of new equipment;
- Promoting and planting trees in the factory;
- Purchasing more electric vehicles, and advocating the use of electric vehicles to reduce the use of fuel vehicles and exhaust emissions.

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.

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The Group's greenhouse gas emission is as below:

| | 2022 | 2021 |
|---|-------|-------|
| Direct GHG emissions (Unit: tCO ₂ e) | 48 | 41 |
| Indirect GHG emissions (Unit: tCO ₂ e) | 6,173 | 6,212 |
| Total GHG emissions (Unit: tCO ₂ e) | 6,221 | 6,252 |
| Total GHG emissions intensity (Unit: tCO ₂ e/RMB ten thousand (revenue)) | 0.11 | 0.13 |

During the Reporting Period, with nitric oxide emission of 39.65 kilograms, sulphide emission of 0.02 kilogram and particulate matter emission of 2.11 kilograms due to the use of gasoline and diesel.

5.2 Use of Resources

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

The Group strictly complies with the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and the Law of the People's Republic of China on Promoting Clean 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 can't avoid the number of packing materials but does use some packing materials, including cardboard cases, boxes, paper pallets, plastic bags and plastic pallets; in selecting packing materials, the Group still tries to actively adopt various measures to replace cheaper plastic products with paper or other easily degradable packing materials, and also reduce the consumption of waste paper packages to realise the recycle and reuse of paper packages.

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The Group's use of packing materials is as below:

| | 2022 | 2021 |
|---|----------------|---------|
| Paper consumption (Unit: kg) | 295,643 | 257,350 |
| Plastic products consumption (Unit: kg) | 56,588 | 49,041 |
| Packing materials consumption (Unit: kg) | 352,231 | 306,391 |
| Intensity of packing materials consumption (Unit: kg/RMB ten thousand (revenue)) | 6.01 | 6.59 |

The Group has office cars and staff shuttle bus which consumed gasoline of 1,080L and diesel of 309L during the Reporting Period.

The Group's use of other resources is as below:

| | 2022 | 2021 |
|---|-------------------|-----------|
| External-purchased electricity (Unit: kWh) | 10,625,630 | 8,923,800 |
| Liquefied gas (Unit: kg) | 14,148 | 11,675 |
| Comprehensive energy consumption (Unit: kWh) | 10,835,562 | 9,101,538 |
| Comprehensive energy consumption per RMB ten thousand revenue (Unit: kWh/RMB ten thousand (revenue)) | 185 | 196 |
| Water (unit: m ³) | 77,552 | 49,737 |
| Water consumption per RMB ten thousand revenue (unit: m ³ /RMB ten thousand (revenue)) | 1.32 | 1.07 |

The Group uses fresh water provided by local Urban Water Supply Bureaus, and the Group did not encounter any problem in obtaining water sources.

In 2022, the Group met the efficiency targets for the use of energy, but in regards of water usage, both of total water usage and water consumption per revenue increased as a result of construction and production increase in Zhuhai plant.

Energy efficiency: this year, all vehicles we newly purchased were new energy vehicles to replace fuel consumption energies with clean electricity power and we improved energy efficiency in production through the construction of digital factories. In the future, we will further improve the automation of our production and scale up the application of automation to improve energy efficiency.

Water efficiency: In the short term, considering the increase in the Group's production capacity and number of employees, the use of water resource will increase accordingly. However, we actively took a series of water-saving measures such as posting slogans and increasing water inspection. In the medium and long term, we will further strengthen the implementation of water conservation management, promote waste water recycling through facility renovation or process upgrading, and take water conservation into account in the design of new production lines and business strategies, so as to improve water efficiency and reduce absolute consumption.

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5.3 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.

5.4 Address Climate Change

Climate change has become a common challenge faced by human beings. The Group always pays close attention to the risks and opportunities relevant to climate change, evaluates their actual and potential impact on our operations, strategies and financial performance, and actively takes countermeasures to further promote the sustainable development of the Company. Referring to the Reporting on TCFD recommendations – Guidance on Climate Disclosures issued by the HKEX, this section describes our determination to address climate change and the direction of our future efforts by governance, strategy, risk management, indicators and targets.

Governance

The TCFD has made two disclosure recommendations based on its oversight responsibilities for climate-related risks and opportunities: one is focusing on the Board and the other one is focusing on the management. We have initially clarified the Board's responsibilities for oversight of climate-related risks and opportunities, as well as the roles and responsibilities of the management on climate change issues. The Board needs to fully consider climate-related risks and opportunities in the formulation of corporate strategies, update of risk management systems, and planning of annual budgets, and make relevant decisions; the management organizes the identification, assessment and management of climate-related risks and takes appropriate action based on the materiality of the risks.

Strategy

Climate-related risks can be divided into transition risks arising from the transition to a low-carbon economy and physical risks arising from climate change. Transition risks can be divided into policy and regulatory risks, market and technology risks, and reputational risks. Physical risks include acute physical risks (e.g. extreme weather such as typhoons and floods) and chronic physical risks (refer to long-term changes in climate patterns such as sea level rise, persistent high temperature).

In the long run, extreme weather will affect business operations, reducing profitability. Therefore, the Group attaches great importance to the pressures and potential risks brought about by extreme weather, and gradually conducts a review of the current situation of the risks and opportunities it may face due to climate change, and identifies and studies the impact of climate change on our business activities. In terms of physical risks, acute physical risks, i.e. extreme weather events such as typhoons, floods, and high temperatures, are our current focus. On the one hand, the production and delivery of products may be directly affected by extreme weather events on worksites, production equipment, personnel commuting and transportation. On the other hand, they may also be indirectly affected by extreme weather events in the supply chain, e.g. power and water supply in the area where the operation site is located is insufficient or interrupted due to extreme weather, and raw material suppliers cannot deliver materials on time due to the impact of extreme weather, which prevent us from producing as planned due to material shortages. In terms of chronic physical risk, we haven't seen a significant impact on the business yet.

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In terms of transition risks, with the deepening of the society's understanding on climate change and the implementation of relevant policies, energy prices and greenhouse gas emissions allowances will be affected, which may further affect production and sales, thereby affecting the entire value chain of the Company. We will continue to monitor the impact of this.

Risk Management

According to the characteristics of the industry in which the Company operates and the Company's situation, the Company has identified and evaluated the process for management of climate-related risks. For the climate-related risks identified by the Company, the Company has established relevant emergency plans, and formulated emergency plans for different events under a unified emergency framework. The emergency framework should include conditions for initiating emergency plans, emergency handling procedures, system recovery procedures, post-event education and training, etc.; at the same time, it should ensure sufficient resources for the implementation of the emergency plan, including manpower, equipment, technology and finance.

Indicators and Targets

In order to measure the effectiveness of actions against climate change, it is important to select appropriate parameters and indicators, and to formulate corresponding targets. We have selected energy consumption, energy types and waste emissions as the key performance indicators for energy conservation and emission reduction of the Group. We plan to set up a special post to monitor data changes and regularly analyze the trend of changes, so as to improve energy use efficiency. Based on the estimated consumption that matches the production capacity, relevant departments are encouraged to actively practice energy conservation and consumption reduction, improve the overall energy and water efficiency of the Company, and reduce waste and emissions. Since the operating and economic environment in which the Company operates is constantly changing, we will constantly review our practices and adjust our targets and proposed measures as appropriate.

In the future, we will continue to improve the governance, strategy formulation, risk management, indicator and target identification and management of climate-related risks, and work with all walks of life to address climate change and achieve common sustainable development.

6 EMPLOYMENT AND LABOR PRACTICE

The establishment, development and listing of the Group greatly depend 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.

6.1 Employment

Open and Fair Employment and Diversified Incentives

The Group strictly complies with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the 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, rights and obligations in an opened manner.

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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, color, nationality, religion, political group or sexual preference in respect of employment, promotion, training, remuneration and benefit package. In 2022, the Group provided suitable jobs for 7 disabled persons in the surrounding communities. The Group conducts regular performance evaluations on employees and helps them to align their individual interests with the corporate target to create the corporate core values of "dedication, innovation, selflessness and efficiency". We provide housing allowances to all employees, housing fund 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 Period, the Group has 1,632 full time employees who have signed direct contract with the Group (2021: 1,189 employees), including:

The number and turnover rate of full time employees by gender are as below:

| | 2022 | | | 2021 | | |
|--------|--------------|--------------|---------------|--------|------------|---------------|
| | Number | Percentage | Turnover rate | Number | Percentage | Turnover rate |
| Male | 623 | 38.2% | 33.70% | 441 | 37.1% | 37.9% |
| Female | 1,009 | 61.8% | 33.00% | 748 | 62.9% | 33.7% |

The number and turnover rate of employees by age are as below:

| | 2022 | | | 2021 | | |
|----------|--------------|--------------|---------------|--------|------------|---------------|
| | Number | Percentage | Turnover rate | Number | Percentage | Turnover rate |
| Below 20 | 22 | 1.3% | 67.2% | 10 | 0.8% | 44.4% |
| 20-40 | 1,306 | 80.0% | 33.4% | 959 | 80.7% | 36.9% |
| Above 40 | 304 | 18.6% | 27.1% | 220 | 18.5% | 26.4% |

The data of employees by region are as below:

| | 2022 | | | 2021 | | |
|----------|---------------------|--------------|---------------|---------------------|------------|---------------|
| | Number of employees | Percentage | Turnover rate | Number of employees | Percentage | Turnover rate |
| Zhuhai | 319 | 19.5% | 45.9% | 146 | 12.3% | 34.8% |
| Shanghai | 1,307 | 80.1% | 29.2% | 1,043 | 87.7% | 35.4% |
| Shandong | 6 | 0.4% | 25.0% | 0 | 0.0% | / |

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Calibre-Based Recruitment and Employee Care

Employees are the foothold for our sustainable development, and we recognize the value of employees and make efforts to provide humanistic 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, with a view of “making the best and appropriate use of talent”.

We pay attention to the physical and mental health of our employees. In addition to the annual free staff physical examination with full coverage, we also provide occupational disease physical examination for the types of workers at risk of developing special diseases. In line with the policies of each region, the accumulated team building activities of each department reach more than 30 times. We improve the working environment of our employees and provide them with working meals and dormitories. By the end of 2022, 264 employees are living in the staff dormitories. We pay attention to the career planning of our employees, provide positive incentives, and give annual seniority allowance awards to frontline employees according to their length of service, and award excellent employee awards to employees with excellent performance in their work at the end of the year.

We have established a comprehensive employee care program from employees’ perspectives and in accordance with the needs of them, including:

- monthly food and communication allowance;
- birthday gift coupon;
- gifts for traditional festivals;
- health check for female employees in Women’s Day;
- group building activities of department;
- paid annual travelling;
- free annual health check;
- “Talent Housing” for employee in need.

6.2 Health and Safety

The Group attaches great importance to the health and safety of employees in workplace, 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 Labor Protective Articles for Employers (《用人單位勞動防護用品管理規範》) and the Special Regulations on Female Labor Protection (《女職工勞動保護特別規定》), and formulates the Safety Production Responsibility System (《安全生產責任制度》). The Group has passed ISO 45001 occupational health management system certification and the level three enterprise for standardisation of production safety certification.

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Workplace Safety

The Group has established a “safety-first and prevention-oriented” safety management approach and implemented the enterprise leader responsibility system, the safety leader responsibility system and the hierarchical safety responsibility system, established and improves safety management rules, organized regular and irregular safety training and inspection and eliminated potential safety threats to ensure labor safety during production, property safety of running machines and orderly operating activities. We 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;
- arranging health check on occupational diseases each year for practitioners in special position with occupational disease risk, such as the position of sterilization operations and powder;
- providing periodic employee safety training and organizing safety drills according to the planned rescue routes.

Safety Education

The Group attaches great importance to employee safety education, and launches safety production education and assessment for each new employee. The production workshop will carry out safety production education on a quarterly basis by department. In 2022, the Group held 13 large sessions of safety production education, with the coverage rate of employees reaching over 98%. In the future, we plan to periodically hold safety training for all employees, mainly focusing on production, fire protection, and emergency management knowledge, and integrate safety education and responsibility awareness into the Company's daily work to enhance employees' safety awareness and self-protection ability, thereby reduce the risk of production accidents.

Fire Safety

We carried out one large emergency fire drill during this year, which divided into several sessions, covering all employees in each department. By carrying out relevant drills, we help employees improve their self-rescue ability in the event of fire, and help them familiarize with the use of firefighting equipment, thereby ensuring the safety of employees and company property.

Comprehensive Care

For the sake of the employees' health and safety, we have made many efforts not merely in the workplace. In March 2022, we implemented a contingency plan at the first time and optimised the production organisation and operation mechanism. We also purchased sufficient food, vegetables and meat, and transformed the spare space in the factory into temporary accommodation to solve the problem of food and accommodation for our employees and guarantee the living needs of our employees during residents in the factory.

In 2022, 2021 and 2020, there were no employees who died at work within the Group; in 2022, the number of employees suffering work-related injuries was 1 (2021:2) and 30 workdays lost (2021: nil) due to work-related injuries.

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6.3 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 Period, the Group's external training expense amounted to RMB50,200 (2021: RMB151,600). The annual training time for new employees was 13 hours, and the average annual training time for employees was 21.2 hours.

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, and further classified into internal training and external training (the annual training program refers to a training program formed at the beginning of each year in accordance with the training requirements of each department collected by the administrative department in December).

The administrative department is also responsible for the recording and verification of the effectiveness of training. In 2022, we carried out 221 offline training courses with 4,872 training participants. Except for the two traditional forms of training, namely training session and seminar, we have also proactively launched online training to reduce crowd gatherings. Relying on third-party platform, in 2022, we have organized 50 online trainings, with 1,095 training participants and online training coverage rate of 18.35%, covering all aspects of production and operation. Furthermore, the recording and broadcasting functions of online courses have greatly facilitated the staff in the arrangement of office hours, widen the coverage of trainees and enhanced the effectiveness of training courses. Meanwhile, we encourage employees to be internal trainers to share knowledge and experience and lead team to grow. As of the end of 2022, the Group has a total of 23 internal trainers.

As at the end of the Reporting Period, the statistics on the training of employees of the Group are as follows:

Percentage of employees trained and average training hours by gender:

| | 2022 | | 2021 | |
|--------|------------|------------------------------------|------------|------------------------------------|
| | Percentage | Average training hours (hour/year) | Percentage | Average training hours (hour/year) |
| Male | 100% | 58.4 | 100% | 50.5 |
| Female | 100% | 54.2 | 100% | 56.8 |

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Percentage of employees trained and average training hours by employee grades:

| | 2022 | | 2021 | |
|------------------------------|------------|------------------------------------|------------|------------------------------------|
| | Percentage | Average training hours (hour/year) | Percentage | Average training hours (hour/year) |
| Middle and senior management | 100% | 53.3 | 100% | 71.4 |
| Junior employees | 100% | 55.5 | 100% | 53.5 |

The development of the employees themselves is extremely important to the innovative development of the Group, and we focus on the development of our employees by providing incentive mechanisms. The mechanism is divided into two parts: short term and medium and long term. Short term mechanism refers to the monthly performance index, which is based on the Company's strategic plan to develop the annual tabulation of the department and decompose to the monthly index, which also becomes the post assessment bonus. The medium and long term mechanism is the share incentive, which is used for some employees who have reached a certain salary level.

6.4 Labor Standards

The Group advocated 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.

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 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 (2021: 6 days) to employees.

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

Prohibition of Child Labor with Careful Examinations

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 Labor (《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 labor. All of the Group's employees should show the original identity card and submit the copy with the employee's signature for filing on enrollment, for the purpose of ensuring the recruited employee is above 18 years old. 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 labor is discovered, the Group will immediately terminate the employment and conduct an investigation on the relevant people involved therein.

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

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7 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 extends 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 new supplier investigation and on-site inspection, including the verification of general qualification materials, quality system assessment, sample test and sample verification, to ensure production quality. Subject to the extent of effect of raw materials on the quality of products, the Group conducts supplier qualification investigation and/or on-site inspection for new suppliers. The coverage rate of new supplier inspection in 2022 was 100%, and the pass rate was 100%. For new suppliers that fail the investigation or on-site inspection, they will be eliminated directly without re-inspection.

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. The Group will conduct an inspection based on the information submitted by suppliers, and the frequency is once a year. For existing suppliers, when the supplier's production, process and other factors lead to the provision of substandard materials or a quality risk, the Company will once again organize an on-site inspection on the supplier. In 2022, the Company organized 3 on-site re-inspections on suppliers.

When selecting suppliers, the Group requires that all materials provided by suppliers should meet environmental protection standards, and at the same time prefers to select suppliers that can provide environmentally friendly products. The Company conducts inspection of ISO14001 third-party environmental protection system every year, and signs environmental management requirements with suppliers.

The distribution of the Group's suppliers is as below:

| Unit: supplier | 2022 | 2021 |
|--------------------------|-----------|------|
| Domestic suppliers | 80 | 82 |
| of which, Northern China | 1 | 1 |
| Eastern China | 58 | 69 |
| Southern China | 12 | 10 |
| Central China | 0 | 1 |
| Southwest China | 1 | 1 |
| Overseas suppliers | 8 | 9 |

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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.

8 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. A quality management system has been established based on relevant regulatory requirements, and the system is continuously improved and managed using a process approach from identification of production requirements to customer satisfaction evaluation to ensure its effectiveness, suitability and adequacy.

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.

The sterile performance of medical devices and their packaging is the basic guarantee of product safety and efficacy. The Group has clarified the special requirements on sterile medical devices, and formulated the Ethylene Oxide Sterilization Confirmation and Routine Control Procedures for the sterilization methods of products. The sterilization records of medical devices can be traced back to each production batch. The Group ensures conformance with product standard requirements, by standardizing the sterilization process, setting the sterilization parameters reasonably, and verifying the sterilization effect of the product by the review team. The packaging of medical devices is also an important barrier to maintain the sterility and effectiveness of products. The Group has established and implemented the Procedure for Control of Sterile Barrier System Confirmation, clarifying the requirements on packaging verification scheme, in order to achieve the functions of microbial barrier and physical protection, and to ensure the safety and reliability of products.

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Being concerned about the quality safety of products, the Group has formulated the Procedures for Control of Non-Conforming Products, which stipulates the input, review and processing procedures for non-conforming products. If any unqualified product is found before delivery, the relevant product will be identified, recorded, isolated and inspected. The Quality Department will cooperate with the responsible department to investigate the cause, and the responsible department will formulate reasonable measures to deal with it. If any unqualified product is found after delivery, relevant enterprises and consumers will be notified in a timely manner, and measures to recall or destroy products will be taken.

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》), to ensure the effectiveness of the product recall mechanism. 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 Period, no product recall related to security and health occurred to the Group.

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 (《醫療器械說明書和標籤管理規定》), 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 (《標籤、說明書管理制度》) to ensure the correct use of labels and advertisings and prohibit false advertising.

During the Reporting Period, no false promotion or untrue advertising in respect of advertising and labels occurred within the Group.

International Exchange, Science and Technology Leading

We understand the importance of scientific and technological research and development for the core competitiveness of our products, and Kindly Medical Instruments has always adhered to the development route of scientific and technological innovation to enhance the technological competitiveness of our products through continuous investment in research and development, accumulation of technological innovation, industry-university-research synergy, and transformation of scientific and technological achievements. In 2022, with our innovative products, we have conducted a number of international exchanges:

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Exhibiting at the 54th International Hospital and Medical Equipment Supplies Exhibition (MEDICA)

From 14 to 17 November 2022, the foreign trade team of Kindly Medical Instruments went to Dusseldorf, Germany to participate in the world famous comprehensive medical exhibition, which is also recognized as the world's largest hospital and medical equipment exhibition – International Hospital and Medical Equipment Supplies Exhibition (MEDICA). The foreign trade team of Kindly Medical Instruments went to Dusseldorf with its own innovative products, exchanged with exhibitors from 70 countries and regions, and showed the strength of China's intellectual manufacturing to the world.

Exhibiting at the 86th CMEF China International Medical Equipment Fair

On 23 November 2022, the domestic trade team of Kindly Medical Instruments went to Shenzhen to attend the 86th CMEF China International Medical Equipment Fair. The theme of this expo is "Innovation Technology, Intelligent Leading", and the domestic trade team of Kindly Medical Instruments brought many innovative products to the expo and had academic and technical exchanges with many medical device brands in the industry to show their innovative strength.

At both shows, we focused on promoting innovative products:

- Biodegradable sinus drug stent, which is used for patients undergoing functional endoscopic sinus surgery (FESS) for chronic sinusitis, mainly to prevent postoperative adhesions, keep the nasal passages open and reduce inflammation;
- Bone marrow blood puncture aspiration circulation device, the product can completed the process of bone marrow blood collection – rapid filtration of bone marrow blood cells – enrichment – composite biomaterials – backing to the body in the same period of surgery, and the listing of the product provides innovative solutions for the field of bone repair, which is the first domestic medical devices of this kind to obtain the registration certificate.

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, and understand the requirements for product delivery including performance, delivery time, packaging materials, etc. to develop clinically effective products that meet clinical needs. We also attach great importance to customers' feedbacks. The Group has established a Feedback Control Procedure to collect customer satisfaction and complaints at any time with a view of improving product quality.

The Group collects feedback information in a variety of ways, mainly including visits and surveys, questionnaires, direct customer feedback, market information, research reports, etc., to further understand customer feedback on product quality, contract performance, etc., thus better respond to the market changes in demand and enhance competitiveness. We collect Customer Satisfaction Survey from our cooperative customers in December annually, register the Customer Feedback Record Form in time to collect and analyze feedback information, and evaluate the final disposal results.

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In terms of handling customer complaints, the Group has established the Procedures for Complaint Handling Control (《投訴處理控制程序》) to standardize the handling methods and procedures for customer complaints and feedback, and provide information support for the Company's products and services. The Company has set up a special post to accept the complaint information, and record the content of the complaint. After preliminary screening, the complaint that is judged to be reasonable will be investigated within the Company, and relevant products will be disposed of in a timely manner. In addition, the Company will initiate corrective and preventive measures according to the severity of the incident, clarify the specific responsible department and person in charge, and track customers' recognition of the handling measures and results.

The Group attaches great importance to the utilization of customer complaints and feedback information. 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 centre 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 Period, the Group issued 400 Customer Satisfaction Survey (2021: 120) with 210 collected (2021: 62), and still maintained a high overall satisfaction rate of 94.68% (2021: 98.5%) based on the significant expansion of survey coverage. During the Reporting Period, 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 formulated Information Security Management System (《信息安全管理制度》) and Confidentiality Management System (《保密管理制度》). In terms of hardware, all employees 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 this year, we have built a management system to protect the privacy of customers by improving account and systematically encrypting their information.

During the Reporting Period, there was no incident of breach of customer privacy protection.

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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 Regulations 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》), Management System for Copyrights (《著作權管理制度》), 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 made 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.

During the Reporting Period, the Group applied for 91, and was awarded as “2022 Shanghai Enterprise and Institution Patent Work Demonstration Unit”. As of the end of the Reporting Period, the Group has applied for 449 patents in total, including 184 patents under application, 260 granted patents and 5 software and the Group has obtained the certification of intellectual property management system.

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9 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 Law of the People's Republic of China Against Unfair Competition (《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》) which is included in the updated Administrative Management System Publication (《行政管理制度彙編》) in 2022. Based on the full identification of corruption risks, we intensified 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.

The Group advocates an honest corporate culture, guides employees to act in accordance with the law, be honest and trustworthy in their respective positions, and conduct anti-corruption training for all new employees, and in 2022, 75 sessions of training were organized, with a total of 630 hours of training, and the coverage of anti-corruption training reached 100%. During the year, we paid special attention to anti-corruption and integrity education for senior management and conducted one anti-corruption training for directors and supervisors, with 12 participants, achieving full coverage.

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Enhanced Supervision and Honesty and Self-discipline

In order to improve supervision mechanism, the Group set up a report box and announces 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 are 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, and no relevant reports received.

10 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.

Caring for Education

We are concerned about the undertakings of education in local community and proactively fulfil its corporate social responsibilities. In 2022, the Group donated RMB100,000 to Education Awards Foundation of Jiading District, Shanghai as the "Educational Development Fund for Jiangqiao Town". We hope that our donations for schools will help needy children to continue their studies, and we also hope 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, which is the donation project that the Group has adhered to for many years.

Medical Demand

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 21 staff (2021: 25) of the Group participated in blood donation with an aggregate of 4,200 ml (2021: 5,000 ml) of blood donated.

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In 2022, in the face of the complex and ever-changing situation, we urgently carried out the centralized and efficient integration of resources to ensure the guarantee service for the distribution of hospital supplies and the implementation of the production of emergency orders in the market, and made concerted efforts to guarantee the market supply. At the same time, we also actively brought into play the advantages of medical enterprises to produce the masks in short supply in the market at the fastest speed to contribute to the market supply, and donated a total of more than 220,000 self-produced masks to the relevant departments of the neighboring governments and village committees, etc:

- Donating 135,000 N95 masks to government agencies and committee in March 2022;
- Donating 5,000 N95 masks to IMIA in December 2022;
- connecting with customers, suppliers and medical institutes at home and abroad at the first time, and donating over 80,000 N95 masks with no consideration.

Social Welfare

We make dual emphasis on both poverty alleviation work and soul purification. In December 2022, the Group donated RMB30,000 for the "Beloved under the Blue Sky" charity activity, which has been held in Shanghai for 28 years and has become the city's landmark, dedicating to give love to more groups in need.

In 2022, the Group invested approximate RMB500,000 in charity, of which RMB130,000 was spent on direct donations.

ESG GENERAL DISCLOSURE REFERENCE LIST

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| Subject Areas A. Environmental | | |
| Aspect A1: Emissions | | |
| A1 | 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. | 5.1 Emissions Management |
| A1.1 | The types of emissions and respective emissions data. | 5.1 Emissions Management |
| A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.1 Emissions Management |
| A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.1 Emissions Management |

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| A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | 5.1 Emissions Management |
| A1.5 | Description of emission target(s) set and steps taken to achieve them. | 5.1 Emissions Management |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | 5.1 Emissions Management |
| Aspect A2: Use of Resources | | |
| A2 | General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. | 5.2 Use of Resources |
| A2.1 | 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). | 5.2 Use of Resources |
| A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | 5.2 Use of Resources |
| A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | 5.2 Use of Resources |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | 5.2 Use of Resources |
| A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | 5.2 Use of Resources |
| Aspect A3: The Environment and Natural Resources | | |
| A3 | General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources. | 5.3 Environment and Natural Resources |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 5.3 Environment and Natural Resources |
| Aspect A4: Climate Change | | |
| A4 | General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | 5.4 Address Climate Change |
| A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | 5.4 Address Climate Change |

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| Subject Areas B. Social | | |
| Employment and Labour Practices | | |
| Aspect B1: Employment | | |
| B1 | 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. | 6.1 Employment |
| B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | 6.1 Employment |
| B1.2 | Employee turnover rate by gender, age group and geographical region. | 6.1 Employment |
| Aspect B2: Health and Safety | | |
| B2 | 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. | 6.2 Health and Safety |
| B2.1 | Number and rate of work-related fatalities occurred in each of the past three years (including reporting year). | 6.2 Health and Safety |
| B2.2 | Lost days due to work injury. | 6.2 Health and Safety |
| B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | 6.2 Health and Safety |
| Aspect B3: Development and Training | | |
| B3 | General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 6.3 Development and Training |
| B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | 6.3 Development and Training |
| B3.2 | The average training hours completed per employee by gender and employee category. | 6.3 Development and Training |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Environmental, Social and Governance Reporting Guide | | Section |
|--|--|---------------------------|
| Aspect B4: Labour Standards | | |
| B4 | 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. | 6.4 Labor Standards |
| B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 6.4 Labor Standards |
| B4.2 | Description of steps taken to eliminate such practices when discovered. | 6.4 Labor Standards |
| Operating Practices | | |
| Aspect B5: Supply Chain Management | | |
| B5 | General Disclosure Policies on managing environmental and social risks of the supply chain. | 7 Supply Chain Management |
| B5.1 | Number of suppliers by geographical region. | 7 Supply Chain Management |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | 7 Supply Chain Management |
| B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | 7 Supply Chain Management |
| B5.4 | Description of practices used to promote environmentally friendly products and services when selecting suppliers, and how they are implemented and monitored. | 7 Supply Chain Management |
| Aspect B6: Product Responsibility | | |
| B6 | 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, labeling and privacy matters relating to products and services provided and methods of redress. | 8 Product Responsibility |
| B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 8 Product Responsibility |
| B6.2 | Number of products and service related complaints received and how they are dealt with. | 8 Product Responsibility |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Environmental, Social and Governance Reporting Guide | | Section |
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| B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 8 Product Responsibility |
| B6.4 | Description of quality assurance process and recall procedures. | 8 Product Responsibility |
| B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | 8 Product Responsibility |
| Aspect B7: Anti-corruption | | |
| B7 | 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. | 9 Anti-corruption |
| B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 9 Anti-corruption |
| B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | 9 Anti-corruption |
| B7.3 | Description of anti-corruption training provided to directors and staff. | 9 Anti-corruption |
| Community | | |
| Aspect B8: Community Investment | | |
| B8 | 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. | 10 Community Investment |
| B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | 10 Community Investment |
| B8.2 | Resources contributed (e.g. money or time) to the focus area. | 10 Community Investment |

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Liang Dongke (梁棟科), aged 45, is the founder of the business of the Group. He was appointed as a Director on 7 June 2006 and as the general manager of the Company on 30 June 2010, appointed as the Chairman of the Board on 26 April 2016 and designated as an executive Director on 8 December 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 | 26 February 2016 to present |
| Shanghai Qimu | Executive Director and general manager | 17 August 2018 to present |
| Shanghai Puhui | Executive Director | 14 November 2018 to present |
| Shanghai Healing | Chairman | 15 February 2019 to present |
| Hongkong INT Medical Instruments Company Limited (香港瑛泰醫療器械有限公司) | Executive Director | 21 February 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 | 22 March 2019 to present |
| Shanghai Pumei | Executive Director | 12 March 2020 to present |
| Shandong Int Medical Instruments Co., Ltd.* (山東瑛泰醫療器械有限公司) (" Shandong Int ") | Executive Director and general manager | 13 January 2021 to present |
| Shanghai Yikai Medical Instruments Co., Ltd.* (上海益凱醫療器械有限公司) | Executive Director | 23 June 2021 to present |
| Shanghai INT Pureray Medical Instruments Co., Ltd.* (上海瑛泰璞潤醫療器械有限公司) | Executive Director | 24 November 2022 to present |

Dr. Liang has over 16 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. Dr. Liang also served as the director of KDL from 16 February 2017 to 4 May 2017 and has served as an executive director of Shanghai INT Medical Technology Co., Ltd. (上海瑛泰醫療科技有限公司) ("**Shanghai INT**") since September 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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.

Dr. Liang is the husband of Dr. Song Yuan. Please refer to the paragraph headed “Non-executive Directors” below for Dr. Song biographical details.

Mr. Lin Sen (林森), aged 53, was appointed as an executive Director on 16 May 2022. Mr. Lin is currently the chief technology officer of the Company, the general manager of 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) and the executive director and general manager of Shanghai Puyue Medical Co., Ltd.* (上海璞躍醫療器械有限公司). He successively served as the section chief of Taizhou LuqiaoHuakangda Plastic Products Factory* (台州市路橋華康達塑膠製品廠), the head of Yuhuan County Qinggang Wumu Plastic Factory* (玉環縣清港五木塑膠廠) and the chief engineer of Shanghai Wonderful Medical Instruments Automation Research Institute Co., Ltd.* (上海萬德福醫療器械自動化研究所有限公司), the predecessor of 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). Mr. Lin obtained his bachelor’s degree in economics from China University of Geosciences (中國地質大學) in the PRC in 2007.

Non-executive Directors

Mr. Zhang Weixin (張維鑫), aged 49, was appointed as a non-executive Director on 8 December 2018. Mr. Zhang is primarily responsible for supervising the management of the Board.

Mr. Zhang has over 26 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 (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 re-joined KDL and served as its general manager 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) (“Shanghai Pipe”), 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 53, was a Director from 21 September 2015 to 25 May 2017, and was reappointed as a non-executive Director on 8 December 2018. Ms. Chen is primarily responsible for supervising the management of the Board.

Ms. Chen has over 21 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, 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 from February 2019 to September 2020. Ms. Chen has also served as the director of KDL and Shanghai Pipe since February 2017 and September 2018, respectively.

Dr. Song Yuan (宋媛), aged 43, was appointed as the secretary to the Board on 28 September 2018, as the deputy general manager of the Company on 9 December 2018 and as one of the joint company secretaries on 22 May 2019. Dr. Song was appointed as a non-executive Director on 16 May 2022. Dr. Song is in charge of information disclosure, investor relations, equity investment and convention of Board meetings and shareholder meetings of the Group. She currently is the vice general manager of Shandong INT Medical Instruments Co., Ltd.* (山東瑛泰醫療器械有限公司) and the executive director and general manager of Shanghai INT Biotechnology Co., Ltd.* (上海瑛泰生物科技有限公司). Dr. Song has also been the supervisor of Shanghai INT since September 2021.

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 obtained a Ph.D. 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. Please refer to the paragraph headed "Executive Directors" above for Dr. Liang biographical details.

Mr. Wang Ruiqin (王瑞琴), aged 51, was appointed as a non-executive Director on 16 May 2022. Mr. Wang is currently the production director of the Company. He successively served the production manager of Shanghai Fuersai Medical Plastic Co., Ltd.* (上海賽爾富醫械塑料有限公司), the manager of Shanghai Meihua Medical Instruments Co., Ltd.* (上海美華醫療器具股份有限公司) and the vice general manager and the general manager of the Shanghai Wonderful Medical Device Automation Research Institute Co., Ltd.* (上海萬德福醫療器械自動化研究所有限公司), the predecessor of 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). He obtained his bachelor's degree in business administration from Jinggangshan University (井岡山大學) in the PRC in January 2009.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Jian Xigao (蹇錫高), aged 77, was appointed as an independent non-executive Director on 8 December 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).

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.

Mr. Hui Hung Kwan (許鴻群), aged 51, was appointed as an independent non-executive Director on 8 December 2018. Mr. Hui is primarily responsible for supervising and providing independent advice to the Board.

Mr. Hui has more than 27 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, the independent non-executive director of Titan Invo Technology Limited (formerly known as Tus International Limited and/or 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, the chief financial officer of China Creative Global Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1678) from June 2013 to May 2020, 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) from September 2018 to June 2021, the company secretary of Shengli Mining Co. Ltd. (勝利礦業股份有限公司) from May 2020 to January 2021, and the chief financial officer of Maiyue Technology Limited (邁越科技股份有限公司) from March 2021 to April 2021. Mr. Hui also served as the company secretary of Idea Knack Cultural Communication Holding Limited (金鎧文化傳播控股有限公司) since May 2021. 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

Mr. Xu Congli (徐從禮), aged 52, was appointed as an independent non-executive Director on 16 May 2022. Mr. Xu is currently a partner of Da Hua Certified Public Accountants LLP* (大華會計師事務所(特殊普通合夥)). He successively served as a department manager of Shandong Fangzheng Accounting Firm Co., Ltd.* (山東方正會計師事務所有限公司), a senior manager of Shanghai Branch of Yuehua Accounting Firm Co., Ltd.* (岳華會計師事務所有限公司上海分公司), a senior manager of BDO China Shu Lun Pan Certified Public Accountants LLP* (立信會計師事務所(特殊普通合夥)) and a partner of Ruihua Certified Public Accountants LLP* (瑞華會計師事務所(特殊普通合夥)). He obtained his bachelor's degree in finance from Changsha University of Science & Technology (長沙理工大學) in the PRC in June 1994. He became Certified Public Accountant of China in December 2002.

SUPERVISORS

Ms. Ma Huifang (馬慧芳), aged 54, was appointed as a Supervisor on 16 May 2022. Ms. Ma currently the financial director of 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). She successively served as an accountant of Shanghai Qunwei Children's Car Factory* (上海群偉童車廠), an accountant of Shanghai Haoda Plastics Products Co., Ltd.* (上海浩達塑膠製品有限公司) and an accountant of Shanghai Yanji Chemical Co., Ltd.* (上海焱基化工有限公司). Ms. Ma obtained an associate degree (專科) in accounting from Shanghai Lixin Accounting School (上海市立信會計學校) (currently known as Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院)) in the PRC in June 1988.

Ms. Chen Jie (陳潔), aged 40, was elected by the Shareholders and appointed as a Supervisor on 3 March 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, Shanghai Healing, Shandong Int and Shanghai Puyue since August 2018, November 2018, February 2019, January 2021 and March 2021 respectively, and has been the director of Shanghai Pukon since February 2020.

Mr. Shen Xiaoru (沈曉如), aged 39, was appointed as a Supervisor on 16 May 2022. Mr. Shen currently serves as the chief financial officer and the head of financial management center of KDL, a supervisor of Zhejiang Kindly Medical Devices Co., Ltd.* (浙江康德萊醫療器械股份有限公司), a supervisor of Guangdong Kindly Medical Device Group Co., Ltd.* (廣東康德萊醫療器械集團有限公司) and a supervisor of Shanghai Kindly Enterprise Development Group Medical Investment Co., Ltd.* (上海康德萊企業發展集團醫療投資有限公司). He successively served as the financial director of Shanghai Kaiifu Medical Polymer Equipment Co., Ltd.* (上海開愛富醫用高分子器材有限公司), the vice general manager of finance of Shanghai Kindly Enterprise Development Group Co., Ltd.* (上海康德萊企業發展集團股份有限公司), and the manager of the finance department of Shanghai Kindly International Trade Co., Ltd.* (上海康德萊國際商貿有限公司). Mr. Shen obtained his bachelor's degree in accounting from East China Normal University (華東師範大學) in the PRC in January 2010. Mr. Shen obtained the qualification of senior accountant in November 2021.

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.

Dr. Song Yuan (宋媛) is the secretary to the Board and the deputy general manager and joint company secretary of the Company. Please refer to the paragraph headed “Directors — Non-executive Directors” above for her biographical details.

Mr. Wu Zixiong (吴梓雄), aged 37, was appointed as the finance controller of the Company on 19 August 2022 and is in charge of the management of financial affairs of the Group.

Mr. Wu has over 15 years of experience in auditing and finance. He worked as manager at BDO China Shu Lun Pan Certified Public Accountants LLP* (立信會計師事務所(特殊普通合夥)) in Shanghai from July 2008 to October 2014, the finance director of Hongshang Capital Equity Investment Co., Ltd. * (鴻商資本股權投資有限公司) from October 2014 to May 2017, and the chief financial officer of Shanghai Zhaohe Technology Co., Ltd. * (上海朝和信息科技有限公司) from February 2018 to June 2022. Mr. Wu is a Certified Public Accountant of China and obtained a bachelor’s degree from Shanghai Lixin University of Accounting and Finance (formerly known as Shanghai Lixin Institute of Commerce) in Shanghai, the PRC in June 2008.

JOINT COMPANY SECRETARIES

Dr. Song Yuan (宋媛) was appointed as one of the joint company secretaries of the Company on 22 May 2019. Please refer to the paragraph headed “Non-executive Directors” 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 22 May 2019. Ms. Leung is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider).

She has over 18 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 (currently known as Hong Kong Metropolitan University) in August 2017.

She is a Chartered Secretary, Chartered Governance Professional and an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

INDEPENDENT AUDITOR'S REPORT



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 104 to 185, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 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 MATTER

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER *(Continued)*

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on page 128.

| The Key Audit Matter | How the matter was addressed in our audit |
|---|--|
| <p>The Group's revenue primarily derived from the sale of interventional medical devices to domestic customers and for export.</p> <p>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.</p> <p>We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and its significance to the consolidated financial statements which increase the risk of misstatement of revenue recognition.</p> | <p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition; • inspecting 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; • on a sample basis, obtaining confirmations from customers of the Group, on 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

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.

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, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 HKASs 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.

INDEPENDENT AUDITOR'S REPORT

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.

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

From the matter communicated with the Audit Committee, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter 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

20 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2022
(Expressed in Renminbi Yuan)

| | Note | 2022 RMB'000 | 2021 RMB'000 |
|------------------------------------|-------|------------------|-----------------|
| Revenue | 4 | 585,883 | 464,675 |
| Cost of sales | | (253,397) | (188,930) |
| Gross profit | | 332,486 | 275,745 |
| Other income | 5 | 34,042 | 50,172 |
| Distribution costs | | (56,394) | (30,020) |
| Administrative expenses | | (64,289) | (49,051) |
| Research and development expenses | | (99,634) | (89,955) |
| Recognition of impairment losses | | (925) | (567) |
| Profit from operations | | 145,286 | 156,324 |
| Finance costs | 6 (a) | (818) | (633) |
| Profit before taxation | 6 | 144,468 | 155,691 |
| Income tax | 7 | (10,635) | (15,246) |
| Profit for the year | | 133,833 | 140,445 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 131,713 | 142,960 |
| Non-controlling interests | | 2,120 | (2,515) |
| Profit for the year | | 133,833 | 140,445 |
| Earnings per share (RMB) | 10 | | |
| Basic (RMB) | | 0.79 | 0.86 |
| Diluted (RMB) | | 0.78 | 0.86 |

The notes on pages 110 to 185 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 26(d).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEfor the year ended 31 December 2022
(Expressed in Renminbi Yuan)

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Profit for the year | 133,833 | 140,445 |
| Other comprehensive income for the year (after tax and reclassification adjustments) | | |
| Item that will not be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of an overseas subsidiary | 1,890 | (531) |
| Other comprehensive income | 1,890 | (531) |
| Total comprehensive income for the year | 135,723 | 139,914 |
| Attributable to: | | |
| Equity shareholders of the Company | 133,603 | 142,429 |
| Non-controlling interests | 2,120 | (2,515) |
| Total comprehensive income for the year | 135,723 | 139,914 |

The notes on pages 110 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022

(Expressed in Renminbi Yuan)

| | | 31 December 2022 | 31 December 2021 |
|---|-------------|-----------------------------|---------------------|
| | <i>Note</i> | RMB'000 | RMB'000 |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 633,671 | 458,153 |
| Right-of-use assets | 12(a) | 115,943 | 106,820 |
| Intangible assets | 13 | 69,920 | 27,877 |
| Other non-current assets | | 28,369 | 30,627 |
| Deferred tax assets | 24(b) | 15,036 | 9,458 |
| Financial assets at fair value through profit or loss | 19 | 162,454 | 130,174 |
| | | 1,025,393 | 763,109 |
| Current assets | | | |
| Inventories | 17 | 154,277 | 92,494 |
| Trade and other receivables | 18 | 79,531 | 82,773 |
| Other current assets | | 39,867 | 42,487 |
| Financial assets at fair value through profit or loss | 19 | – | 132 |
| Cash and cash equivalents | 20 | 518,266 | 640,550 |
| Time deposits | 20 | 10,000 | – |
| | | 801,941 | 858,436 |
| Current liabilities | | | |
| Trade and other payables | 21 | 127,386 | 104,707 |
| Contract liabilities | 22 | 65,453 | 35,723 |
| Loans and borrowings | 23 | 32,683 | – |
| Lease liabilities | 12(b) | 201 | 192 |
| Deferred income | 25 | 1,345 | 383 |
| Current taxation | 24(a) | 12,597 | 12,216 |
| | | 239,665 | 153,221 |
| Net current assets | | 562,276 | 705,215 |
| Total assets less current liabilities | | 1,587,669 | 1,468,324 |
| Non-current liabilities | | | |
| Lease liabilities | 12(b) | 15,944 | 13,212 |
| Deferred income | 25 | 10,949 | 13,696 |
| Deferred tax liabilities | 24(b) | 6,672 | 3,496 |
| | | 33,565 | 30,404 |
| Net assets | | 1,554,104 | 1,437,920 |

The notes on pages 110 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2022
(Expressed in Renminbi Yuan)

| | | 31 December 2022 | 31 December 2021 |
|--|-------------|-----------------------------|---------------------|
| | <i>Note</i> | RMB'000 | <i>RMB'000</i> |
| Capital and reserves | | | |
| Share capital | 26(b) | 168,000 | 166,000 |
| Reserves | | 1,344,015 | 1,229,472 |
| Total equity attributable to equity shareholders of the Company | | 1,512,015 | 1,395,472 |
| Non-controlling interests | 14 | 42,089 | 42,448 |
| Total equity | | 1,554,104 | 1,437,920 |

Approved and authorised for issue by the board of directors on 20 March 2023.

LIANG DONG KE

Director

LIN SEN

Director

(Company Stamp)

The notes on pages 110 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022
(Expressed in Renminbi Yuan)

| | Attributable to equity shareholders of the Company | | | | | | | Non-controlling interests | Total equity |
|--|--|-------------------------|-------------------------|---------------------------|-------------------------|------------------|------------------|---------------------------|------------------|
| | Note | Share capital | Capital reserve | Statutory surplus reserve | Exchange reserve | Retained profits | Total | | |
| | | RMB'000 (note 26(b)) | RMB'000 (note 26(c)) | RMB'000 (note 26(c)) | RMB'000 (note 26(c)) | RMB'000 | RMB'000 | | |
| Balance at 1 January 2021 | | 166,000 | 932,602 | 36,947 | (633) | 170,734 | 1,305,650 | 21,998 | 1,327,648 |
| Changes in equity for 2021 | | | | | | | | | |
| Profit/(loss) for the year | | - | - | - | - | 142,960 | 142,960 | (2,515) | 140,445 |
| Other comprehensive income | | - | - | - | (531) | - | (531) | - | (531) |
| Equity-settled share-based payment | 15 | - | 1,107 | - | - | - | 1,107 | - | 1,107 |
| Capital injection from non-controlling interests | 14 | - | - | - | - | - | - | 14,300 | 14,300 |
| Capital injection from non-controlling interests with preferred rights | 14 | - | 27,909 | - | - | - | 27,909 | 22,091 | 50,000 |
| Acquisition of interests in a subsidiary | 14 | - | (34,313) | - | - | - | (34,313) | (4,401) | (38,714) |
| Dividends to holders of non-controlling interests | | - | - | - | - | - | - | (9,025) | (9,025) |
| Dividends approved in respect of previous year | 26(d) | - | - | - | - | (47,310) | (47,310) | - | (47,310) |
| Appropriation for surplus reserve | 26(c) | - | - | 13,950 | - | (13,950) | - | - | - |
| Balance at 31 December 2021 and 1 January 2022 | | 166,000 | 927,305 | 50,897 | (1,164) | 252,434 | 1,395,472 | 42,448 | 1,437,920 |
| Changes in equity for 2022 | | | | | | | | | |
| Profit for the year | | - | - | - | - | 131,713 | 131,713 | 2,120 | 133,833 |
| Other comprehensive income | | - | - | - | 1,890 | - | 1,890 | - | 1,890 |
| Equity-settled share-based payment | 15 | - | 2,268 | - | - | - | 2,268 | 849 | 3,117 |
| Subscription of restricted shares | 26(b) | 2,000 | 22,000 | - | - | - | 24,000 | - | 24,000 |
| Capital injection from non-controlling interests | 14 | - | 352 | - | - | - | 352 | 3,148 | 3,500 |
| Dividends to holders of non-controlling interests | | - | - | - | - | - | - | (6,476) | (6,476) |
| Dividends approved in respect of previous year | 26(d) | - | - | - | - | (43,680) | (43,680) | - | (43,680) |
| Appropriation for surplus reserve | 26(c) | - | - | 11,430 | - | (11,430) | - | - | - |
| Balance at 31 December 2022 | | 168,000 | 951,925 | 62,327 | 726 | 329,037 | 1,512,015 | 42,089 | 1,554,104 |

The notes on pages 110 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWSfor the year ended 31 December 2022
(Expressed in Renminbi Yuan)

| | Note | 2022 RMB'000 | 2021 RMB'000 |
|--|-------|------------------|------------------|
| Operating activities | | | |
| Cash generated from operations | 20(c) | 193,178 | 87,848 |
| Payment for interest element of leases liabilities | 12(d) | (62) | (73) |
| Tax paid | 24(a) | (12,656) | (15,019) |
| Net cash generated from operating activities | | 180,460 | 72,756 |
| Investing activities | | | |
| Payment for the purchase of property, plant and equipment | | (243,207) | (273,507) |
| Proceeds from sale of property, plant and equipment | | 874 | 1,000 |
| Payment for the purchase of intangible assets | | (44,997) | (25,281) |
| Payment for deposit of construction project | | – | (4,321) |
| Refund of deposit of construction project | | 6,640 | – |
| Payment for the purchase of land use right | 12(d) | (12,597) | – |
| Interest received from bank deposits | | 12,480 | 14,525 |
| Increase of time deposits | | (9,589) | – |
| Payment for purchase of financial assets measured at fair value through profit or loss | | (10,000) | (559,000) |
| Proceeds from sale of financial assets measured at fair value through profit or loss | | 10,212 | 635,500 |
| Payment for the investment in unlisted funds | 16 | (25,000) | (50,000) |
| Payment for the investment in unlisted entities | | – | (7,000) |
| Payment for investment deposit | | (1,000) | – |
| Net cash used in investing activities | | (316,184) | (268,084) |
| Financing activities | | | |
| Subscription of restricted shares | 26(b) | 24,000 | – |
| Proceeds from new loans and borrowings | 23 | 32,660 | – |
| Capital injection received from non-controlling interests | 14 | 3,500 | 64,300 |
| Payment for the acquisition of interests in subsidiary | 14 | – | (38,714) |
| Interest of loans and borrowings paid | 20(d) | (90) | – |
| Payment for capital element of lease liabilities | 12(d) | (192) | (320) |
| Dividends paid to equity shareholders of the Company | 26(d) | (43,680) | (47,310) |
| Dividends paid to holders of non-controlling interests | | (6,476) | (9,025) |
| Net cash generated from/(used in) financing activities | | 9,722 | (31,069) |
| Net decrease in cash and cash equivalents | | (126,002) | (226,397) |
| Cash and cash equivalents at the beginning of year | 20(a) | 640,550 | 870,132 |
| Effects of foreign exchange rate changes | | 3,718 | (3,185) |
| Cash and cash equivalents at the end of year | 20(a) | 518,266 | 640,550 |

The notes on pages 110 to 185 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

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.

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 of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2022 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(e) and 2(f).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

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.

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

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared or presented in the consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

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(j)(ii)).

(e) 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 27(e). These investments are subsequently accounted for as follows, depending on their classification.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Other investments in debt and equity securities (Continued)

(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(t)(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(t)(ii).

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)(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 expenses in profit or loss in the period in which it is incurred.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

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 held for own use | 11 – 20 years |
| Machinery | 5 – 10 years |
| Motor vehicles | 4 – 10 years |
| Furniture, fixture and equipments | 3 – 10 years |
| Leasehold improvements | 2 – 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.

(h) Intangible assets

Expenditure on research activities is recognised as expenses 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(j)(ii)). Other development expenditure is recognised expenses in the period in which it is incurred.

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 expenses in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets (Continued)

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 |
| Capitalised development costs | 5 years |

The useful life of capitalised development costs is estimated based on the expected life cycle of the underlying product since the commercialisation. 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.

(i) 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.

(i) 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 expenses on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leased assets (Continued)

(i) 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 expenses are 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(j)(ii)). Amortisation of right-of-use asset is charged to profit or loss on a straight-line basis over the unexpired term of lease.

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see notes 2(e)(i), 2(t)(ii) and 2(j)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leased assets (Continued)

(i) As a lessee (Continued)

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.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the period of the lease.

(j) 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, which are held for the collection of contractual cash flows which represent solely payments of principal and interest).

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).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk (Continued)

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.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(t)(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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income (Continued)

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.

(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:

- investment property;
- property, plant and equipment;
- intangible assets;
- right-of-use assets; and
- investments in subsidiaries in the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

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

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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— 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).

— 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(j)(i)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Inventories and other contract costs

(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 expenses 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 expenses 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 expenses in the period in which the reversal occurs.

(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(k)(i)), property, plant and equipment (see note 2(g)) or intangible assets (see note 2(h)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories and other contract costs (Continued)

(ii) Other contract costs (Continued)

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(t).

(l) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(t)) 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(j)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(m)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(t)). 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(m)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Contract assets and contract liabilities (Continued)

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(t)).

(m) 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(l)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including allowance for credit losses (see note 2(j)(i)).

(n) 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(j)(i).

(o) Trade and other payables (other than refund liabilities)

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

Refund liabilities arising from volume rebates are recognised in accordance with the policy set out in note 2(t)(i).

(p) Interest-bearing borrowings

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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) Share-based payments

The fair value of equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the applicable valuation technique/models, taking into account the terms and conditions upon which the equity-settled share-based payment awards were granted.

Where the equity-settled share-based payment awards granted vest immediately, the employees are not required to complete a specified period of service before becoming unconditionally entitled to those equity instruments. The Group presume that services rendered by the employees as consideration for the equity instruments have been received. In this case, on grant date the Group shall recognise the services received in full, with a corresponding increase in equity.

Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity settled share-based payment awards, the total estimated fair value of the equity-settled share-based payment awards is spread over the vesting period, taking into account the probability that the equity-settled share-based payment awards will vest.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(ii) Share-based payments (Continued)

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

Where the Group modify its original granted equity-settled share-based payment awards during the vesting period, the effects of modifications that increase the total fair value of equity-settled share-based payment awards or are otherwise beneficial to the employees are required to recognise over the remaining vesting period. A package of modifications might include several changes to the terms of a grant, some of which are favourable to the employees and some not, it is appropriate to net the effects of both modifications. If the net effect is beneficial, then this net effect should be accounted for by applying the requirements for beneficial modifications to the net change. If the modification increases the fair value of the equity instruments granted, the Group is required to measure immediately before and after the modification and include the incremental fair value granted in the measurement of the amount recognised for services received as consideration for the equity instruments granted.

If a modification increases the number of equity instruments granted, then the Group recognises the fair value of the additional equity instruments measured at the date of modification. The additional share-based payment cost is attributed over the period from the date of modification to the end of the vesting period of the additional equity instruments.

If the modification changes a service condition or non-market performance condition in a manner that is beneficial to an employee, then the remaining grant-date fair value is recognised using the revised vesting expectations with true-up to actual outcomes.

Where equity-settled share-based payment awards are forfeited due to a failure by the employees to satisfy the vesting conditions, the accumulated expenses previously recognised in relation to such awards are reversed at the date of the forfeiture. Where equity-settled share-based payment awards are cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Share-based payment transactions in which the Company grants share based payment awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's financial position which is eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits (Continued)

(iii) 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.

(r) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income tax (Continued)

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.

(s) 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(t) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

The Group is the principal for its revenue transactions and recognises revenue on a gross basis, including the sale of medical devices, accessories and moulds that are sourced externally. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue and other income (Continued)

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

(i) Revenue from contracts with customers

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.

Sale of medical devices, accessories and moulds

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

Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Group generally provides credit terms to customers within one to three months upon customer acceptance. 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.

The Group typically offers customers retrospective volume rebates to certain major customers when their purchases reach an agreed threshold. Such volume rebates give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of medical devices, accessories and moulds, the Group recognises revenue after taking into account adjustment to transaction price arising from rebates as mentioned above. A refund liability is recognised for the expected rebates, and is included in other payables (see note 21).

(ii) Revenue from other sources and other income

(a) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Revenue and other income (Continued)

(ii) Revenue from other sources and other income (Continued)

(b) 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(j)(i)).

(c) 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.

(d) 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.

(u) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Translation of foreign currencies (Continued)

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.

(v) Borrowing costs

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

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) 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.

(y) Financial instruments with preferred rights

A contract that contains an obligation to purchase the Company's or its subsidiaries' equity instruments for cash or another financial asset gives rise to a financial liability. Even if the Company's or its subsidiaries' obligations to purchase is conditional on the counterparty exercising a right to redeem, the financial instruments with preferred rights are recognised as financial liabilities initially and accounted for at the present value of the redemption amount with a corresponding debit to equity. In effect, a reclassification is made from equity to reflect the obligation to repurchase the equity instruments in the future. The financial liabilities are subsequently measured at amortised cost with interest included in finance costs.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The carrying amount of the financial instruments derecognised was credited into the equity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND 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 15 and Note 27 contain information about the assumptions and risk factors relating to fair value of equity-settled share-based payment awards and financial instruments. Other judgements made by management in the application of HKFRSs that have significant effects on the financial statement and major sources of estimation uncertainty are discussed as follows:

(a) 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.

(b) 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.

(c) Research and development expenses

Development expenses incurred on the Group's pipelines are capitalised and deferred only when the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. Development expenses which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria met for capitalisation.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

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:

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products | | |
| — Sales of interventional medical devices | | |
| Cardiovascular devices | 483,059 | 427,163 |
| Neurological and peripheral devices | 19,755 | 7,123 |
| Orthopaedics and other devices | 2,670 | 1,872 |
| Subtotal | 505,484 | 436,158 |
| — Sales of medical accessories | 16,851 | 12,024 |
| — Agent business | 50,325 | 13,997 |
| — Moulds and others | 12,952 | 2,496 |
| | 585,612 | 464,675 |
| Revenue from other source | | |
| Rental income | 271 | — |
| | 585,883 | 464,675 |

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 2022 and 2021.

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(t)(i). The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for medical devices, 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.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***4 REVENUE AND SEGMENT REPORTING** *(Continued)***(a) Disaggregation of revenue** *(Continued)*

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

| | 2022 | 2021 |
|-----------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Mainland China | 437,344 | 361,762 |
| Europe | 46,922 | 26,990 |
| The United States | 28,161 | 18,882 |
| Other countries and regions | 73,456 | 57,041 |
| | 585,883 | 464,675 |

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 mainland China.

(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, moulds and medical masks. 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/(loss)".

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

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 2022 and 2021 is set out below:

| | 2022 | | |
|---------------------------------|---|-----------------------|------------------|
| | Cardiovascular interventional business RMB'000 | All others RMB'000 | Total RMB'000 |
| Revenue from external customers | 489,704 | 96,179 | 585,883 |
| Inter-segment revenue | 7,350 | 37,083 | 44,433 |
| Segment revenue | 497,054 | 133,262 | 630,316 |
| Segment net profit | 84,920 | 54,257 | 139,177 |

| | 2021 | | |
|---------------------------------|---|-----------------------|------------------|
| | Cardiovascular interventional business RMB'000 | All others RMB'000 | Total RMB'000 |
| Revenue from external customers | 404,223 | 60,452 | 464,675 |
| Inter-segment revenue | 6,955 | 21,280 | 28,235 |
| Segment revenue | 411,178 | 81,732 | 492,910 |
| Segment net profit | 128,698 | 12,176 | 140,874 |

(ii) Reconciliation of revenue and segment profit

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Revenue | | |
| Segment revenue | 630,316 | 492,910 |
| Elimination of inter-segment revenue | (44,433) | (28,235) |
| Consolidated revenue | 585,883 | 464,675 |
| Profit | | |
| Segment net profit | 139,177 | 140,874 |
| Elimination of inter-segment net profit | (5,344) | (429) |
| Consolidated net profit | 133,833 | 140,445 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***5 OTHER INCOME**

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Government grants <i>(note)</i> | 11,008 | 7,976 |
| Interest income | 13,408 | 14,525 |
| Net realised and unrealised gains from fair value changes on financial assets measured at fair value through profit or loss | 7,360 | 29,293 |
| Foreign exchange gains/(losses) | 2,536 | (2,840) |
| Others | (270) | 1,218 |
| | 34,042 | 50,172 |

Note: Government grants mainly include subsidies received from government for encouragement of research and development projects and compensation on the capital expenditure of medical device production lines. As at the end of the reporting period, there was no unfulfilled condition or other contingency attaching to the government grants that had been recognised by the Group.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| (a) Finance costs | | |
| Interest on lease liabilities | 705 | 633 |
| Interest on loans and borrowings | 113 | – |
| | 818 | 633 |
| (b) Staff costs | | |
| Salaries, wages and other benefits | 164,853 | 112,416 |
| Equity-settled share-based payment expenses <i>(note 15)</i> | 3,107 | 1,107 |
| Contributions to defined contribution retirement plan | 22,707 | 20,402 |
| | 190,667 | 133,925 |

(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).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

6 PROFIT BEFORE TAXATION (Continued)

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| (c) Other items | | |
| Depreciation and amortisation | | |
| — property, plant and equipment (note 11) | 30,321 | 23,840 |
| — right-of-use assets (note 12) | 5,764 | 5,528 |
| — intangible assets (note 13) | 992 | 848 |
| | 37,077 | 30,216 |
| Recognition of impairment loss on trade and other receivables | 925 | 567 |
| Auditors' remuneration | | |
| — audit services | 2,600 | 2,320 |
| — other services | 85 | 85 |
| Research and development costs [#] | 140,941 | 109,801 |
| Less: Costs capitalised into intangible assets (note 13) | (41,307) | (19,846) |
| | 99,634 | 89,955 |
| Cost of inventories ^{##} | 253,397 | 188,930 |

[#] During the year ended 31 December 2022, research and development costs includes staff costs and depreciation and amortisation of 76,492,000 (2021: RMB44,033,000), which amount is also included in the respective total amounts disclosed separately above.

^{##} During the year ended 31 December 2022, cost of inventories includes staff costs and depreciation and amortisation expenses of RMB84,600,000 (2021: RMB68,530,000), which amount is also included in the respective total amounts disclosed separately above.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

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

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| Current tax-PRC corporate income tax ("CIT") | 13,037 | 19,055 |
| Deferred tax | (2,402) | (3,809) |
| Total | 10,635 | 15,246 |

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

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| Profit before taxation | 144,468 | 155,691 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned (<i>note (i)</i>) | 36,117 | 38,924 |
| Effect of preferential tax rates (<i>notes (ii) & (iii)</i>) | (8,388) | (13,861) |
| Effect of super deduction on research and development expenses (<i>note (iv)</i>) | (21,832) | (19,492) |
| Effect of unused tax losses not recognised as deferred tax assets | 6,137 | 11,001 |
| Effect of super deduction on fixed assets procurement (<i>note (v)</i>) | (3,015) | – |
| Others | 1,616 | (1,326) |
| Actual tax expenses | 10,635 | 15,246 |

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 15 November 2022 and is subject to income tax at 15% for the three years ending 31 December 2024.

Zhuhai Derui obtained its renewed certificate of HNTE on 22 December 2022 and is subject to income tax at 15% for the three years ending 31 December 2024.

Shanghai Pukon obtained its certificate of HNTE on 12 November 2020 and is subject to income tax at 15% for the three years ended 31 December 2022.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

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

Notes: (Continued)

PRC CIT (Continued)

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

According to the PRC income tax law and its relevant regulations issued in 2019 and renewed policy issued in 2022, entities that qualified as SME are entitled to a preferential income tax rate of 2.5% (taxable income less than RMB1,000,000) or 5% (taxable income ranges between RMB1,000,000 to RMB3,000,000).

During the years ended 31 December 2022 and 2021, certain subsidiaries of the Group are qualified as small and low profit enterprise and enjoyed a preferential tax rate of 2.5%, whereas applicable.

(iv) According to the PRC income tax law and its relevant regulations, an additional 100% of qualified research and development expenses for manufacturing enterprises and High-tech SMEs so incurred is allowed to be deducted from taxable income.

(v) According to the PRC income tax law and its relevant regulations issued in 2022, entities that qualified as HNTE are entitled to an additional 100% of qualified equipment newly purchased from 1 October 2022 to 31 December 2022, which is allowed to be deducted from taxable income.

Hong Kong Profits Tax

During the years ended 31 December 2022 and 2021, the Company's subsidiary incorporated in Hong Kong is subject to Hong Kong Profits Tax at 8.25% of the taxable profit less than HKD2,000,000 or 16.50% of the taxable profit exceeding HKD2,000,000.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

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 2022 | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Retirement scheme contributions RMB'000 | Share-based payments (note (iii) and note 15) RMB'000 | 2022 Total RMB'000 |
|---|----------------------------|--|--|---|-----------------------|
| Executive directors | | | | | |
| Dr. Liang Dongke (梁棟科) | - | 1,158 | 107 | 2,530 | 3,795 |
| Mr. Lin Sen (林森) (appointed on 16 May 2022) (note (i)) | - | 763 | 101 | 24 | 888 |
| Mr. Wang Cailiang (王彩亮) (resigned on 16 May 2022) (note (i)) | - | 277 | 51 | (30) | 298 |
| Non-executive directors | | | | | |
| Mr. Zhang Weixin (張維鑫) | - | - | - | - | - |
| Ms. Chen Hongqin (陳紅琴) | - | - | - | - | - |
| Dr. Song Yuan (宋媛) (appointed on 16 May 2022) (note (i)) | - | 691 | 107 | 34 | 832 |
| Mr. Wang Ruiqin (王瑞琴) (appointed on 16 May 2022) (note (i)) | - | 608 | 106 | 24 | 738 |
| Mr. Fang Shengshi (方聖石) (resigned on 16 May 2022) (note (i)) | - | - | - | - | - |
| Independent non-executive directors | | | | | |
| Mr. Xu Congli (徐從禮) (appointed on 16 May 2022) (note (i)) | 75 | - | - | - | 75 |
| Mr. Dai Kerong (戴尅戎) (resigned on 16 May 2022) (note (i)) | 50 | - | - | - | 50 |
| Mr. Jian Xigao (蹇錫高) | 120 | - | - | - | 120 |
| Mr. Hui Hung Kwan (許鴻群) | 120 | - | - | - | 120 |
| | 365 | 3,497 | 472 | 2,582 | 6,916 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (Continued)

| For the year ended 31 December 2021 | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Retirement scheme contributions RMB'000 | Share-based payments (note (iii) and note 15) RMB'000 | 2021 Total RMB'000 |
|---|----------------------------|--|--|--|-----------------------|
| Executive directors | | | | | |
| Dr. Liang Dongke (梁棟科) | – | 625 | 98 | 604 | 1,327 |
| Mr. Wang Cailiang (王彩亮) | – | 498 | 98 | 30 | 626 |
| 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 |
| Dr. Ge Junbo (葛均波) (resigned on 7 December 2021) (note (ii)) | 112 | – | – | – | 112 |
| Mr. Jian Xigao (蹇錫高) (note (iii)) | 120 | – | – | – | 120 |
| Mr. Hui Hung Kwan (許鴻群) | 120 | – | – | – | 120 |
| | 472 | 1,123 | 196 | 634 | 2,425 |

Note (i): As disclosed in the Company's announcement dated 16 May 2022, the term of office of Mr. Wang Cailiang, Mr. Fang Shengshi and Mr. Dai Kerong as an executive director, a non-executive director and an independent non-executive director respectively were expired on 16 May 2022 and they did not renew their appointment.

Mr. Lin Sen, Dr. Song Yuan, Mr. Wang Ruiqin, and Mr. Xu Congli were appointed as an executive director, a non-executive director, a non-executive director and an independent non-executive director respectively on 16 May 2022. Dr. Song Yuan and Mr. Xu Congli were appointed as a member of the audit committee and Mr. Xu Congli was also appointed as a member of the nomination committee of with effective from 16 May 2022.

The directors received emoluments from the Group in their roles as employees before their appointment as directors.

Note (ii): As disclosed in the Company's announcement dated 7 December 2021, the term of office of Mr. Ge Junbo as an independent non-executive director and a member of the nomination committee of the Company was expired on 7 December 2021 and Mr. Ge did not renew his appointment due to personnel reason. Mr. Jian Xigao, the existing independent non-executive director of the Company, was appointed as a member of the nomination committee with effective from 7 December 2021.

Note (iii): These represent the estimated value of equity-settled share-based payment awards granted to the directors. The value of these awards is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(q)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***9 INDIVIDUALS WITH HIGHEST EMOLUMENTS**

For the year ended 31 December 2022, three (2021: two) of the five individuals with the highest emoluments, are directors respectively whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2021: three) individuals are as follows:

| | 2022 | 2021 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Salaries and other emoluments | 6,822 | 1,632 |
| Retirement scheme contributions | 200 | 290 |
| Share-based payments (<i>note 15</i>) | – | 81 |
| | 7,022 | 2,003 |

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

| | 2022 | 2021 |
|-----------------------------|------------------------------|-----------------------|
| | Number of individuals | Number of individuals |
| HKDnil – HKD1,000,000 | – | 3 |
| HKD1,000,000 — HKD3,000,000 | 1 | – |
| HKD3,000,000 — HKD5,000,000 | 1 | – |

10 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB131,713,000 (2021: RMB142,960,000), and the weighted average number of shares of 167,271,000 (2021: 166,000,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | 2022 | 2021 |
|---|----------------|---------|
| | '000 | '000 |
| Issued ordinary shares at 1 January | 166,000 | 166,000 |
| Effect of restricted shares issued (<i>note 15</i>) | 1,271 | – |
| Weighted average number of ordinary shares at 31 December | 167,271 | 166,000 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

10 EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB131,713,000 (2021: RMB142,960,000), and the weighted average number of ordinary shares of 168,396,000 (2021: 166,796,000) in issue.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume outstanding restricted shares, issued at the grant date, which are dilutive and adjusting the weighted average number of ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | 2022 '000 | 2021 '000 |
|---|----------------|--------------|
| Weighted average number of ordinary shares in issue for the purpose of basic earnings per share | 167,271 | 166,000 |
| Effect of outstanding restricted shares (note 15) | 1,125 | 796 |
| Weighted average number of ordinary shares in issue for the purpose of diluted earnings per share | 168,396 | 166,796 |

The effect of outstanding employee share purchase plan ("ESPPs") issued by subsidiaries (note 15) is anti-dilutive, therefore is not included calculation of diluted earnings per share of the Company.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

| | 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 2021 | 43,522 | 102,804 | 5,122 | 11,652 | 61,623 | 42,446 | 267,169 |
| Additions | - | 52,271 | 1,011 | 1,982 | 224,465 | 4,123 | 283,852 |
| Disposals | - | (3,728) | - | (46) | - | - | (3,774) |
| At 31 December 2021 and 1 January 2022 | 43,522 | 151,347 | 6,133 | 13,588 | 286,088 | 46,569 | 547,247 |
| Additions | - | 48,517 | 1,098 | 2,477 | 151,923 | 2,933 | 206,948 |
| Transfer from construction in progress | 17,673 | 335 | - | - | (51,913) | 33,905 | - |
| Disposals | - | (3,980) | (78) | (435) | - | - | (4,493) |
| At 31 December 2022 | 61,195 | 196,219 | 7,153 | 15,630 | 386,098 | 83,407 | 749,702 |
| Accumulated amortisation and depreciation: | | | | | | | |
| At 1 January 2021 | (4,877) | (37,461) | (2,318) | (4,341) | - | (18,919) | (67,916) |
| Charge for the year | (3,288) | (12,091) | (974) | (3,190) | - | (4,297) | (23,840) |
| Written back on disposals | - | 2,620 | - | 42 | - | - | 2,662 |
| At 31 December 2021 and 1 January 2022 | (8,165) | (46,932) | (3,292) | (7,489) | - | (23,216) | (89,094) |
| Charge for the year | (3,430) | (18,768) | (1,026) | (2,394) | - | (4,703) | (30,321) |
| Written back on disposals | - | 2,962 | 74 | 348 | - | - | 3,384 |
| At 31 December 2022 | (11,595) | (62,738) | (4,244) | (9,535) | - | (27,919) | (116,031) |
| Net book value: | | | | | | | |
| At 31 December 2022 | 49,600 | 133,481 | 2,909 | 6,095 | 386,098 | 55,488 | 633,671 |
| At 31 December 2021 | 35,357 | 104,415 | 2,841 | 6,099 | 286,088 | 23,353 | 458,153 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

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 2021 | 12,809 | 95,458 | 108,267 |
| Additions | 11,431 | – | 11,431 |
| At 31 December 2021 and 1 January 2022 | 24,240 | 95,458 | 119,698 |
| Additions | 2,290 | 12,597 | 14,887 |
| At 31 December 2022 | 26,530 | 108,055 | 134,585 |
| Accumulated depreciation | | | |
| At 1 January 2021 | (5,498) | (1,852) | (7,350) |
| Charge for the year | (3,426) | (2,102) | (5,528) |
| At 31 December 2021 and 1 January 2022 | (8,924) | (3,954) | (12,878) |
| Charge for the year | (3,431) | (2,333) | (5,764) |
| At 31 December 2022 | (12,355) | (6,287) | (18,642) |
| Net book value | | | |
| At 31 December 2022 | 14,175 | 101,768 | 115,943 |
| At 31 December 2021 | 15,316 | 91,504 | 106,820 |

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

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Leasehold properties for own use, carried at depreciated cost, with remaining lease term of: | | |
| — within 10 years | 14,175 | 15,316 |

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Land use right for own use, carried at depreciated cost, with remaining lease term of: | | |
| — between 10 and 50 years | 101,768 | 91,504 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***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 2022 | | 31 December 2021 | |
|---|---|--|---|--|
| | Present value of the minimum lease payments <i>RMB'000</i> | Total minimum lease payments <i>RMB'000</i> | Present value of the minimum lease payments <i>RMB'000</i> | Total minimum lease payments <i>RMB'000</i> |
| Within 1 year or on demand | 201 | 254 | 192 | 254 |
| More than 1 year but less than 2 years | 232 | 274 | 201 | 254 |
| More than 2 years but less than 5 years | 6,139 | 9,749 | 1,841 | 4,980 |
| More than 5 years | 9,573 | 10,219 | 11,170 | 12,200 |
| | 15,944 | 20,242 | 13,212 | 17,434 |
| | 16,145 | 20,496 | 13,404 | 17,688 |
| Less: total future interest expenses | | (4,351) | | (4,284) |
| Present value of the lease liabilities | | 16,145 | | 13,404 |

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Lease charges relating to short-term leases | 159 | 142 |
| Depreciation charges on right-of-use assets | 5,764 | 5,528 |
| Interest on lease liabilities | 705 | 633 |
| Total | 6,628 | 6,303 |

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Payments for short-term lease | 294 | 142 |
| Payments for interest element of lease liabilities | 62 | 73 |
| Payments for capital element of lease liabilities | 192 | 320 |
| Payment for the land use right | 12,597 | – |
| Total cash outflow for leases | 13,145 | 535 |

During the year, additions to right-of-use assets were RMB14,887,000 (2021: RMB11,431,000). This amount included the purchase of a leasehold property of RMB2,290,000 (2021: RMB11,431,000), and land use right of RMB12,597,000 (2021: nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

13 INTANGIBLE ASSETS

| | Software RMB'000 | Patent RMB'000 | Capitalised development costs RMB'000 (i) | Total RMB'000 |
|---|---------------------|-------------------|---|------------------|
| Cost | | | | |
| At 1 January 2021 | 1,763 | 5,400 | 1,612 | 8,775 |
| Additions | 1,276 | – | 19,846 | 21,122 |
| At 31 December 2021 and 1 January 2022 | 3,039 | 5,400 | 21,458 | 29,897 |
| Additions | 1,728 | – | 41,307 | 43,035 |
| At 31 December 2022 | 4,767 | 5,400 | 62,765 | 72,932 |
| Accumulated amortisation | | | | |
| At 1 January 2021 | (629) | (543) | – | (1,172) |
| Charge for the year | (522) | (326) | – | (848) |
| At 31 December 2021 and 1 January 2022 | (1,151) | (869) | – | (2,020) |
| Charge for the year | (666) | (326) | – | (992) |
| At 31 December 2022 | (1,817) | (1,195) | – | (3,012) |
| Net book value | | | | |
| At 31 December 2022 | 2,950 | 4,205 | 62,765 | 69,920 |
| At 31 December 2021 | 1,888 | 4,531 | 21,458 | 27,877 |

- (i) At 31 December 2022 and 2021, the capitalised development costs are related to cost incurred for non-vascular interventional division, endocardia implantable division and neurological interventional division, which was not yet available for use.
- (ii) The amortisation charge for the year is included in “cost of sales, research and development expenses, and administrative expenses” in the consolidated statement of profit or loss as well as capitalised development costs.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

14 INVESTMENT IN 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") (i) | 23 February 2000 the PRC | RMB5,000,000/ RMB5,000,000 | 100% | Manufacturing of masks, moulds and processing |
| Zuhai Derui Medical Instruments Co., Ltd. ("Zuhai Derui") (i) | 26 February 2016 the PRC | RMB130,000,000/ RMB130,000,000 | 100% | Manufacturing of medical devices |
| Shanghai Pukon Medical Instruments Co., Ltd. ("Shanghai Pukon") (i) (ii) | 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 | RMB30,000,000/ RMB28,000,000 | 53.33% | Research and development, manufacturing and sales of medical devices |
| Shanghai Puhui Medical Instruments Co., Ltd. ("Shanghai Puhui") (i) (v) | 14 November 2018 the PRC | RMB57,500,000/ RMB39,800,000 | 54.26% | Research and development, manufacturing and sales of medical devices |
| Shanghai Healing Medical Instruments Co., Ltd. ("Shanghai Healing") (i) (iii) (iv) | 15 February 2019 the PRC | RMB61,210,526/ RMB53,060,526 | 56.36% | 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/ HKD36,000,000 | 100% | Import and export trade, investment, and consultancy |
| Shanghai Pumei Medical Instruments Co., Ltd. ("Shanghai Pumei") (i) | 12 March 2020 the PRC | RMB20,000,000/ RMB100,000 | 70% | Research and development, manufacturing and sales of medical devices |
| Shandong INT Medical Instruments Co., Ltd. ("Shandong INT") (i) | 13 January 2021 the PRC | RMB165,000,000/ RMB156,327,800 | 100% | Manufacturing of medical devices |
| Shanghai Pulin Medical Instruments Co., Ltd. ("Shanghai Pulin") (i) | 7 February 2021 the PRC | RMB20,000,000/ RMB16,500,000 | 65% | Sales of medical devices |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

14 INVESTMENT IN SUBSIDIARIES (Continued)

| 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 Puyue Medical Instruments Co., Ltd. ("Shanghai Puyue") (i) | 18 March 2021 the PRC | RMB20,000,000/ RMB10,500,000 | 60% | Research and development, manufacturing and sales of medical devices |
| Shanghai Yikai Medical Instruments Co., Ltd. ("Shanghai Yikai") (i) | 23 June 2021 the PRC | RMB13,000,000/ RMB500,000 | 100% | Research and development, manufacturing and sales of medical devices |
| Shanghai Yingtai Biotechnology Co., Ltd. ("Shanghai Yingtai") (i) | 9 September 2022 the PRC | RMB5,000,000/ RMB1,000,000 | 100% | Research and development, manufacturing and sales of medical devices |
| Shanghai Yingtai Purun Medical Equipment Co., Ltd. ("Yingtai Purun") (i) | 24 November 2022 the PRC | RMB10,000,000/ Nil | 100% | Research and development, manufacturing and sales of medical devices |

(i) These subsidiaries are limited liability companies established in the PRC.

(ii) In 2021, the Company (as the Buyer), Mr. Jiang (as the Seller) and Shanghai Pukon (as the Target) entered into a share transfer agreement. Pursuant to which, the Company acquired 20% equity interest of Shanghai Pukon from Mr. Jiang at a cash consideration of RMB38,714,000. The consideration price is determined with reference to the then fair value of equity interests acquired, as determined by an independent valuation firm. Other key terms of the share transfer agreement are summarised as follows:

Performance guarantee

Mr. Jiang guarantee one of the either that: (i) the net profit of Shanghai Pukon shall be no less than RMB65 million in aggregate for three years ending 31 December 2023 (the "Commitment Period"), or (ii) the sales growth rate of Shanghai Pukon shall be no less than 20% year on year during the Commitment Period (together referred to as the "Guaranteed Performance").

If Shanghai Pukon fail to meet the Guaranteed Performance, Mr. Jiang is required to pay a compensation amount to the Company, subject to an upper limit in accordance with the share transfer agreement.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***14 INVESTMENT IN SUBSIDIARIES** *(Continued)*(ii) *(Continued)*

Following the completion of the transaction on 27 May 2021, the Company's equity interest of Shanghai Pukon increased from 65% as of 31 December 2020 to 85% as of 31 December 2021 and 2022.

The transaction was accounted for as transaction within the shareholders of Shanghai Pukon in their capacity as equity holder. At completion date, the difference between (A) the consideration price of RMB38,714,000 and (B) the carrying amount of the acquired non-controlling interest of RMB4,401,000, which amounting to RMB34,313,000 was credited to the capital reserve.

Detailed information is disclosed in the announcement of Shanghai Kindly Enterprise Development Group Co., Ltd.* 上海康德萊企業發展集團股份有限公司 dated 7 May 2021.

- (iii) According to the Company's announcement dated 7 June 2021, the Company entered into a capital increase agreement with Dr. Liang Dongke, the Healing Share Incentive Platform and the other existing shareholder of Shanghai Healing. Pursuant to which, the share capital of Shanghai Healing will be increased from RMB50,000,000 to RMB58,150,000. Dr. Liang and the Healing Share Incentive Platform will subscribe for 10% and 4.02% enlarged equity interest of Shanghai Healing at a cash consideration of RMB5,815,000 and RMB2,335,000, respectively. Upon completion of the equity subscription, the Company's equity interest in Shanghai Healing will reduce from 69% to 59.33%.

As of 31 December 2022, Dr. Liang as well as the Healing Share Incentive Scheme have not yet paid up the subscription price, see note 15(a)(i) for details.

- (iv) According to the Company's announcement dated 29 July 2021, the Company entered into a capital increase agreement with Shanghai Huaige Int Venture Investment Partnership (Limited Partnership)* (上海懷格瑛泰創業投資合夥企業 (有限合夥)) (the "Int Fund"), Mr. Ke Wei and the other existing shareholders of Shanghai Healing. Pursuant to which, the share capital of Shanghai Healing will be increased from RMB58,150,000 to RMB61,210,526. Int Fund and Mr. Ke Wei (together referred to as the "Investors") will subscribe for 5% enlarged equity interest of Shanghai Healing at a cash consideration of RMB50,000,000 in aggregate. The consideration price is determined with reference to the then fair value of equity interests of Shanghai Healing as determined by an independent valuation firm. Upon completion of the equity subscription, the Company's equity interest in Shanghai Healing reduced from 59.33% to 56.36%.

In accordance with the shareholder agreement, Int Fund and Mr. Ke Wei have been granted certain preferred rights upon the above subscription of ordinary shares including the redemption rights, anti-dilution right, liquidation preferences and valuation adjustment. Significant terms of these preferred rights that impact the accounting treatment of the Group are outlined below:

* English translation is for identification purpose only.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

14 INVESTMENT IN SUBSIDIARIES (Continued)

(iv) (Continued)

Redemption feature

If certain condition or events failed to meet within agreed periods as set out in the shareholder agreement, Shanghai Healing shall redeem the equity interests from the Investors at a redemption price which shall be no less than the higher of (a) the then net asset of Shanghai Healing, or (b) subscription prices paid by the Investors, plus interest at a rate of 8% less dividends paid to the Investors (if any) on demand.

The redemption obligations give rise to financial liabilities, which are measured at the highest of those amounts that could be payable, and on a present value basis. The financial liabilities arising from shares issued to Int Fund and Mr. Ke Wei are measured at the transaction price at initial recognition, and subsequently at amortised cost.

As of 3 September 2021, Shanghai Healing received the cash consideration of RMB50,000,000 from Int Fund and Mr. Ke Wei and completed legal process in relation to the capital increase.

On 9 September 2021, the Company, Int Fund, Mr. Ke Wei and the other existing shareholders of Shanghai Healing entered into a supplementary agreement. Pursuant to which, Int Fund and Mr. Ke Wei agreed to terminate abovementioned redemption right which granted in the shareholder agreement dated 29 July 2021. Thus, the Group reclassified the financial liabilities of RMB50,000,000 arising from shares issued to Int Fund and Mr. Ke Wei to non-controlling interest in accordance with the accounting policy set forth in notes 2(y).

- (v) According to the Shanghai Puhui's agreement dated 18 May 2022, Shanghai Puhui has entered into a capital increase agreement with the existing shareholders of Shanghai Puhui, the Company, Mr. Chen Caizheng and Ningbo Youtuo Enterprise Management Partnership *寧波優拓企業管理合夥企業 (有限合夥) (the Puhui Share Incentive Platform), pursuant to which, the registered capital of Shanghai Puhui will be increased from RMB37,500,000 to RMB57,500,000. Upon completion of the equity subscription, the equity interests of the Company, Mr. Chen Caizheng, the Puhui Share Incentive Platform and the other individual shareholders in Shanghai Puhui changed from 64.67%, 26.33%, 0% and 9.00% to 54.24%, 21.04%, 20.00% and 4.72%, respectively.

As of 31 December 2022, Mr. Chen Caizheng as well as the Puhui Share Incentive Scheme have not yet fully paid the subscription price, see note 15(a)(ii) for details.

* English translation is for identification purpose only.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***14 INVESTMENT IN SUBSIDIARIES** *(Continued)*

The following table lists out the information relating to 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 2022 | | 31 December 2021 | |
|---|-----------------------------------|---|-----------------------------------|---|
| | Shanghai Pukon RMB'000 (ii) | Shanghai Healing RMB'000 (iii)&(iv) | Shanghai Pukon RMB'000 (ii) | Shanghai Healing RMB'000 (iii)&(iv) |
| NCI percentage | 15.00% | 43.64% | 15.00% | 43.64% |
| Current assets | 128,014 | 25,145 | 65,252 | 31,432 |
| Non-current assets | 17,909 | 63,055 | 14,292 | 30,754 |
| Current liabilities | (72,677) | (34,927) | (35,635) | (4,870) |
| Non-current liabilities | – | (940) | – | (480) |
| Net assets | 73,246 | 52,333 | 43,909 | 56,836 |
| Carrying amount of NCI | 10,460 | 20,287 | 6,992 | 22,252 |
| Revenue | 124,702 | – | 78,058 | – |
| Profit/(loss) for the year | 72,509 | (6,324) | 41,802 | (24,824) |
| Profit/(loss) allocated to NCI | 9,944 | (2,760) | 10,123 | (9,640) |
| Cash flows from/(to) operating activities | 105,494 | (6,427) | 49,900 | (26,979) |
| Cash flows (to)/from investing activities | (3,502) | (32,518) | 20,628 | (20,571) |
| Cash flows (to)/from financing activities | (43,171) | 25,432 | (27,671) | 61,328 |

* *English translation is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

15 SHARE-BASED PAYMENT TRANSACTIONS

(a) Employee share purchase plan (“ESPP”) — equity settled

Since 2020, the Group adopted several ESPPs to its subsidiaries, pursuant to which, the partnership firms, whose limited partners consisted of employees of the Group (“participants”), invested in the Group’s subsidiaries (the Target Company) by way of subscribing newly issued equity interests of the subsidiaries.

(i) *Healing ESPP*

According to the Company announcement dated 7 June 2021, the Group adopted ESPP to one of its subsidiary, Shanghai Healing. Pursuant to which, Dr. Liang Dongke and Ningbo Hanshen Enterprise Management Consulting Partnership (LP)*寧波翰昇企業管理諮詢合夥企業 (有限合夥) (the Healing Share Incentive Platform) are eligible to acquire 14.02% equity interest in Shanghai Healing at a price of RMB8,150,000 in total (the “Healing ESPP”). The consideration price is determined with reference to the registered capital of Shanghai Healing.

The Healing ESPP have vesting terms in schedule from the grant date over 55 months ending 31 December 2025 on the condition that the employees fulfil certain non-market performance condition#. Fair value of the Healing ESPP at the grant date, being the difference between the considerations paid by the participants and the fair value of the equity interests transferred recognised as staff costs in the profit or loss over the vesting period.

On 22 July 2022, Shanghai Healing forfeited 429,800 ESPPs for certain participants upon their resignation from Shanghai Healing and re-granted these ESPPs to Dr. Liang Dongke at an exercise price of RMB1.00 per ESPP. These changes were accounted for as forfeiture to the original equity-settled share-based payment arrangements and a new grant in accordance with note 2(q)(ii).

* *Non-market performance vesting condition refer to the key milestone of research and development projects as specified in the Healing ESPP agreement dated on 31 May 2021, capital increase agreement dated on 7 June 2021.*

(ii) *Puhui ESPP*

In November 2021, the Group adopted ESPP to one of its subsidiary, Shanghai Puhui. Pursuant to which, Ningbo Youtuo Enterprise Management Partnership (LP)*寧波優拓企業管理合夥企業 (有限合夥) (the Puhui Share Incentive Platform) is eligible to acquire 20% equity interest in Shanghai Puhui at a price of RMB7,500,000 in total (the “Puhui ESPP”). The consideration price is determined with reference to the registered capital of Shanghai Puhui.

The Puhui ESPP have vesting terms in schedule from the grant date over 61 months ending 31 December 2026 on the condition that the employees fulfil certain non-market performance conditions#. Fair value of the Puhui ESPP at the grant date, being the difference between the considerations paid by the participants and the fair value of the equity interests transferred recognised as staff costs in the profit or loss over the vesting period.

* *English translation is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***15 SHARE-BASED PAYMENT TRANSACTIONS** *(Continued)***(a) Employee share purchase plan (“ESPP”) — equity settled** *(Continued)***(ii) Puhui ESPP** *(Continued)*

In December 2022, Shanghai Puhui resolved to make a package of modifications^{##} to the Puhui ESPP with the net beneficial effect to the participants. The change was accounted for a modification to equity-settled share-based payment arrangements in accordance with note 2(q)(ii). Accordingly, the increase in fair value of the Puhui ESPP measured immediately before and after the modification is recognised on the modification date.

[#] *Non-market performance vesting condition refer to the key milestone of research and development projects as specified in the Puhui ESPP agreement and capital increase agreement dated on 29 November 2021.*

^{##} *In addition, the Group modified the vesting schedules of the Puhui ESPP with a net effect of increase in the equity instruments granted to the participants after the modification, details of the modifications were specified in the Puhui ESPP agreements (modified) dated on 30 December 2022, respectively.*

(iii) Fair value of ESPP and assumptions

The fair value of services received in return for the ESPPs granted on the grant date and/or modification date is measured by reference to the valuation reports prepared by the external valuers and reviewed and approved by the management.

(iv) Outstanding ESPPs

The number of ESPPs outstanding at 31 December 2022 was 15,650,000 (31 December 2021: 15,650,000) with an exercise price of RMB1.00 and a weighted average remaining contractual life of 2.08 years (31 December 2021: 2.27 years).

(v) Expense recognised in profit or loss

For details of the related employee benefit expenses, see note 6.

(b) Restricted shares

On 19 August 2021, the Company adopted share incentive scheme, pursuant to which, Dr. Liang Dongke and two partnership firms, Jingning Int Chuangqi Enterprise Management Partnership (LP)* 景寧瑛泰創啟企業管理合夥企業 (有限合夥) and Jingning Int Chuangyuan Enterprise Management Partnership (LP)* 景寧瑛泰創源企業管理合夥企業 (有限合夥), whose limited partners consisted of employees of the Group, invested in the Company by way of subscribing 5,000,000 domestic shares (the restricted shares) at a price of RMB12.00 per share.

The restricted shares have vesting terms in schedule from the grant date over 60 months ending 18 August 2026 on the condition that the employees fulfil certain non-market performance conditions[#]. On 13 May 2021, the Company received approval from the China Securities Regulatory Commission (“CSRC”) in relation to its allotment and issuance of 2,000,000 new domestic shares under the share incentive scheme. The CSRC approval is effective for 12 months from 13 May 2021. During the year ended 31 December 2022, the Company issued 2,000,000 domestic shares to the participants under the share incentive scheme and received fund raised from the participants amounting to RMB24,000,000.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

15 SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(b) Restricted shares *(Continued)*

During the year ended 31 December 2022, the Company forfeited 350,800 restricted shares and cancelled 36,500 restricted shares for certain participants upon their resignation from the Company or voluntary withdrawal from the share incentive scheme. Meanwhile, the Company granted these 387,300 restricted shares to Dr. Liang Dongke at a price of RMB12.00 per share.

According to the Company's announcement dated 30 December 2022, the Company resolved to make certain amendments^{##} to the share incentive scheme in light of the Company's proposed adjustment to the performance target provision of the share incentive scheme taking into account the ongoing impact of COVID-19 on the production and operation of the Group in 2022. This modification has beneficial effect to the participants and therefore the change was accounted for a modification to equity-settled share-based payment arrangements in accordance with note 2(q)(ii). Accordingly, the increase in fair value of the restricted shares measured immediately before and after the modification is recognised on the modification date.

Detailed information is disclosed in the Company's announcements and circular dated 21 September 2020, 6 November 2020, 16 April 2021, 17 May 2021, 19 August 2021 and 30 December 2022.

[#] *Non-market performance vesting condition refer to the operation result and employee performance rating as specified in the subscription agreement dated on 23 April 2021 and board of directors' resolution dated on 19 August 2021.*

^{##} *The modified performance target provision of the share incentive scheme was approved by the board of directors on 30 December 2022.*

(i) Fair value of restricted shares and assumptions

The fair value of services received in return for the restricted shares granted on the grant date and/or modification date is measured by reference to the valuation reports prepared by the external valuers and reviewed and approved by the management.

(ii) Outstanding restricted shares

The restricted shares outstanding at 31 December 2022 have an exercise price of RMB12.00 and a weighted average remaining contractual life of 3.58 years (31 December 2021: 4.58 years).

(iii) Expense recognised in profit or loss

For details of the related employee benefit expenses, see Note 6.

* *English translation is for identification purpose only.*

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***16 INVESTMENT IN FUNDS**

Since 2020, the Company invested in unlisted funds managed by Huaige Health, together with other limited partners. The primary objectives of these unlisted funds are investment in equity interest of entities in the life science and healthcare industries in the PRC. Detailed information is disclosed in the Company's announcements dated 19 March 2020 and 29 April 2020 and the circular dated 22 May 2020.

Chengdu Fund

According to the Company's announcements dated 18 August 2022 and 23 August 2022, the Company entered into the partnership agreement with Huaige Health (as the fund manager) and other investors (the "Partnership Agreement") in relation to the establishment of, and investment in Chengdu Huaige Guosheng Venture Investment Partnership (Limited Partnership)* 成都懷格國生創業投資合夥企業(有限合夥) (the "Chengdu Fund"). Under the Partnership Agreement, the capital commitment payable by each limited partner (including the Company) shall be no less than RMB10 million, and the capital committed by the Company is RMB50 million, which shall be payable on or before 30 June 2026. The primary objective of the Chengdu Fund is investments in equity interests of early-stage or growth stage businesses in the healthcare and biotechnology sectors. During the year ended 31 December 2022, the Company made capital contribution of RMB25 million to the fund.

17 INVENTORIES

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|------------------|---|--------------------------------|
| Raw materials | 69,100 | 45,960 |
| Work in progress | 25,986 | 10,732 |
| Finished goods | 55,454 | 32,811 |
| Goods in transit | 3,737 | 2,991 |
| | 154,277 | 92,494 |

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

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|-------------------------------------|---|--------------------------------|
| Carrying amount of inventories sold | 253,149 | 188,930 |
| Write down of inventories | 248 | - |
| | 253,397 | 188,930 |

* English translation is for identification purpose only.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|--------------------------------|--------------------------------|
| Trade receivables (a) | | |
| Receivables from third parties | 69,155 | 78,316 |
| Receivables from related parties (note 29) | 3,734 | 940 |
| Less: losses allowance on trade receivables | (1,508) | (583) |
| Trade receivables, net | 71,381 | 78,673 |
| Deposits for construction project | 5,454 | 3,191 |
| Others | 2,696 | 909 |
| Trade and other receivables, net | 79,531 | 82,773 |

(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 2022 RMB'000 | 31 December 2021 RMB'000 |
|-----------------|--------------------------------|--------------------------------|
| Within 3 months | 64,166 | 76,900 |
| 3 to 6 months | 5,225 | 1,588 |
| 6 to 9 months | 1,990 | 185 |
| | 71,381 | 78,673 |

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 27(a).

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|---|--------------------------------|
| Non-current portion | | |
| Unlisted units in investment funds (note 16) | 155,454 | 123,174 |
| Unlisted equity investment | 7,000 | 7,000 |
| | 162,454 | 130,174 |
| Current portion | | |
| Foreign currency forward contracts | – | 132 |
| | – | 132 |

The non-current financial assets at FVPL represent investment in units in unlisted funds, and a private entity incorporated in the PRC. These investments are primarily engaged or further invested in the life science and healthcare sectors.

Further details on the Group's credit risk arising from financial assets and its fair value measurement are set out in note 27(a) and note 27(e), respectively.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION**(a) Cash and cash equivalents comprise:**

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---------------------------|---|--------------------------------|
| Cash at bank (i) | 518,245 | 640,539 |
| Cash on hand | 21 | 11 |
| Cash and cash equivalents | 518,266 | 640,550 |

- (i) Cash at bank mainly includes deposits placed at banks in the PRC with original maturities of three months or less. These deposits are guaranteed for principal repayment with fixed returns. The balance of these deposits amounts to RMB313,545,000 as at 31 December 2022 (2021: RMB573,299,000). Further details on the Group's credit policy and credit risk arising from cash at bank are set out in note 27(a).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(b) Time deposits:

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|------------------------|--------------------------------|--------------------------------|
| Current portion | | |
| Time deposits | 10,000 | – |

This balance represents time deposits placed at banks in the PRC with original maturities over three months but within one year.

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

| | Note | 2022 RMB'000 | 2021 RMB'000 |
|---|--------|-----------------|-----------------|
| Profit before taxation | | 144,468 | 155,691 |
| Adjustments for: | | | |
| Depreciation of investment property and property, plant and equipment | 6 (c) | 30,321 | 23,840 |
| Depreciation of right-of-use assets | 6 (c) | 5,764 | 5,528 |
| Amortisation of intangible assets | 6 (c) | 992 | 848 |
| Finance costs | 6 (a) | 818 | 633 |
| Interest income | 5 | (13,408) | (14,525) |
| Loss on sale of property, plant and equipment | | 235 | 112 |
| Provision for write down of inventories | 17 (a) | 248 | – |
| Net realised and unrealised gains from fair value changes on financial assets measured at fair value through profit or loss | 5 | (7,360) | (29,293) |
| Recognition of impairment loss | 6 (c) | 925 | 567 |
| Foreign exchange gains and others | | (2,240) | 2,656 |
| Equity-settled share-based payment expenses | 6 (b) | 3,107 | 1,107 |
| Operating profits before changes in working capital | | 163,870 | 147,164 |
| Changes in working capital: | | | |
| Increase in inventories | | (62,031) | (37,288) |
| Decrease/(increase) in operating receivables | | 7,727 | (74,943) |
| Increase in operating payables | | 55,667 | 23,220 |
| (Decrease)/increase in deferred income | | (1,785) | 8,319 |
| Increase in contract liabilities | | 29,730 | 21,376 |
| Cash generated from operations | | 193,178 | 87,848 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(d) 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.

| | Loans and borrowings RMB'000 (note 23) | Lease liabilities RMB'000 (note 12) |
|--|---|--|
| At 1 January 2021 | – | 1,733 |
| Change from financing cash flows: | | |
| Payment for capital element of liabilities | – | (320) |
| Total change from financing cash flows | – | (320) |
| Other change: | | |
| Liabilities recognised during the year | – | 11,991 |
| Total other change | – | 11,991 |
| At 31 December 2021 and 1 January 2022 | – | 13,404 |
| Changes from financing cash flows: | | |
| Payment for capital element of lease liabilities | – | (192) |
| Proceeds from new loans and borrowings | 32,660 | – |
| Interest of loans and borrowings paid | (90) | – |
| Total change from financing cash flows | 32,570 | (192) |
| Other changes: | | |
| Lease liabilities recognised during the year | – | 2,290 |
| Payment for interest element of leases liabilities | – | (62) |
| Interest expense | 113 | 705 |
| Total other change | 113 | 2,933 |
| At 31 December 2022 | 32,683 | 16,145 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Trade payables (i) | 36,376 | 26,815 |
| Payroll payables | 34,109 | 18,916 |
| Payables for purchase of property, plant and equipment | 37,886 | 49,090 |
| Amounts due to related parties (note 29) | 37 | 174 |
| Refund liabilities- arising from volume rebates | 3,013 | 1,423 |
| Others | 15,965 | 8,289 |
| | 127,386 | 104,707 |

- (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 2022 RMB'000 | 31 December 2021 RMB'000 |
|-----------------------------------|--------------------------------|--------------------------------|
| Within 3 months | 30,474 | 23,088 |
| Over 3 months but within 6 months | 2,287 | 1,921 |
| Over 6 months but within 1 year | 2,697 | 582 |
| Over 1 year | 918 | 1,224 |
| | 36,376 | 26,815 |

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

22 CONTRACT LIABILITIES

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|--------------------------------|--------------------------------|
| Advances received from third parties | 65,428 | 35,723 |
| Amounts due to related parties (note 29) | 25 | - |
| | 65,453 | 35,723 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***22 CONTRACT LIABILITIES** *(Continued)***Movement in contract liabilities**

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| At the beginning of year | 35,723 | 14,347 |
| Increase in contract liabilities as a result of receiving advances from customers | 376,610 | 301,564 |
| Decrease in contract liabilities as a result of recognising revenue during the year | (346,880) | (280,188) |
| At the end of year | 65,453 | 35,723 |

23 LOANS AND BORROWINGS

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Unsecured bank loan payable within 1 year | 32,683 | – |

As at 31 December 2022, the Group's loan of RMB32,683,000 was borrowed from bank in the PRC with an interest-bearing rate of 2.50% per annum and would be mature within one year.

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**(a) Current taxation in the consolidated statements of financial position represents:**

| | 2022 RMB'000 | 2021 RMB'000 |
|------------------------------|-----------------|-----------------|
| At the beginning of the year | 12,216 | 8,180 |
| Provision for the year | 13,037 | 19,055 |
| Tax paid | (12,656) | (15,019) |
| At the end of year | 12,597 | 12,216 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

24 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 assets recognised in the consolidated statements of financial position and the movements during the year are as follows:

| | Intercompany unrealised profit RMB'000 | Tax losses RMB'000 | Deferred income RMB'000 | Fair value changes on financial assets measured at fair value through profit or loss RMB'000 | Depreciation allowances in excess of the related depreciation RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|-----------------------|-------------------------------|---|--|-------------------|------------------|
| At 1 January 2021 | 1,387 | - | 792 | - | - | (26) | 2,153 |
| (Charged)/credited to profit or loss | (175) | 5,762 | 1,248 | (3,496) | - | 470 | 3,809 |
| At 31 December 2021 and 1 January 2022 | 1,212 | 5,762 | 2,040 | (3,496) | - | 444 | 5,962 |
| Credited/(charged) to profit or loss | 1,242 | 4,610 | (337) | (1,092) | (1,788) | (233) | 2,402 |
| At 31 December 2022 | 2,454 | 10,372 | 1,703 | (4,588) | (1,788) | 211 | 8,364 |

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

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Net deferred tax assets recognised in the consolidated statement of financial position | 15,036 | 9,458 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (6,672) | (3,496) |
| | 8,364 | 5,962 |

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB111,873,000 (2021: RMB87,617,000), 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 the PRC subsidiaries amounting to RMB111,873,000 (2021: RMB87,617,000) will expire within five years under the current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***25 DEFERRED INCOME**

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---------------------------|---|--------------------------------|
| Government grants | | |
| At the beginning of year | 14,079 | 5,760 |
| Grants received | 1,100 | 10,760 |
| Charged to profit or loss | (2,885) | (2,441) |
| At the end of year | 12,294 | 14,079 |
| Representing | | |
| — Current portion | 1,345 | 383 |
| — Non-current portion | 10,949 | 13,696 |
| Total | 12,294 | 14,079 |

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

(Expressed in Renminbi Yuan unless otherwise indicated)

26 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 2021 | | 166,000 | 935,242 | 36,737 | 170,236 | 1,308,215 |
| Profit for the year | | – | – | – | 139,503 | 139,503 |
| Equity-settled share-based payment | | – | 1,054 | – | – | 1,054 |
| Dividends approved in respect of the previous year | 26(d) | – | – | – | (47,310) | (47,310) |
| Appropriation for surplus reserve | | – | – | 13,950 | (13,950) | – |
| Balance at 31 December 2021 and 1 January 2022 | | 166,000 | 936,296 | 50,687 | 248,479 | 1,401,462 |
| Profit for the year | | – | – | – | 113,200 | 113,200 |
| Equity-settled share-based payment | 15(b) | – | 1,179 | – | – | 1,179 |
| Subscription of restricted shares | | 2,000 | 22,000 | – | – | 24,000 |
| Dividends approved in respect of the previous year | 26(d) | – | – | – | (43,680) | (43,680) |
| Appropriation for surplus reserve | | – | – | 11,430 | (11,430) | – |
| At 31 December 2022 | | 168,000 | 959,475 | 62,117 | 306,569 | 1,496,161 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***26 CAPITAL, RESERVES AND DIVIDENDS** *(Continued)***(b) Share capital**

| | 2022 | | 2021 | |
|--|-------------------------|---------|-------------------------|---------|
| | No. of shares (‘000) | RMB’000 | No. of shares (‘000) | RMB’000 |
| Ordinary shares, issued and fully paid: | | | | |
| At the beginning of the year | 166,000 | 166,000 | 166,000 | 166,000 |
| Domestic shares issued during the period <i>(note)</i> | 2,000 | 2,000 | – | – |
| At 31 December | 168,000 | 168,000 | 166,000 | 166,000 |
| Representing: | | | | |
| Domestic shares issued | 63,787 | 63,787 | 61,787 | 61,787 |
| H shares issued | 104,213 | 104,213 | 104,213 | 104,213 |
| Total ordinary shares issued at 31 December | 168,000 | 168,000 | 166,000 | 166,000 |

Note: As disclosed in note 10 (b), the Company issued 2,000,000 domestic shares at a price of RMB12.00 per share to the participants under share incentive scheme during the year ended 31 December 2022, of which, RMB2,000,000 was recorded under share capital and the remaining of RMB22,000,000 was charged to capital reserve.

(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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

26 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 the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 2(u).

(d) Dividends

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

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| Final dividend proposed after the end of the reporting period of RMB0.24 per ordinary share (2021: RMB0.26 per ordinary share) | 40,320 | 43,680 |

On 20 March 2023, the directors of the Company proposed a final dividend for the year ended 31 December 2022 of RMB0.24 per ordinary share, which has not been recognised as a liability at 31 December 2022.

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

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, RMB0.26 per ordinary share (2021: RMB0.285 per ordinary share) | 43,680 | 47,310 |

Pursuant to the shareholders' approval of the Company held on 16 May 2022, a final cash dividend of RMB0.26 per share in respect of the year ended 31 December 2021 based on 166,000,000 ordinary shares with total amount of RMB43,680,000 was paid in June 2022.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***26 CAPITAL, RESERVES AND DIVIDENDS** *(Continued)***(e) Distributability of reserve**

As 31 December 2022, the aggregate amount of reserves available for distribution to equity shareholders of the Company, was RMB306,569,000 (2021: RMB248,132,000).

(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 loans and borrowings and leases liabilities and defines equity as total equity.

As at 31 December 2022 and 2021, the Group's net debt-to-equity ratio was as follows:

| | <i>Note</i> | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|-----------------------------|-------------|---|--------------------------------|
| Current liabilities: | | | |
| Loans and borrowings | 23 | 32,683 | – |
| Lease liabilities | 12 | 201 | 192 |
| Non-current liabilities: | | | |
| Lease liabilities | 12 | 15,944 | 13,212 |
| Total debt | | 48,828 | 13,404 |
| Total equity | | 1,554,104 | 1,437,920 |
| Debt-to-equity ratio | | 3.14% | 0.93% |

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 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 foreign currency forward contracts issued by banks, is limited because the counterparties are reputable banks, for which the management believes are of high credit quality. Credit risk of investment in the unlisted funds managed by Huaige Health is also considered to be limited because the fund manager, Huaige Health, is specialised in investment in life science and healthcare business with good track record proven. 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 distributors, with credit periods range 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 2022, 19% (2021: 28%) 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.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***27 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 2022 and 2021:

| | As at 31 December 2022 | | |
|-----------------|----------------------------|--|------------------------------|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Within 3 months | 0.36% | 64,365 | (199) |
| 3 ~ 6 months | 1.00% | 5,278 | (53) |
| 6 ~ 9 months | 5.00% | 2,095 | (105) |
| Over 9 months | 100.00% | 1,151 | (1,151) |
| | | 72,889 | (1,508) |

| | As at 31 December 2021 | | |
|-----------------|----------------------------|--|------------------------------|
| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
| Within 3 months | 0.36% | 76,925 | (25) |
| 3 ~ 6 months | 1.00% | 1,603 | (15) |
| 6 ~ 9 months | 5.00% | 196 | (11) |
| Over 9 months | 100.00% | 532 | (532) |
| | | 79,256 | (583) |

(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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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 2022 | | | | | |
|--------------------------|---------------------------------------|--|---|-------------------|----------------|-----------------|
| | Contractual undiscounted cash outflow | | | | | Carrying amount |
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Lease liabilities | 254 | 274 | 9,749 | 10,219 | 20,496 | 16,145 |
| Trade and other payables | 90,264 | – | – | – | 90,264 | 90,264 |
| Loans and borrowings | 33,376 | – | – | – | 33,376 | 32,683 |
| | 123,894 | 274 | 9,749 | 10,219 | 144,136 | 139,092 |

| | As at 31 December 2021 | | | | | |
|--------------------------|---------------------------------------|--|---|-------------------|----------------|-----------------|
| | Contractual undiscounted cash outflow | | | | | Carrying amount |
| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Lease liabilities | 254 | 254 | 4,980 | 12,200 | 17,688 | 13,404 |
| Trade and other payables | 85,791 | – | – | – | 85,791 | 85,791 |
| | 86,045 | 254 | 4,980 | 12,200 | 103,479 | 99,195 |

(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, loans and borrowings 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile (Continued)

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

| | 2022 | | 2021 | |
|-----------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Effective interest rate % | RMB'000 | Effective interest rate % | RMB'000 |
| Fixed rate instruments: | | | | |
| Lease liabilities | 4.90% | (16,145) | 4.90% | (13,404) |
| Time deposits | 0.25% – 4.40% | 314,545 | 0.15% – 3.00% | 573,299 |
| Loans and borrowings | 2.50% | (32,683) | Nil | – |
| | | 265,717 | | 559,895 |
| Variable rate instruments: | | | | |
| Cash at bank | 0.0001% – 0.35% | 213,700 | 0.0001% – 0.30% | 67,240 |

(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 2022 | | | | As at 31 December 2021 | | | |
|----------------|-------------------------------------|------------------------------------|-------------------------------------|---|-------------------------------------|------------------------------------|-------------------------------------|---|
| | 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 | 4,259 | 3,998 | 261 | 100 | 4,942 | 4,532 | 293 |
| | (100) | (4,259) | (3,998) | (261) | (100) | (4,942) | (4,532) | (293) |

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 expenses or income of such a change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(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 United States dollars ("USD"). In the normal course of business, the Group enter into foreign currency forward contracts for trading transactions denominated in USD to reduce exposure to fluctuations in foreign currency exchange rates. These foreign currency forward contracts are not hedge account.

(i) Exposure to currency risk

The following table details the Group's exposure as at the end of the reporting periods 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 2022 USD RMB'000 | 31 December 2021 USD RMB'000 |
|---|---------------------------------------|---------------------------------------|
| Trade and other receivables | 2,431 | 10,508 |
| Cash and cash equivalents | 69,897 | 38,423 |
| Trade and other payables | (5,207) | (5,455) |
| Net exposure arising from recognised assets and liabilities | 67,121 | 43,476 |

(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 2022 | | | | As at 31 December 2021 | | | |
|-----|---|---|--|--|---|---|--|--|
| | 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 |
| USD | 10% | 5,720 | 5,871 | (151) | 10% | 3,643 | 3,791 | (148) |
| | (10%) | (5,720) | (5,871) | 151 | (10%) | (3,643) | (3,791) | 148 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS** *(Continued)***(d) Currency risk** *(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.

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 2022 | | | |
|--------------------------------|------------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
| Financial assets at FVTPL | | | | |
| — Investment in unlisted funds | — | — | 155,454 | 155,454 |
| — Unlisted investment | — | — | 7,000 | 7,000 |
| Total | — | — | 162,454 | 162,454 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 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)

| | As at 31 December 2021 | | | Total RMB'000 |
|--------------------------------------|------------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | |
| Financial assets at FVTPL | | | | |
| — Foreign currency forward contracts | — | 132 | — | 132 |
| — Investment in unlisted funds | — | — | 123,174 | 123,174 |
| — Unlisted investment | — | — | 7,000 | 7,000 |
| Total | — | 132 | 130,174 | 130,306 |

During the years ended 31 December 2021 and 2022, 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.

Valuation techniques and inputs used in Level 2 fair value measurements

These foreign currency forward contracts are fair valued by comparing the contracted rate to the exchange rate of relevant currency issued by Bank of China at the end of reporting period. All movements in fair value are recognised in profit or loss in the period they occur.

Information about Level 3 fair value measurements

Investment in unlisted funds

The fair value of unlisted units in investment funds have been estimated using market approach. A valuation analysis of changes in fair value of each fund is prepared by the fund manager, Huaige Health, to the Company at each quarter end. The fund manager used methodology based on relevant comparable data whether possible to quantify the adjustment from cost or latest financing price when adjustment is necessary, or to justify that cost or latest financing price is still a proper approximately of fair value of the underlying investments held by the unlisted funds in determining the net asset value.

Unlisted investment

The fair value of unlisted investment is determined using the recent comparable market transaction price, if available, or other acceptable valuation techniques. As at 31 December 2022, the management determined the fair value of the unlisted investment with reference to the latest financing price where adjustment is necessary.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 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)

Unlisted investment (Continued)

The movements during the year in the balance of these Level 3 fair value measurements was as follows:

| 2022 | Wealth management products issued by banks RMB'000 | Wealth management products issued by financial institutions RMB'000 | Structured bank deposits RMB'000 | Investment in unlisted funds RMB'000 | Unlisted investment RMB'000 | Total RMB'000 |
|---|---|--|-------------------------------------|---|--------------------------------|------------------|
| At 1 January 2022 | - | - | - | 123,174 | 7,000 | 130,174 |
| Purchase of wealth management products | 10,000 | - | - | - | - | 10,000 |
| Investment in unlisted funds | - | - | - | 25,000 | - | 25,000 |
| Net unrealised gains recognised in profit or loss | - | - | - | 7,280 | - | 7,280 |
| Redemption of wealth management products | (10,000) | - | - | - | - | (10,000) |
| At 31 December 2022 | - | - | - | 155,454 | 7,000 | 162,454 |

| 2021 | Wealth management products issued by banks RMB'000 | Wealth management products issued by financial institutions RMB'000 | Structured bank deposits RMB'000 | Investment in unlisted funds RMB'000 | Unlisted investment RMB'000 | Total RMB'000 |
|---|---|--|-------------------------------------|---|--------------------------------|------------------|
| At 1 January 2021 | 2,000 | 10,000 | 26,000 | 49,060 | - | 87,060 |
| Purchase of wealth management products | - | 32,000 | - | - | - | 32,000 |
| Purchase of structured bank deposits | - | - | 466,000 | - | - | 466,000 |
| Investment in unlisted funds | - | - | - | 50,000 | - | 50,000 |
| Investment in unlisted entity | - | - | - | - | 7,000 | 7,000 |
| Net unrealised gains recognised in profit or loss | - | 404 | 3,296 | 24,114 | - | 27,814 |
| Redemption of wealth management products | (2,000) | (42,404) | (495,296) | - | - | (539,700) |
| At 31 December 2021 | - | - | - | 123,174 | 7,000 | 130,174 |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

(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 2022 and 2021.

(iii) Information about Level 3 fair value measurements

| | Valuation techniques | Significant unobservable inputs |
|---------------------|------------------------------|---|
| Unlisted investment | Valuation multiples (Note i) | Changing trend of medium market multiples of comparable companies |
| Unlisted funds | Net asset value (Note ii) | Net asset value of underlying investments |

Note i: The fair value of certain unlisted investments is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at 31 December 2022, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's profit for the year by RMB350,000 (2021: RMB350,000);

Note ii: The fair value of unlisted units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at 31 December 2022, it is estimated that with all other variables held constant, an increase/decrease in net asset value of underlying investments by 5% would have increased/decreased the Group's profit for the year by RMB6,729,000 or RMB6,559,000 (2021: RMB4,978,000).

28 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2022 and 2021 not provided for in the financial statements were as follows:

| | At 31 December 2022 RMB'000 | At 31 December 2021 RMB'000 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Contracted for | 104,179 | 71,275 |
| Authorised but not contracted for | 162,081 | 527,200 |
| Total | 266,260 | 598,475 |

The capital commitments mainly include the unpaid capital commitments to the unlisted funds and the capital expenditures on the construction of Shanghai, Shandong and Zhuhai production base as well as upgrading of production lines.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***29 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.

| | 2022 RMB'000 | 2021 RMB'000 |
|---|-----------------|-----------------|
| Short-term employee benefits and others | 3,626 | 2,762 |
| Share-based payments | 2,549 | 691 |
| Total | 6,175 | 3,453 |

Total remuneration is included in "Staff costs" (note 6(b)).

(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 |
|--|---|
| Shanghai Kindly Enterprise Development Group Co., Ltd.** ("KDL") (Chinese name as 上海康德萊企業發展集團股份有限公司)* | Single largest Shareholder of the Company |
| Guangdong Kindly Medical Device Group Co., Ltd.** (Chinese name as 廣東康德萊醫療器械集團有限公司) | Subsidiary of KDL |
| Zhejiang Kindly Medical Devices Co., Ltd.** (Chinese name as 浙江康德萊醫療器械股份有限公司) | Subsidiary of KDL |
| Hunan Cofoe Medical Device Co., Ltd., previously known as Hunan Kindly Medical Device Co., Ltd.**@ (Chinese name as 湖南可孚醫療器械銷售有限公司, previously known as 湖南康德萊醫療器械有限責任公司) | Subsidiary of KDL |
| Guangdong Kindly Medical Supply Chain Management Co., Ltd.** (Chinese name as 廣東康德萊醫療供應鏈管理有限公司) | Subsidiary of KDL |
| Beijing Kangbaishi Medical Technology Co., Ltd.** (Chinese name as 北京康百世醫療科技有限公司) | Subsidiary of KDL |
| Shanghai Kindly Pipe Manufacture Co., Ltd.** (Chinese name as 上海康德萊制管有限公司) | Subsidiary of KDL |
| Shanghai Kindly Import and Export Trade Co., Ltd.** (Chinese name as 上海康德萊進出口貿易有限公司) | Subsidiary of KDL |
| Zhaoqing Kindly Medical Supply Chain Management Co., Ltd.** (Chinese name as 肇慶康德萊醫療供應鏈有限公司) | Subsidiary of KDL |
| Guangxi Ouwen Medical Technology Group Co., Ltd.** (Chinese name as 廣西甌文醫療科技集團有限公司) | Subsidiary of KDL |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Related party transactions (Continued)

| Name of party | Relationship |
|---|---|
| Wenzhou Kindly Technology Co., Ltd.*# (Chinese name as 溫州康德萊科技有限公司) | Subsidiary of KDL |
| Guangxi Beilunhe Medical Industry Group Co., Ltd.*# (Chinese name as 廣西北侖河醫科工業集團有限公司) | Subsidiary of KDL |
| Hainan Ouwen Medical Technology Co., Ltd.*# (Chinese name as 海南甌文醫療科技有限公司) | Subsidiary of KDL |
| Guangxi Zanwen Medical Technology Co., Ltd.*#@ (Chinese name as 廣西贊文醫療科技有限公司) | Subsidiary of KDL |
| Shanghai Kindly Holdings Group Co., Ltd.*^ (Chinese name as 上海康德萊控股集團有限公司, "KDL Holding") | Controlling shareholder of KDL |
| Zhuhai Kindly Medical Industry Investments Co., Ltd.*^ (Chinese name as 珠海康德萊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夥企業 (有 限合夥), "Huaige Health") | General partner of Ningbo Huaige Taiyi, which holds 15.00% equity interest in the Company |

KDL and its subsidiaries/associates (excluding the Group) are herein referred to as "KDL Group".

@ Hunan Cofee Medical Device Co., Ltd. and Guangxi Zanwen Medical Technology Co., Ltd. ceased to be the related parties of the Group in September and October 2022, respectively.

^ KDL Holding and its subsidiaries/associates (excluding KDL Group and the Group) are herein referred to as "KDL Holding Group".

During the reporting period, the Group entered into the following material related party transactions:

| | 2022 RMB'000 | 2021 RMB'000 |
|--|-----------------|-----------------|
| Rental fee charged by: | | |
| — KDL Group | — | 641 |
| — KDL Holding Group | 50 | 161 |
| Sales of goods to KDL Group | 6,444 | 7,314 |
| Purchase of raw materials from KDL Group | 902 | 745 |
| Investment in unlisted funds (note 16) | 25,000 | 50,000 |

* English translation is for identification purpose only.

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***29 MATERIAL RELATED PARTY TRANSACTIONS** *(Continued)***(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 2022 RMB'000 | 31 December 2021 RMB'000 |
|--|---|--------------------------------|
| Amounts due from related parties | | |
| Trade related: | | |
| KDL Group | 3,734 | 877 |
| KDL Holding Group | – | 63 |
| Total | 3,734 | 940 |
| Amounts due to related parties | | |
| Trade related: | | |
| KDL Group | 62 | 174 |
| Financial assets at fair value through profit or loss | | |
| Unlisted units in investment funds <i>(note 16)</i> | 155,454 | 123,174 |

Note:

- (i) The trade-related outstanding balances with related parties are unsecured, non-interest bearing and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(d) Other related party transactions

- (i) Pursuant to an agreement dated 20 June 2018, KDL authorised the Company using its trademark “康德萊” 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 “康德萊” or “KDL”* trademark from 31 October 2028 to 31 October 2038.
- (ii) KDL authorised the Company using its trademark “康德萊” 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) purchase of raw material from KDL Group, (iii) rental fee charged by KDL Group and KDL Holding Group, (iv) investment in unlisted funds and (v) fund raised by Shanghai Healing from Int Fund as disclosed in note 29(b), note 14(iv) and note 16 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) transactions disclosed in note 29(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).

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***30 COMPANY — LEVEL STATEMENT OF FINANCIAL POSITION**

| | 31 December 2022 RMB'000 | 31 December 2021 RMB'000 |
|---|---|--------------------------------|
| Non-current assets | | |
| Property, plant and equipment | 422,668 | 321,043 |
| Right-of-use assets | 97,063 | 100,164 |
| Intangible assets | 8,635 | 1,818 |
| Other non-current assets | 18,314 | 18,750 |
| Deferred tax assets | 2,245 | 2,285 |
| Interests in subsidiaries | 481,458 | 445,043 |
| Financial assets at fair value through profit or loss | 162,454 | 130,174 |
| | 1,192,837 | 1,019,277 |
| Current assets | | |
| Inventories | 89,214 | 45,870 |
| Trade and other receivables | 138,009 | 127,480 |
| Other current assets | 11,687 | 14,014 |
| Financial assets at fair value through profit or loss | – | 132 |
| Cash and cash equivalents | 227,123 | 314,135 |
| | 466,033 | 501,631 |
| | 1,658,870 | 1,520,908 |
| Current liabilities | | |
| Trade and other payables | 80,710 | 72,054 |
| Contract liabilities | 11,777 | 10,267 |
| Loans and borrowings | 32,683 | – |
| Lease liabilities | 201 | 192 |
| Deferred income | 1,345 | 383 |
| Current taxation | 3,368 | 6,626 |
| | 130,084 | 89,522 |
| Net current assets | 335,949 | 412,109 |
| Total assets less current liabilities | 1,528,786 | 1,431,386 |

NOTES TO THE FINANCIAL STATEMENTS*(Expressed in Renminbi Yuan unless otherwise indicated)***30 COMPANY — LEVEL STATEMENT OF FINANCIAL POSITION** *(Continued)*

| | | 31 December 2022 | 31 December 2021 |
|--------------------------------|-------------|-----------------------------|---------------------|
| | <i>Note</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current liabilities | | | |
| Lease liabilities | | 15,944 | 13,212 |
| Deferred tax liabilities | | 6,672 | 3,496 |
| Deferred income | | 10,009 | 13,216 |
| | | 32,625 | 29,924 |
| NET ASSETS | | | |
| | | 1,496,161 | 1,401,462 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | 168,000 | 166,000 |
| Reserves | 26 | 1,328,161 | 1,235,462 |
| TOTAL EQUITY | | | |
| | | 1,496,161 | 1,401,462 |

Approved and authorised for issue by the board of directors on 20 March 2023.

LIANG DONG KE*Director*

LIN SEN*Director*

(Company Stamp)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In January 2023, the Company (the “Purchaser”) entered into an acquisition agreement with three individuals (the “Vendors”) and Shanghai Hude Automobile Tensioning Wheel Co., Ltd. *上海滬德汽車張緊輪有限公司 (the “Target Company”), pursuant to which, amongst others, the Purchaser has agreed to purchase and the Vendors have agreed to sell its entire equity interest in the Target Company at a consideration of RMB32 million in cash.

32 IMMEDIATE AND ULTIMATE CONTROLLING COMPANY

In May 2022, the Company re-elected its third session of the board of directors during the Annual General Meeting and the directors of the Company is of the view that KDL was not the controlling company of the Company from then on. Detailed information is disclosed in the announcement of the Company dated 16 May 2022.

As at 31 December 2022, the Company does not have immediate and ultimate controlling companies.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 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 |
|---|--|
| HKFRS 17, <i>Insurance contracts</i> | 1 January 2023 |
| Amendments to HKAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current</i> | 1 January 2023 |
| Amendments to HKAS 1, <i>Presentation of financial statements</i> and HKFRS Practice Statement 2, <i>Making materiality judgements: Disclosure of accounting policies</i> | 1 January 2023 |
| Amendments to HKAS 8, <i>Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates</i> | 1 January 2023 |
| Amendments to HKAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i> | 1 January 2023 |

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.

DEFINITIONS

| | |
|--|---|
| “Articles” | the articles of association of the Company, as amended, modified or supplemented from time to time |
| “Award Shares” | the 5,000,000 new Domestic Shares to be allotted to Dr. Liang Dongke and the Share Incentive Platforms or other designated persons for administration of the Share Incentive Scheme |
| “AGM” | the annual general meeting of the Company to be convened and held on Thursday, 18 May 2023 |
| “Audit Committee” | the audit committee of the Board |
| “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 during the Reporting Period, 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 |
| “H Share Award and Trust Scheme” or “H Share Scheme” | the H Share Award and Trust Scheme approved by the Shareholders on 16 May 2022 |
| “H Share Scheme Rules” | the rules governing the operation of the H Share Scheme as well as the implementation procedure (as amended from time to time) |

DEFINITIONS

| | |
|--------------------------------|--|
| “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 Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| “Ningbo Hansheng” | Ningbo Hansheng Enterprise Management Partnership (Limited Partnership)* (寧波翰昇企業管理合夥企業(有限合夥)), a limited partnership established in the PRC on 3 June 2021 as a limited liability partnership and an employee incentive platform of the Company |
| “Ningbo Int” | Ningbo Int Investment Partnership (Limited Partnership)* (寧波瑛泰投資合夥企業(有限合夥)), a limited partnership established in the PRC on 29 November 2018 as a limited liability partnership, being an employee share incentive platform and a Shareholder of the Company |
| “Nomination Committee” | the nomination committee of the Board |
| “Non-Competition Undertaking” | the non-competition undertakings dated 14 October 2019 provided by the Controlling Shareholders in favor of the Company |
| “PRC” or “China” | the People’s Republic of China |
| “Proposed Final Dividend” | the proposed final dividend distribution plan of RMB0.24 per Share (equivalent to HK\$0.27 per Share) (inclusive of applicable tax) subject to the approval by the Shareholders at the AGM as described under the section headed “Dividend” on page 13 of this annual report |
| “Prospectus” | the prospectus of the Company dated 28 October 2019 |
| “Reporting Period” | the year ended 31 December 2022 |
| “Remuneration Committee” | the remuneration committee of the Board |
| “RMB” | the lawful currency of the PRC |

DEFINITIONS

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| “Prospectus” | the prospectus of the Company dated 28 October 2019 in relation to global offering of H Shares of the Company |
| “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 |
| “Share Incentive Platforms” | Jingning Int Chuangyuan Enterprise Management Partnership (Limited Partnership)* (景寧瑛泰創源企業管理合夥企業(有限合夥)) and Jingning Int Chuangqi Enterprise Management Partnership (Limited Partnership)* (景寧瑛泰創啟企業管理合夥企業(有限合夥)), limited partnerships established in the PRC whose general partner is Dr. Liang Dongke |
| “Share Incentive Scheme” | the share incentive scheme approved by the Shareholders on 17 December 2020 and the amendments to the Share Incentive Scheme approved by the Shareholders on 17 May 2021 |
| “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 |