IVD MEDICAL HOLDING LIMITED
華 檢 醫 療 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1931

2022
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Ho Kuk Sing *(Chairman of the Board and Chief Executive Officer)*
Mr. Leung King Sun
Mr. Lin Xianya

Non-executive Directors

Mr. Yang Zhaoxu
Mr. Chan Kwok King, Kingsley
Ms. Yao Haiyun

Independent Non-executive Directors

Mr. Lau Siu Ki
Mr. Zhong Renqian
Mr. Leung Ka Sing

COMPANY SECRETARY

Ms. Lam Wai Yan

AUTHORISED REPRESENTATIVES

Mr. Leung King Sun
Ms. Lam Wai Yan

AUDIT COMMITTEE

Mr. Lau Siu Ki *(Chairman)*
Mr. Zhong Renqian
Mr. Leung Ka Sing

REMUNERATION COMMITTEE

Mr. Lau Siu Ki *(Chairman)*
Mr. Leung King Sun
Mr. Leung Ka Sing

NOMINATION COMMITTEE

Mr. Ho Kuk Sing *(Chairman)*
Mr. Lau Siu Ki
Mr. Leung Ka Sing

STRATEGY AND INVESTMENT COMMITTEE

Mr. Ho Kuk Sing *(Chairman)*
Mr. Yang Zhaoxu
Mr. Zhong Renqian

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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Pudong New Area District
Shanghai
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703
Grandtech Centre
8 On Ping Street
Sha Tin
Hong Kong

CORPORATE INFORMATION

AUDITOR

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

HONG KONG LEGAL ADVISER

HW Lawyers
Units 2511-2512, 25/F
K11 Atelier King's Road
No. 728 King's Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

COMPANY WEBSITE

www.ivdholding.com

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
(Hong Kong Branch)
Bank of Communications Co. Ltd.
(Hong Kong Branch)
Hang Seng Bank (China) Limited (Shanghai Branch)
The Hongkong and Shanghai Banking
Corporation Limited

LISTING INFORMATION AND STOCK CODE

The Company's ordinary shares are listed
on the Main Board of The Stock Exchange of
Hong Kong Limited
(Stock Code: 1931.HK)

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2022	2021	**Change**
	RMB'000	*RMB'000*	*%*
Revenue	**2,748,809**	2,730,670	0.7%
Gross profit	**608,141**	566,268	7.4%
Profit for the year	**195,530**	161,750	20.9%
Profit attributable to owners of the parent	**209,999**	174,541	20.3%
Adjusted profit for the year *(Note)*	**224,052**	200,048	12.0%
Adjusted profit attributable to owners of the parent *(Note)*	**228,504**	205,706	11.1%
Earnings per share			
Basic (RMB cents)	**15.61**	13.19	2.42
Diluted (RMB cents)	**15.50**	12.94	2.56

For the year ended 31 December 2022 (the "**Reporting Period**"), IVD Medical Holding Limited (the "**Company**") together with its subsidiaries (the "**Group**") achieved a revenue of RMB2,748,809 thousand, which represented an increase of 0.7% as compared to the year ended 31 December 2021.

Profit of the Group for the Reporting Period recorded an increase of 20.9% as compared to the year ended 31 December 2021. Such increase was primarily attributable to (i) increase in gross profit margin; and (ii) decrease in expenses in relation to employee share-based compensation benefits under a share award scheme adopted on 19 May 2020 (the "**Share Award Scheme**") from RMB38,555 thousand for the year ended 31 December 2021 to RMB11,993 thousand for the Reporting Period.

The directors of the Company (the "**Directors**") have resolved to recommend the payment of a final dividend of HK5.556 cents per share for the year ended 31 December 2022.

Note: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the year and profit attributable to owners of the parent deducting fair value loss/(gain) on financial assets at fair value through profit or loss, employee share-based compensation benefits under the Share Award Scheme, share of profit of a joint venture, deferred tax on fair value adjustments of equity investments at fair value through profit or loss, impairment of property, plant and equipment and intangible assets and tax effects related to employee share-based compensation benefits under the Share Award Scheme. Adjusted profit of the Group and adjusted profit attributable to owners of the parent are used to exclude the impact of non-operating items which affect the results presented in the financial statements but are not indicative of the operating performance of the Group, so as to provide shareholders of the Company and potential investors with useful supplementary information to assess the performance of the Group's core operations. See also "Adjusted profit for the year" in the Management Discussion and Analysis section.

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "**Board**") of the Company, I am pleased to present to you the annual report of the Company for the year ended 31 December 2022.

REVIEW

During the Reporting Period, the Group recorded a revenue of RMB2,748,809 thousand, representing an increase of 0.7% as compared to the corresponding period of 2021. The Group's profit for the year recorded an increase of 20.9% and amounted to RMB195,530 thousand. Such increase was primarily attributable to (i) increase in gross profit margin; and (ii) decrease in expenses in relation to employee share-based compensation benefits under the Share Award Scheme from RMB38,555 thousand for the year ended 31 December 2021 to RMB11,993 thousand for the Reporting Period.

During the Reporting Period, the Group recorded adjusted profit for the year of RMB224,052 thousand, representing an increase of RMB24,004 thousand or 12.0% as compared to the corresponding period of 2021. The adjusted profit attributable to owners of the parent of the Group increased by 11.1% to RMB228,504 thousand compared to RMB205,706 thousand for the year ended 31 December 2021.

- Highlights of 2022

  Develop the "IVD Ecosphere" project

  The Group has expanded its product portfolio to all main product categories by the project "IVD Ecosphere" project which began in December 2019. The product portfolio of the Group now covers over five hundred products from 18 local IVD manufacturers with independent intellectual property rights and 6 well-known foreign IVD manufacturers. The Group was still expanding the product portfolio continuously by establishing and maintaining relationship with well-known IVD manufacturers and suppliers.

  The Group emphasizes on the product categories of Point-of-care testing ("**POCT**") and precise diagnosis which can be divided into Molecular Diagnostics, Microbiological, and Mass Spectrometry.

  In prior years, the Group acquired two local IVD research and development ("**R&D**") and manufacturing companies with intellectual property on mass spectrometry and microbiological sample pre-treatment. The Group also set up an IVD R&D and manufacturing company as an associate company focusing on the reagents for molecular diagnostics with cooperation of iCarbonX.

  The Group is seeking to expand the portfolio "IVD Ecosphere" and will consider further investment opportunities of local IVD manufacturers of research centers with high technique and innovation ability.

CHAIRMAN'S STATEMENT

Renewal of distribution agreement with Sysmex

Vastec (the Group's wholly-owned subsidiary) has been the sole distributor with exclusive distribution rights for Sysmex haemostasis products (the leader in PRC haemostasis market with a market share of approximately 43.2% in 2021) in the PRC since 1997. Due to the long-term and excellent cooperation with Sysmex, Vastec has signed a five-year distribution agreement of Sysmex haemostasis products with exclusive distribution rights in Mainland China from 1 April 2022 to 31 March 2027.

As the sole distributor of Sysmex haemostasis products in Mainland China, Vastec maintains close business relationships with hospitals and healthcare institutions and have advantages in current pharmaceutical supervision system with unstable policies. Vastec was free from the impact of policies implemented in pharmaceutical and medical consumables circulation such as "two invoice system" and "centralized procurement system" for the Reporting Period.

The impact of the COVID-19 pandemic on business of the Group

For the Reporting Period, the Group achieved a revenue of RMB2,748,809 thousand, which represented an increase of 0.7% as compared to the year ended 31 December 2021. Business performance of the Group was still under the adverse impact of the pandemic during the Reporting Period. The Group has been dedicated to promote and expand its business portfolio to mitigate the adverse impact due to the close-down of hospitals and other quarantine and social distancing measures put in place in Mainland China.

CHAIRMAN'S STATEMENT

- Core Business Data

Distribution Business and After-sales Service

The distribution of IVD products forms the cornerstone of the Group's business. As of 31 December 2022, 7,273 haemostasis analysers manufactured by Sysmex Corporation ("**Sysmex**") have been installed by the Group and in use at hospitals and healthcare institutions accumulatively.

In 2022, the Group's product portfolio was expanded by Vastec's provision of 4 Thrombotic Markers *(Note 1)* to the market. As of 31 December 2022, 98 Sysmex haemostasis immunoassay analysers installed by the Group at the hospitals and healthcare institutions in the PRC performed the 4 Thrombotic Markers.

In 2022, the Group provided solution services to eight Class III hospitals in the PRC. Solution services contributed revenue of RMB205,406 thousand for the Reporting Period, representing a decrease of 0.7% as compared to RMB206,949 thousand for the year ended 31 December 2021.

As of 31 December 2022, the Group had 295 direct customers, including hospitals and healthcare institutions, and 1,139 distributors in its established distribution network. As of 31 December 2022, the Group also covered 1,599 Class III hospitals mainly through its sub-distribution networks in the PRC, which further enhanced the competitiveness of the Group.

Apart from distributing IVD products in the PRC, the Group also derived its revenue from providing after-sales services to end customers of Sysmex haemostasis analysers in the PRC. During the Reporting Period, the after-sales services business has been sustainably and steadily developing.

Note 1: 4 Thrombotic Markers refer to: 1) TAT: Thrombin-antithrombin complex 凝血酶－抗凝血酶複合物, 2) PIC: Plasmin-α2-plasmin inhibitor complex 纖溶酶-α2纖溶酶抑制物複合物, 3) TM: Thrombomodulin 血栓調節蛋白, 4) t-PAI-C: Tissue plasminogen activator/plasminogen activator inhibitor-1 complex 組織纖溶酶原激活物－纖溶酶原激活物抑制劑-1複合物

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PLAN

The Group expects there will be significant growth potential for the healthcare and medical device market, especially the IVD market in the PRC with the aggravating trend of ageing population, the growth of medical expenses per capita and the progress of technology development. According to Frost & Sullivan, by 2027, PRC IVD market at ex-factory price level is projected to reach RMB278.7 billion with a compound annual growth rate ("**CAGR**") of 15.7% during 2021 to 2027. Import substitution and localisation is a significant trend in IVD market, which will bring great opportunities to local manufacturers.

In addition, as the release of close-down of hospitals and other quarantine and social distancing measures put in place in Mainland China in the end of the Reporting Period, the Board is confident on the recovery and growth of the Group's business performance riding on the growth of IVD market in the PRC in future years.

To meet the aforementioned trend, the Group will continue to grow and expand its operations in the PRC through the following business strategies and plans:

- Expand product portfolio, distribution network and hospital coverage

  To capitalise on the high growth potential in the IVD market, the Group aims to continuously expand its product portfolio by diversifying product categories, entering various market sectors, and expanding the breadth of its distribution network and hospital coverage. In December 2019, the Group launched the "IVD Ecosphere" project under which the Group has established strategic partnerships with leading IVD manufacturers with proprietary technology. Currently, the product portfolio of the Group covers all main product categories with over five hundred products from 18 local IVD manufacturers with independent intellectual property rights and 6 well-known foreign IVD manufacturers. The Group is still expanding the product portfolio continuously by establishing and maintaining relationship with well-known IVD manufacturers and suppliers. The involvement of the Group could help these manufacturers to expand their sales network by using the Group's self-established nationwide network, which is normally the competitive weakness of local manufacturers.

- Continue to develop the distribution business by enhancing the Group's capacity in providing solution services

  To capture the aforementioned trends and opportunities, the Group intends to provide solution services to at least two new hospitals in 2023.

CHAIRMAN'S STATEMENT

- Further improve its R&D capabilities and accelerate the expansion by both endogenous growth as well as mergers and acquisitions

  The Group has begun its R&D business since 2010 with approximately 13 years' experience up to now. In 2023, the Group intends to increase in investment in (i) the research of reagent for mass spectrometry and analysers for microbiology by the acquired companies; and (ii) the research of molecular diagnostics in set-up company with cooperation of iCarbonX by upgrading its current R&D facilities and recruiting research scientists.

  In addition to the endogenous growth in R&D, the Group will continue to search and invest on high calibre manufacturers or research centers that can meet the demands of medical services in the PRC.

DIVIDEND

In view of the operating results in 2022, the Board recommends a final dividend in a total amount of RMB66,206 thousand or HK5.556 cents per ordinary share of the Company ("**Share**") for the year ended 31 December 2022 in recognition of the Shareholders' support.

APPRECIATION

I would like to express my sincere gratitude on behalf of the Board to the Shareholders, customers, and strategic partners for their trust and support to the Company, and my heartfelt thanks to the management team and staff for their hard work.

Ho Kuk Sing
Chairman

Hong Kong, 17 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a leading distributor of in vitro diagnostic ("**IVD**") products in the People's Republic of China ("**PRC**"). The Group has also engaged in the research, development, manufacturing and sales of its self-branded IVD products. The Group has been able to increase its market share and profits steadily by taking advantage of its competitive and diverse product portfolio, extensive distribution network and hospital coverage.

During the Reporting Period, the Group recorded a revenue of RMB2,748,809 thousand, representing an increase of 0.7% as compared to the corresponding period of 2021. The Group's profit for the year increased by 20.9% to RMB195,530 thousand for the Reporting Period.

BUSINESS SEGMENTS

The Group's business can be broadly categorised into the following three segments:

- Distribution Business

  The distribution of IVD products forms the cornerstone of the Group's business. It primarily involves the trading of IVD analysers, reagents and other consumables to customers such as distributors, hospitals and healthcare institutions and logistics providers. The Group's distribution of IVD products was primarily conducted through Vastec Medical Equipment (Shanghai) Co., Ltd. ("**Vastec**"), a wholly-owned subsidiary of the Company. Vastec is primarily engaged in the distribution of Sysmex haemostasis products in the PRC, it has been the sole national distributor of Sysmex haemostasis products with exclusive distribution rights in the PRC since 1997 and also procures a diversified portfolio of IVD products from other leading international brands for distribution in the PRC. As of 31 December 2022, 7,273 of Sysmex haemostasis analysers have been installed by the Group and in use at hospitals and healthcare institutions accumulatively.

  Due to the long-term and excellent cooperation with Sysmex, Vastec has signed a new sole five-year distribution agreement of Sysmex haemostasis products with exclusive distribution rights in the PRC from 1 April 2022 to 31 March 2027.

  The Group also provides 4 Thrombotic Markers products manufactured by Sysmex to the market. These products adopt high sensitive chemiluminescence technology, which may facilitate early diagnosis of thrombosis and fibrinolysis. As of 31 December 2022, 98 Sysmex haemostasis immunoassay analysers which performed the 4 Thrombotic Markers have been installed by the Group at the hospitals and healthcare institutions in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group provides solution services to the clinical laboratories of hospitals. This has enabled the Group to establish and maintain direct relationships with local medical practitioners so as to keep the Group close to the frontline of the medical practice and the market demand of IVD products. In 2022, the Group provided solution services to eight Class III hospitals in the PRC. Solution services contributed revenue of RMB205,406 thousand for the year ended 31 December 2022, representing a decrease of 0.7% as compared to RMB206,949 thousand for the year ended 31 December 2021.

Through years of operations, the Group has established an expansive distribution network across 31 provinces, municipalities and autonomous regions in the PRC with an extensive hospital coverage. As of 31 December 2022, the Group had 295 direct customers, including hospitals and healthcare institutions, and 1,139 distributors in its established distribution network. As of 31 December 2022, the Group also covered 1,599 Class III hospitals mainly through its sub-distribution networks in the PRC, which further enhanced the competitiveness of the Group.

- After-sales Services

Apart from distributing IVD products in the PRC, the Group also derived its revenue from providing after-sales services to end customers of Sysmex' haemostasis analysers in the PRC. In 2017, Vastec entered into an after-sales services agreement with Sysmex to provide after-sales services to haemostasis analysers procured by its end customers. The after-sales services provided by Vastec generally include maintenance and repair services, installation services and end customer trainings. Vastec primarily provides its after-sales services to hospitals and healthcare institutions. During the Reporting Period, the after-sales services business has been sustainably and steadily developing.

- Self-branded Products Business

The Group has also engaged in the research, development, manufacturing and sales of IVD analysers and reagents under its own brand. The Group's self-branded IVD reagents were manufactured by Suzhou DiagVita Biotechnology Co., Ltd. and Bazoe Medical Co., Ltd., and the Group's IVD analysers were produced by the Group's equipment manufacturers, IVD Medical Equipment (Shanghai) Ltd. and Langmai Biotechnology (Shandong) Co., Ltd.. The Group distributes its self-developed IVD products under its own brand which includes IVD analysers and reagents primarily under the IVD testing category of POCT, mass spectrometry and microbiology.

The Group invested in Bazoe Medical Co., Ltd. and Langmai Biotechnology (Shandong) Co., Ltd. for the self-branded products of mass spectrometry and microbiology in prior years. The sales of new products from Langmai Biotechnology (Shandong) Co., Ltd. was significantly less than expected. The management of the Company made full impairment amounting to RMB20,443 thousand for the property, plant and equipment and intangible assets of Langmai Biotechnology (Shandong) Co., Ltd. based on the valuation performed by Roma Appraisals Limited using discount cash flow method. The impairment did not have material influence on operation and financial result of the Group, and the Group will be more cautious on future investments.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The continual growth of the healthcare market in the PRC is driven by a combination of favourable socioeconomic factors including (i) the growth of the PRC population's disposable income and spending on healthcare, (ii) the increase of the overall PRC population and the accelerated ageing population, (iii) the expansion of the PRC economy, and (iv) strong support from the PRC government on healthcare spending as well as on continuous technological innovation. The Group expects that there will be significant growth potential for the healthcare market, especially the medical device market in the PRC. The integrated distribution value chain of the Group will provide strong support for the Group's development in the future.

According to Frost & Sullivan, by 2027, the PRC IVD market at ex-factory price level is projected to reach RMB278.7 billion with a CAGR of 15.7% during 2021 to 2027. In the future, the IVD market in the PRC is expected to grow with the aggravating trend of an ageing population, the growth of medical expenses per capita and the progress of technological development.

The PRC IVD market can be divided into six major segments based on the testing principles: haematology and body fluid, clinical chemistry, immunoassay, molecular, microbiology and POCT. Immunoassay, clinical chemistry, haematology and body fluid analysis are the top three categories with the broadest clinical application. According to Frost & Sullivan, haematology and body fluid test includes haemostasis analysis and urinalysis had a market share of approximately 15.9% in Mainland China in 2021 at ex-factory price level.

Haemostasis analysis IVD market in the PRC at ex-factory price level reached RMB5.0 billion in 2021, and the market is highly concentrated. Top three market players dominate the market with a cumulative market share of 77.7%.

Sales revenue of haemostasis analysis IVD products generated by tier 1 distributors in the PRC reached RMB6.0 billion in 2021. Vastec is the market leader by sales revenue in PRC tier 1 distributed haemostasis analysis IVD market, with a total market share of 43.2% in 2021 and penetration rate of 74.0% among China Top 100 Hospitals selected by Hospital Management Institute, Fudan University on 10 November 2019. By 2027, PRC tier 1 distributed haemostasis analysis IVD market is projected by Frost & Sullivan to reach RMB15.7 billion in terms of sales revenue with a CAGR of 17.5% during 2021 to 2027, increased from former projection of CAGR of 13.3% due to decreasing adverse impact of the COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK AND DEVELOPMENT STRATEGIES

The Company was successfully listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 July 2019, which provided the Group with a good opportunity to develop in the future. With the help of the capital market, the Group will consolidate its leading position in the IVD industry in the PRC and adopt active development strategies, including but not limited to the following:

Expand product portfolio, the reach of distribution network and hospital coverage

To capitalise on the high growth potential in the IVD market, the Group aims to continuously expand its product portfolio by diversifying product categories, increasing brand coverage, and expanding the breadth of its distribution network and hospital coverage. To achieve these purposes, the Group intends to (i) establish and maintain relationships with well-known IVD manufacturers and suppliers by way of stocking sufficient target IVD products to secure more distribution rights; (ii) strengthen its relationship with hospitals in urban areas, community clinics at the provincial and municipal levels and other customers in rural areas; and (iii) establish a new department and hire more sales personnel to manage the expansion of its distribution coverage.

Continue to develop its distribution business by enhancing its capacity in providing solution services

The Group has been providing solution services to hospitals in the PRC since 2013. By being the general supplier of the clinical laboratory department in such hospitals, the Group participates in the design of laboratory layouts, provides centralised procurement of IVD products, conducts real-time inventory monitoring and provides other after-sale services to clinical laboratories. Through years of operation, the Group has accumulated a wealth of operational experience and a diversified product portfolio, thus being able to promote the same to other hospitals and healthcare institutions. The Group plans to hire more sales personnel to manage the promotion and marketing of solution services of the Group and to stock sufficient IVD products of various brands to strengthen the Group's advantages in centralized procurement. In addition, the Group intends to continuously participate in national and local IVD symposiums and academic conferences to enhance brand awareness.

Further improve research and development capabilities of the Group and accelerate the expansion of self-branded products customer base

Strong R&D capabilities are critical to securing future development and sustainable growth of the Group. The Group intends to invest more resources to further improve its R&D capabilities by acquiring equipment, instruments and hiring experts in the relevant fields. The Group will engage in research projects to further develop its self-branded IVD products which are of promising market potential. The Group is also keen to further strengthen its product quality management, and optimise the performance and applicability of self-developed products to improve market competitiveness. With a high cost performance ratio of own brand/domestic products, the Group will be able to penetrate the mid to low-end market and to establish a broader customer base consisting of medical institutions in second or third-tier cities or those at grassroots level.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

The financial summary set out below is extracted or calculated from the audited financial statements of the Group for the Reporting Period which were prepared in accordance with International Accounting Standard.

During the Reporting Period, the Group recorded revenue of RMB2,748,809 thousand, representing an increase of RMB18,139 thousand or 0.7% as compared to the corresponding period of 2021.

During the Reporting Period, the Group recorded a net profit for the year of RMB195,530 thousand, representing an increase of RMB33,780 thousand or 20.9% as compared to the corresponding period of 2021. Profit attributable to owners of the parent amounted to RMB209,999 thousand, representing an increase of RMB35,458 thousand or 20.3% as compared to the corresponding period of 2021.

During the Reporting Period, the Group recorded adjusted profit for the year of RMB224,052 thousand, representing an increase of RMB24,004 thousand or 12.0% as compared to the corresponding period of 2021.

	For the year ended 31 December		
	2022	2021	**Change**
	RMB'000	*RMB'000*	*%*
Operating Results			
Revenue	**2,748,809**	2,730,670	0.7%
Gross Profit	**608,141**	566,268	7.4%
Earnings before interest and depreciation and amortization (EBITDA)	**349,658**	327,168	6.9%
Profit attributable to owners of the parent	**209,999**	174,541	20.3%
Adjusted profit for the year *(Note 1)*	**224,052**	200,048	12.0%
Adjusted profit attributable to owners of the parent *(Note 1)*	**228,504**	205,706	11.1%

MANAGEMENT DISCUSSION AND ANALYSIS

	For the year ended 31 December		
	2022	2021	**Change**
Financial Ratios			
Gross profit margin (%) *(Note 2)*	**22.1%**	20.7%	increased by 1.4 percentage point
Net profit margin (%) *(Note 2)*	**7.1%**	5.9%	increased by 1.2 percentage point
Adjusted profit for the year margin (%) *(Note 3)*	**8.2%**	7.3%	increased by 0.9 percentage point
Return on assets (%) *(Note 2)*	**4.5%**	3.9%	increased by 0.6 percentage point
Return on equity (%) *(Note 2)*	**6.8%**	6.0%	increased by 0.8 percentage point
Average turnover days of trade receivables (days) *(Note 2)*	**74**	66	8
Average turnover days of inventory (days) *(Note 2)*	**111**	100	11
Average turnover days of trade payables (days) *(Note 2)*	**70**	62	8

	31 December		
	2022	2021	**Change**
	RMB'000	*RMB'000*	%
Financial Position			
Total assets	**4,314,277**	4,367,361	(1.2%)
Equity attributable to owners of the parent	**3,153,386**	2,978,865	5.9%
Cash and cash equivalents	**1,020,626**	834,626	22.3%
Financial Ratios			
Current ratio (times) *(Note 2)*	**2.6**	2.2	0.4
Quick ratio (times) *(Note 2)*	**2.0**	1.6	0.4
Debt to equity ratio (times) *(Note 2)*	**0.1**	0.1	–

Note 1: Adjusted profit for the year and adjusted profit attributable to owners of the parent are non-GAAP financial measures and are calculated by profit for the year and profit attributable to owners of the parent deducting fair value loss/(gain) on financial assets at fair value through profit or loss, employee share-based compensation benefits under the Share Award Scheme, share of profit of a joint venture, deferred tax on fair value adjustments of equity investments at fair value through profit or loss, impairment of property, plant and equipment and intangible assets and tax effects related to employee share-based compensation benefits under the Share Award Scheme.

Note 2: Gross profit margin equals gross profit divided by revenue.

Net profit margin equals net profit divided by revenue.

Return on assets equals net profit divided by average total assets during the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Return on equity equals net profit attributable to owner of the Company divided by average equity attributable to owner of the Company during the reporting period.

Average turnover days of trade receivables equal to the average of the opening and closing balances of trade receivables of the reporting period divided by revenue and multiplied by 365 days.

Average turnover days of inventory equal to the average of the opening and closing balances of inventories of the reporting period divided by cost of sales and multiplied by 365 days.

Average turnover days of trade payables equal to the average of the opening and closing balances of trade payables of the reporting period divided by cost of sales and multiplied by 365 days.

Current ratio equals total current assets divided by total current liabilities as at the end of the reporting period.

Quick ratio equals total current assets less inventories divided by total current liabilities as at the end of the reporting period.

Debt to equity ratio equals total debt divided by total equity as at the end of the reporting period. Debt means interest-bearing borrowings.

Note 3: Adjusted profit for the year margin is a financial ratio and is calculated by adjusted profit for the year (the calculation method is the same as set out in Note 1 above), a non-GAAP financial measures, divided by the revenue for the year.

REVENUE

Revenue of the Group amounted to RMB2,748,809 thousand for the year ended 31 December 2022, representing an increase of 0.7% as compared to RMB2,730,670 thousand for the year ended 31 December 2021.

Revenue by business segment

The table below sets out the breakdown of the Group's revenue by business segment for the years indicated:

	For the year ended 31 December				
Business segment	**2022**		2021		**Change**
	RMB'000	***%***	*RMB'000*	*%*	
Distribution business	**2,575,382**	**93.7**	2,584,320	94.7	(0.3%)
After-sales services	**167,169**	**6.1**	142,436	5.2	17.4%
Self-branded products business	**6,258**	**0.2**	3,914	0.1	59.9%
Total	**2,748,809**	**100.0**	2,730,670	100.0	0.7%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue by product type

The table below sets out the breakdown of the Group's revenue generated from distribution business and self-branded products business by product type for the years indicated:

Product type	For the year ended 31 December 2022		2021		Change
	RMB'000	***%***	*RMB'000*	*%*	
IVD analysers					
– Distribution business	**360,620**	**13.9**	388,011	15.0	(7.1%)
– Self-branded products business	**1,632**	**0.1**	447	0.0	265.1%
Subtotal	**362,252**	**14.0**	388,458	15.0	(6.7%)
IVD reagents and other consumables					
– Distribution business	**2,214,762**	**85.8**	2,196,309	84.9	0.8%
– Self-branded products business	**4,626**	**0.2**	3,467	0.1	33.4%
Subtotal	**2,219,388**	**86.0**	2,199,776	85.0	0.9%
Total	**2,581,640**	**100.0**	2,588,234	100.0	(0.3%)

Revenue by channel

The table below sets out the breakdown of the Group's revenue generated from distribution business and self-branded products business by sales channels for the years indicated:

Sales channel	For the year ended 31 December 2022		2021		Change
	RMB'000	***%***	*RMB'000*	*%*	
Distribution business					
– Distributors	**2,171,726**	**84.1**	2,154,139	83.2	0.8%
– Hospitals and healthcare institutions	**282,693**	**11.0**	310,498	12.0	(9.0%)
– Logistics providers	**120,963**	**4.7**	119,683	4.6	1.1%
Subtotal	**2,575,382**	**99.8**	2,584,320	99.8	(0.3%)
Self-branded products business					
– Distributors	**6,039**	**0.2**	3,885	0.2	55.4%
– Hospitals and healthcare institutions	**219**	**0.0**	29	0.0	655.2%
Subtotal	**6,258**	**0.2**	3,914	0.2	59.9%
Total	**2,581,640**	**100.0**	2,588,234	100.0	(0.3%)

MANAGEMENT DISCUSSION AND ANALYSIS

COST OF SALES

Cost of sales of the Group amounted to RMB2,140,668 thousand for the year ended 31 December 2022, representing a decrease of 1.1% as compared to RMB2,164,402 thousand for the year ended 31 December 2021. Such decrease was primarily due to the decrease in purchase price of IVD analysers.

Cost of sales by business segment

The table below sets out the breakdown of the Group's cost of sales by business segment for the years indicated:

Business segment	For the year ended 31 December **2022** *RMB'000*	**%**	2021 *RMB'000*	%	**Change**
Distribution business	**2,067,379**	**96.6**	2,086,986	96.4	(0.9%)
After-sales services	**70,662**	**3.3**	75,517	3.5	(6.4%)
Self-branded products business	**2,627**	**0.1**	1,899	0.1	38.3%
Total	**2,140,668**	**100.0**	2,164,402	100.0	(1.1%)

Cost of sales by product type

The table below sets out the breakdown of the Group's cost of sales for distribution business and self-branded products business by product type for the years indicated:

Product type	For the year ended 31 December **2022** *RMB'000*	**%**	2021 *RMB'000*	%	**Change**
IVD analysers					
– Distribution business	**294,155**	**14.2**	337,865	16.2	(12.9%)
– Self-branded products business	**1,151**	**0.0**	399	0.0	188.5%
Subtotal	**295,306**	**14.2**	338,264	16.2	(12.7%)
IVD reagents and other consumables					
– Distribution business	**1,773,224**	**85.7**	1,749,121	83.7	1.4%
– Self-branded products business	**1,476**	**0.1**	1,500	0.1	(1.6%)
Subtotal	**1,774,700**	**85.8**	1,750,621	83.8	1.4%
Total	**2,070,006**	**100.0**	2,088,885	100.0	(0.9%)

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit represents revenue less cost of sales. Gross profit of the Group amounted to RMB608,141 thousand for the year ended 31 December 2022, representing an increase of 7.4% as compared to RMB566,268 thousand for the year ended 31 December 2021. Such increase was primarily attributable to the decrease in purchase price of IVD analysers and increase in after-sales service revenue with relatively stable after-sales cost.

Gross profit margin is calculated as gross profit divided by revenue. Gross profit margin of the Group was 22.1% for the year ended 31 December 2022, which increased from 20.7% for the year ended 31 December 2021. The increase of gross profit margin was primarily attributable to the decrease in purchase price of IVD analysers and increase in after-sales service revenue with relatively stable after-sales cost.

Gross profit and gross profit margin by business segment

The table below sets out the breakdown of the Group's gross profit and gross profit margin by business segment for the years indicated:

Business segment	For the year ended 31 December 2022		2021		Change
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	
	RMB'000	***%***	*RMB'000*	*%*	
Distribution business					
– IVD reagents and other consumables	**441,538**	**19.9**	447,188	20.4	(1.3%)
– IVD analysers	**66,465**	**18.4**	50,146	12.9	32.5%
Subtotal	**508,003**	**19.7**	497,334	19.2	2.1%
After-sales services	**96,507**	**57.7**	66,919	47.0	44.2%
Self-branded products business					
– IVD reagents and other consumables	**3,150**	**68.1**	1,967	56.7	60.1%
– IVD analysers	**481**	**29.5**	48	10.7	902.1%
Subtotal	**3,631**	**58.0**	2,015	51.5	80.2%
Total	**608,141**	**22.1**	566,268	20.7	7.4%

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin by product type

The table below sets out the breakdown of the Group's gross profit and gross profit margin generated from distribution business and self-branded products business by product type for the years indicated:

Product type	For the year ended 31 December				Change
	2022		2021		
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	
	RMB'000	***%***	*RMB'000*	*%*	
IVD analysers					
– Distribution business	**66,465**	**18.4**	50,146	12.9	32.5%
– Self-branded products business	**481**	**29.5**	48	10.7	902.1%
Subtotal	**66,946**	**18.5**	50,194	12.9	33.4%
IVD reagents and other consumables					
– Distribution business	**441,538**	**19.9**	447,188	20.4	(1.3%)
– Self-branded products business	**3,150**	**68.1**	1,967	56.7	60.1%
Subtotal	**444,688**	**20.0**	449,155	20.4	(1.0%)
Total	**511,634**	**19.8**	499,349	19.3	2.5%

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to RMB26,016 thousand for the year ended 31 December 2022.

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Other income		
Bank interest income	**1,972**	1,758
Rental income	**629**	398
Government subsidies	**23,186**	19,042
Others	**147**	1,324
	25,934	22,522
Gains		
Gain on modification of lease contracts	**82**	14
Gain on disposal of property, plant and equipment	**–**	87
Foreign exchange differences, net	**–**	3,642
	82	3,743
	26,016	26,265

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group amounted to RMB117,239 thousand for the year ended 31 December 2022, representing a decrease of 4.3% as compared to RMB122,568 thousand for the year ended 31 December 2021. Such decrease was due to the close-down of hospitals and other quarantine and social distancing measures put place in mainland China in response to COVID-19 for the Reporting Period.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group amounted to RMB152,917 thousand for the year ended 31 December 2022, representing a decrease of 16.8% as compared to RMB183,850 thousand for the year ended 31 December 2021. Such decrease was primarily due to decrease in the employee share-based compensation benefits under the Share Award Scheme from RMB38,555 thousand for the year ended 31 December 2021 to RMB11,993 thousand for the Reporting Period.

OTHER EXPENSES

Other expenses of the Group amounted to RMB38,278 thousand for the year ended 31 December 2022, representing an increase of 99.3% as compared to RMB19,206 thousand for the year ended 31 December 2021. Such significant increase was primarily due to the foreign exchange loss for the Reporting Period.

	For the year ended 31 December	
	2022	2021
	RMB'000	*RMB'000*
Foreign exchange differences, net	**10,335**	–
Impairment of intangible assets	**16,901**	11,465
Impairment of property, plant and equipment	**3,542**	3,092
Loss on disposal of an associate	**–**	2,070
Write-off of prepayments	**7,495**	2,579
Loss on disposal of items of property, plant and equipment	**5**	–
	38,278	19,206

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE COSTS

Finance costs of the Group amounted to RMB30,580 thousand for the Reporting Period, representing an increase of 49.7% as compared to RMB20,422 thousand for the year ended 31 December 2021. Such increase was primarily due to the increase of bank borrowing interest rates during the Reporting Period.

PROFIT FOR THE YEAR

Profit of the Group for the year amounted to RMB195,530 thousand for the Reporting Period, representing an increase of 20.9% as compared to RMB161,750 thousand for the year ended 31 December 2021. Such increase was primarily attributable to (i) increase in gross profit margin; and (ii) decrease in expenses in relation to employee share-based compensation benefits under the Share Award Scheme amounting from RMB38,555 thousand for the year ended 31 December 2021 to RMB11,993 thousand for the Reporting Period.

Adjusted profit for the year

Adjusted profit of the Group is a non-GAAP financial measure used to exclude the impact of non-operating items which affect the results presented in the financial statements but are not indicative of the operating performance of the Group, so as to provide the shareholders of the Company (the "**Shareholders**") and potential investors with useful supplementary information to assess the performance of the Group's core operations. Adjusted profit of the Group for the year is calculated by profit for the year deducting fair value loss/(gain) on financial assets at fair value through profit or loss, share of profit of a joint venture, employee share-based compensation benefits under the Share Award Scheme, deferred tax on fair value adjustments of equity investments at fair value through profit or loss, impairment of property, plant and equipment and intangible assets and tax effects related to employee share-based compensation benefits under the Share Award Scheme. Adjusted profit of the Group for the year amounted to RMB224,052 thousand for the year ended 31 December 2022, representing an increase of 12.0% as compared to RMB200,048 thousand for the year ended 31 December 2021. Such increase was primarily attributable to (i) the increase in end customers' demand for IVD products as the operation of hospitals gradually recovered from the COVID-19 pandemic for the Reporting Period; and (ii) the increase in gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

	2022 RMB'000	2021 RMB'000
Profit for the year	**195,530**	161,750
Adjusted for non-operating items:		
Fair value loss/(gain) on financial assets at fair value through profit or loss	**11,455**	(13,918)
Share of profit of a joint venture	**(2,300)**	(7,652)
Employee share-based compensation benefits under the Share Award Scheme	**11,993**	38,555
Tax effects related to employee share-based compensation benefits under the Share Award Scheme	**(13,644)**	–
Deferred tax on fair value adjustments of equity investments at fair value through profit or loss	**575**	6,756
Impairment of property, plant and equipment	**3,542**	3,092
Impairment of intangible assets	**16,901**	11,465
Adjusted profit for the year	**224,052**	200,048

* The aforementioned joint venture focuses on equity investment in IVD industry, see the Company's announcement dated 3 August 2020.

** Non-GAAP financial measure does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies,

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2022, the Group had cash and cash equivalents of RMB1,020,626 thousand (primarily denominated in HK$, RMB and US$), as compared to RMB834,626 thousand as of 31 December 2021. The approach adopted by the Board to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

CAPITAL STRUCTURE

As of 31 December 2022, the Group's total equity attributable to owners of the parent was RMB3,153,386 thousand (31 December 2021: RMB2,978,865 thousand), comprising share capital of RMB4,637 thousand (31 December 2021: RMB4,632 thousand) and reserves of RMB3,148,749 thousand (31 December 2021: RMB2,974,233 thousand).

MANAGEMENT DISCUSSION AND ANALYSIS

NET CURRENT ASSETS

The Group had net current assets of RMB1,529,474 thousand as of 31 December 2022, representing an increase of RMB153,570 thousand as compared to RMB1,375,904 thousand as of 31 December 2021.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates primarily relates to its cash and bank balances and interest-bearing bank borrowings. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

FOREIGN CURRENCY RISK

The Group faces transactional currency exposures arising from bank deposits held by operating units in currencies other than the units' functional currency. The currencies giving rise to such risk are primarily US$ and HK$. For the year ended 31 December 2022, the Group recorded a net foreign exchange loss of RMB10,335 thousand, as compared to a net exchange gain of RMB3,642 thousand for the year ended 31 December 2021. As of 31 December 2022, the Group did not have any significant hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

MATERIAL ASSET VALUATION

Management of the Company has engaged Roma Appraisals Limited to perform the impairment assessments on the Distribution CGU (cash generating units (CGU) of distribution of IVD reagents and medical equipment) and Microbiology CGU (CGU of production and sales of microbiology equipment) for the year ended 31 December 2022, which was based on value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The recoverable amount of the Distribution CGU has a significant headroom of not less than RMB100 million over the carrying amount of net assets of Distribution CGU. Management, based on the sensitivity analysis performed, is not aware of any reasonably possible changes in a key assumption used that would cause a cash generating unit's carrying amount to exceed its recoverable amount.

The recoverable amount of the Microbiology CGU was less than the carrying amount of net assets of the Microbiology CGU. Management, based on the valuation performed by Roma Appraisals Limited using discount cash flow method, made full impairment amounting to RMB16,901 thousand for intangible assets and RMB3,542 thousand for property, plant and equipment of Microbiology CGU. The impairment did not have material influence on operation and financial result of the Group.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and projected cash flows from operations.

CAPITAL EXPENDITURE

For the Reporting Period, the Group's total capital expenditure amounted to approximately RMB34,285 thousand, which was primarily used in property, plant and equipment.

CHARGE/PLEDGE OF ASSETS

As of 31 December 2022, the Group's bank deposits of approximately RMB17,901 thousand were pledged to secure the Group's letters of credit in the aggregate amount of RMB66,528 thousand.

BORROWINGS

The Group had bank borrowings of RMB329,497 thousand as of 31 December 2022 denominated in RMB, which bore interest at fixed rates. All of the Group's bank borrowings as of 31 December 2022 were repayable on or before 31 December 2023.

CONTINGENT LIABILITIES AND GUARANTEES

As of 31 December 2022, the Group did not have any material contingent liabilities, guarantees or litigation against it (as of 31 December 2021: nil).

GEARING RATIO

As of 31 December 2022, the Group's gearing ratio, which is equivalent to total debt divided by total assets, was approximately 7.6% (as of 31 December 2021: 9.4%).

SIGNIFICANT INVESTMENTS

As of 31 December 2022, the Group did not hold any significant investments in the equity interests of other companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As of 31 December 2022, the Group did not have any capital commitments (as of 31 December 2021: nil) to acquire property, plant or equipment.

As of 31 December 2022, the Group did not have other plans for material investments and capital assets, save for the planned capital expenditure as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2019 (the "**Prospectus**"). The funding requirements will be satisfied by a combination of internally generated cash, external borrowings and other funds raised from the capital markets from time to time, in addition to the net proceeds from the initial public offering of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE SCHEMES

To attract and retain more suitable personnel for development of the Group, the Group adopted a pre-initial public offering share option scheme (the "**ESOP**") and a share option scheme (the "**Share Option Scheme**"). From the date of the adoption and up to the date of this annual report, 32,507,627 share options under the ESOP and 26,668,000 share options under the Share Option Scheme have been granted, 13,003,051 options under the ESOP, and 25,067,920 options under the Share Option Scheme were outstanding as of 31 December 2022.

To recognise the contributions by certain employees of the Group and to provide incentives thereto to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group, the Group has adopted the Share Award Scheme. From the date of its adoption and up to the date of this annual report, 30,000,000 Shares have been awarded (the "**Awarded Shares**"). As of 31 December 2022, there were no unvested Award Shares.

Further details about the Company's share schemes are set out in "Report of the Directors – Share Schemes"

EMPLOYEE AND REMUNERATION POLICY

As of 31 December 2022, the Group had 755 employees (as of 31 December 2021: 743 employees). Total staff remuneration expenses, including remuneration for Directors, for the year ended 31 December 2022 amounted to RMB177,517 thousand (for the year ended 31 December 2021: RMB198,313 thousand).

The Group has adopted a performance-based remuneration policy for its employees. Remuneration of staff is determined with reference to performance, skills, qualifications and experience of the staff concerned and with reference to the Group's operating results and comparable market practices. In addition to salary payments, other staff benefits include pension, social insurance and housing provident contribution, performance-based compensation, bonus, share incentives under the Company's share schemes.

The Group also places significant emphasis on staff training and development. See also the paragraph headed "Employees" in the Report of the Directors in this annual report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES

The Group did not have any material acquisition or disposal of subsidiaries, associates or joint ventures for the Reporting Period.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the Reporting Report, the Company has amended its articles of association to, among other things, conform with the amendments to the Listing Rules and applicable laws of the Cayman Islands. Further information is set out in the circular of the Company dated 14 April 2022.

ESTABLISHMENT OF THE STRATEGY AND INVESTMENT COMMITTEE

The Board has established a strategy and investment committee during the Reporting Period. Further information is set out in the announcement of the Company dated 26 May 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering (the "**IPO**") of the Company were approximately HK$902.9 million. The net proceeds have been and will be utilised in accordance with the purposes set out in the Prospectus. Up to 31 December 2022, the Group has applied the net proceeds for the following purposes:

Planned use of proceeds from the IPO as stated in the Prospectus	Percentage as to the total amount	Amount	Actual use of proceeds up to 31 December 2022	Balance as of 31 December 2022	Expected timeline of full utilisation of the unutilised proceeds
	%	*HK$ million*	*HK$ million*	*HK$ million*	
Settling the outstanding balance of the cash consideration for the acquisition of 60% equity interest in Vastec	51.1	461.7	461.7	–	N/A
Paying part of the special dividend	34.0	306.8	306.8	–	N/A
Expanding customer base under distribution business	5.8	52.4	52.4	–	N/A
Continuing research and development of self-branded products	3.0	26.8	25.5	1.3	On or before 31 December 2025
Expanding distribution business and improving distribution value chain	2.2	19.8	19.8	–	N/A
Using as working capital and for general corporate purpose	3.9	35.4	35.4	–	N/A
Total	100.0	902.9	901.6	1.3	

Note: As stated in the Prospectus, the net proceeds from the IPO was estimated to be in the amount of HK$1,030.9 million based on the mid-point of the indicative offer price, while the actual net proceeds received by the Company was HK$902.9 million. As the amount of net proceeds allocated for (1) settling the outstanding balance of the cash consideration for the acquisition of 60% equity interest in Vastec; and (2) paying part of the special dividend, was fixed and not subject to adjustment, the amount and percentage of the net proceeds to be utilised for the remaining items 3 to 6 were adjusted pro rata among themselves in accordance with the intended use of proceeds disclosed in the Prospectus.

The unutilised amount is expected to be used in accordance with the Company's plan as disclosed in the Prospectus and stated above. The Company will continue to evaluate market conditions and adopt a prudent and flexible approach for utilising the net proceeds and will ensure the net proceeds will be used effectively and efficiently for the long-term benefit and development of the Group. The expected timeline of full utilisation set out above is based on the Directors' best estimation barring unforeseen circumstances, and is subject to change in light of future development of market conditions.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ho Kuk Sing (何鞠誠), aged 64, is the chairman of the Board (the "**Chairman**" or "**Mr. Ho**"), the Chief Executive Officer of the Company and an executive Director. He is primarily responsible for the overall strategic planning and development of the Group. He was appointed as a Director on 27 May 2016 and was designated as the Chairman, the Chief Executive Officer of the Company and an executive Director on 21 June 2019.

Mr. Ho is one of the founders of the Group and has over 35 years of experience in the IVD industry. He is currently a director of various subsidiaries of the Company and the chairman of the Nomination Committee and the Strategy and Investment Committee. He founded Vastec in August 1993 and has been the chief executive officer of Vastec since May 1995. Prior to joining the Group, Mr. Ho worked as a technical specialist, a technology and marketing manager and a marketing and business manager in Instrumentation Laboratory (Far East) Ltd. (merged with Coulter Electronics (Hong Kong) Ltd. in November 1992), a company principally engaged in the development, manufacturing and distribution of IVD products, from January 1985 to December 1987, from December 1987 to January 1992 and from January 1992 to October 1992, respectively. He served in various positions including a marketing manager and a regional business manager in Coulter Electronics (Hong Kong) Ltd. from November 1992 to February 1995.

Mr. Ho obtained a master's degree in Philosophy from The University of Hong Kong in 1988. He obtained a bachelor's degree in Science from The University of Hong Kong in 1982.

Mr. Leung King Sun (梁景新), aged 65, is the Chief Operating Officer of the Company and an executive Director primarily responsible for the overall management and operations of the Group, including management of capital, finance and logistics, customer services, human resources and administrative matters of the Group. He was appointed as a Director on 27 May 2016 and was designated as the Chief Operating Officer of the Company and an executive Director on 21 June 2019.

Mr. Leung is one of the founders of the Group and has over 27 years of experience in the IVD industry. He is currently a director of various subsidiaries of the Company and a member of the Remuneration Committee. He founded Vastec in August 1993 and has been the chief operating officer of Vastec since May 1995.

Mr. Leung obtained a Master of Business Administration (MBA) from Oklahoma City University in 1992. He obtained a bachelor's degree in Science from The University of Hong Kong in 1981.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lin Xianya (林賢雅), aged 47, is the General Manager of the Company and an executive Director primarily responsible for overseeing the business development of the Group. He joined the Group in 2000, and was appointed as a Director on 15 January 2016 and was designated as the General Manager of the Company and an executive Director on 21 June 2019.

Mr. Lin has over 21 years of experience in the IVD industry. He founded Dacheng Medical Equipments (Shanghai) Co., Ltd. ("**Dacheng**") in February 2011 and has been the general manager of Dacheng since April 2011. He also serves as a director of IVD International Limited. Prior to establishing Dacheng in February 2011, Mr. Lin worked in Vastec (Shanghai) as a sales manager from February 2000 to January 2008 and as a sales director from January 2008 to March 2011, during which time he was primarily responsible for sales management.

Mr. Lin obtained a Master of Business Administration (MBA) specialising in sales and management from Fudan University in 2009. He obtained a bachelor's degree in Medical Laboratory from the School of Medicine of Shanghai Jiao Tong University (formerly known as Shanghai Second Medical University* (上海第二醫科大學)) in September 1999.

Non-Executive Directors

Mr. Yang Zhaoxu (楊兆旭), aged 59, is a non-executive Director primarily responsible for providing advice on strategies to the Group. He was appointed as a Director on 25 January 2019 and was designated as a non-executive Director on 21 June 2019. Mr. Yang joined the Group in June 2018 and served as a director of Vastec (Shanghai) from June 2018 to May 2019. He is a member of the Strategy and Investment Committee.

Mr. Yang has over 36 years of experience in the medical equipment related industry in the PRC. Mr. Yang joined Shinva Medical Instrument Co., Ltd. ("**Shinva**", a controlling shareholder of the Company whose shares are currently listed on the Shanghai Stock Exchange) as a technician in July 1984 and served as an alternate deputy head and deputy head of the research centre from May 1994 to June 1995 and from June 1995 to August 1996, respectively. He then served as a deputy chief engineer of Shinva since August 1996 and as a director of Shinva from May 1999 to April 2017. He currently holds various positions in Shinva, including deputy general manager and deputy chief engineer, primarily responsible for the technology development, production and operations management of Shinva. He also serves as a director in various companies invested by Shinva as its representative. The principal business activities of these investee companies are R&D, production and sale of medical devices in the PRC.

Mr. Yang obtained a bachelor's degree in Chemical Machinery from Qingdao University of Science and Technology (青島科技大學), formerly known as Shandong Institute of Chemical Technology* (山東化工學院), in 1984.

Mr. Chan Kwok King, Kingsley (陳國勁), aged 46, is a non-executive Director primarily responsible for providing advice on strategies to the Group. He was appointed as a Director on 21 June 2016 and was designated as a non-executive Director on 21 June 2019.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan is a managing director of the Private Credit & Equity Division of Morgan Stanley Asia Limited ("**Morgan Stanley**"). Mr. Chan joined Morgan Stanley in 2007 and is responsible for the private equity investment business in China. Mr. Chan currently holds directorship in various companies invested by Morgan Stanley as its representative. He is at the same time an observer on the board of Yirendai Ltd (stock code: YRD), a company listed on The New York Stock Exchange. He currently serves as a non-executive director of China Feihe Limited (stock code: 6186) and Home Control International Limited (stock code: 1747), both companies are listed on the Main Board of the Stock Exchange. Prior to joining Morgan Stanley, Mr. Chan worked at the investment banking division of Citigroup Global Markets Asia Limited from 1999 to 2004 and Credit Suisse (Hong Kong) Limited from 2004 to 2007.

Mr. Chan obtained a master's degree in Finance from the University of Cambridge in 1999. He obtained a bachelor's degree in Economics from the University of London in 1998.

Ms. Yao Haiyun (姚海雲), aged 47, has been appointed as a non-executive Director primarily responsible for providing advice on strategies to the Group. She joined the Group when she was appointed as a non-executive Director on 19 October 2021.

Ms. Yao has approximately 26 years of experience in finance and accounting work. She entered the finance department of Shinva in 1995. Ms. Yao served various roles in the finance department of Shinva for the approximately 13 years thereafter, participating in the pre-listing process of Shinva, and its post-listing financial compliance process. Through such processes, Ms. Yao accumulated working experiences relating to finance and accounting of listed companies. Ms. Yao served in the finance department of various subsidiaries and related entities of Shinva for over 14 years since 2008. She has been the person-in-charge of finance of Xinhua Surgical Instrument Co., Ltd. (新華手術器械有限公司) from July 2010, person-in-charge of finance of Shandong Shinva United Orthopedic Equipment Co., Ltd. (山東新華聯合骨科器材股份有限公司) from May 2015, and deputy head of finance department of Shandong Shinva Medical Instrument Co., Ltd (山東新華醫療器械股份有限公司) since July 2021. She acted as the person-in-charge of finance of Shinva GE Medical Systems Co., Ltd. (新華通用電氣醫療系統有限公司), and was also the person-in-charge of finance of Shandong Shinva Health Industry Co., Ltd. (山東新華健康產業有限公司), of Zibo Huanuo Health Industry Equity Investment Partnership (Limited Partnership) (淄博華諾健康產業股權投資合夥企業(有限合夥)), of Zibo Huakang Equity Investment Management Co., Ltd. (淄博華康股權投資管理有限公司) concurrently from May 2014 to April 2019. She was also responsible for the finance work related to the initial formation of Karlmed GmbH and Shandong Shinsun Biotechnology Co., Ltd (山東新華普陽生物技術有限公司) from May 2014 to April 2019. Ms. Yao has also been appointed as a director of Vastec and Vastec Medical Limited (both are subsidiaries of the Company).

Ms. Yao graduated from Hefei University of Technology in the PRC, majoring in accounting and statistic, in July 1995. She has been conferred the Intermediate Level of Accounting Speciality by the Ministry of Finance of the PRC in May 2002.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Lau Siu Ki (劉紹基), aged 64, was appointed as an independent non-executive Director on 21 June 2019. He is responsible for overseeing the management of the Group independently. He is the chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee.

Mr. Lau has approximately 26 years of experience in providing advisory services on finance and accounting, company secretarial and corporate governance to listed and unlisted companies in Hong Kong. He worked in Ernst & Young, an international accounting firm, from 1981 to 1997. He has acted as a director of Hin Yan Consultants Limited since 1999, for which Mr. Lau provides financial and corporate secretarial advisory services.

Mr. Lau currently holds various positions in the following companies listed on the Main Board or GEM of the Stock Exchange:

Company name	Stock code	Appointment date	Role
Comba Telecom Systems Holdings Limited	2342	June 2003	Independent non-executive director
FIH Mobile Limited	2038	December 2004	Independent non-executive director
Samson Holding Ltd.	531	October 2005	Independent non-executive director
Embry Holdings Limited	1388	November 2006	Independent non-executive director
Binhai Investment Company Limited	2886	March 2009	Independent non-executive director
TCL Electronics Holdings Limited	1070	November 2017	Independent non-executive director
Yeebo (International Holdings) Limited	259	May 2004	Company secretary
Hung Fook Tong Group Holdings Limited	1446	May 2015	Company secretary
Expert Systems Holdings Limited	8319	March 2016	Company secretary

Mr. Lau graduated from The Hong Kong Polytechnic (now The Hong Kong Polytechnic University) with a Higher Diploma in Accountancy in November 1981. He has been admitted as a fellow of the Association of Chartered Certified Accountants ("**ACCA**") and the Hong Kong Institute of Certified Public Accountants on 1 November 1989 and 15 April 1997, respectively. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011, a member and the president of the committee of the Hong Kong Branch of ACCA from 1995 to 2011 and in 2000/2001, respectively.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Zhong Renqian (仲人前), aged 60, was appointed as an independent non-executive Director on 21 June 2019. He is responsible for overseeing the management of the Group independently. He is a member of the Audit Committee and the Strategy and Investment Committee.

Dr. Zhong is experienced in teaching and medical research in the fields of clinical laboratory and diagnostics. He previously served as the president of the Shanghai Immunology Association* (上海市免疫學會), the vice president of the Laboratory Medicine Committee of Chinese Research Hospital Association (中國研究型醫院學會), the president of the Laboratory Medicine Committee of Shanghai Medical Association (上海市醫學會檢驗醫學專科分會), the vice president of the Laboratory Medicine Committee of Medical Science and Technology Committee of Chinese Army* (中國人民解放軍醫學科學技術委員會) and the vice president of the Committee of Tumor Biomarker of Chinese Anti-cancer Association* (中國抗癌協會腫瘤標誌專業委員會).

Dr. Zhong received his bachelor's degree, master's degree and doctorate degree in Medicine from Second Military Medical University (中國人民解放軍第二軍醫大學) in July 1984, August 1987 and July 1991, respectively. Dr. Zhong held various positions in the Clinical Immunology Research Centre of Shanghai Changzheng Hospital (上海長征醫院) (also known as the Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院)) from July 1991 to July 2017, including as an assistant researcher, associate researcher and director of laboratory diagnostics. He holds various patents relating to laboratory medicine and clinical immunology and various regional awards in the PRC in recognition of his achievement in medical science and technology.

Mr. Leung Ka Sing (梁嘉聲), aged 72, was appointed as an independent non-executive Director on 21 June 2019. He is responsible for overseeing the management of the Group independently. He is a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

Mr. Leung has over 40 years of experience in chemistry, food science and safety management and occupational health and safety. From August 1980 to May 1986, he served as a technical director of Instrumentation Laboratory (Far East) Ltd., specialising in technical marketing and support in atomic spectroscopy. From June 1986 to July 1996, he served as a chemist in the Government Laboratory, specialising in quality management and the inspection of food and radiochemistry. From July 1996 to December 2001, he was seconded to the Labour Department where he served as a senior chemist, specialising in occupational health and safety, and from December 2001 to October 2006, he served as a senior chemist in the Food and Environmental Hygiene Department, specialising in food safety control. From October 2006 to July 2010, he was transferred back to the Government Laboratory, where he served as a senior chemist, specialising in chemical safety and food science. He has been an Adjunct Associate Professor of the Department of Applied Biology and Chemical Technology of The Hong Kong Polytechnic University since July 2010, where he undertakes the education and research of food safety and technology. Mr. Leung has participated in numerous international meetings in the fields of food safety and risk management since 2003.

Mr. Leung graduated from the University of Hong Kong with a doctorate degree in Philosophy in November 1981, a master's degree in Philosophy in November 1975 and a bachelor's degree in Science in November 1972. He has been a member of various overseas professional committees. He became a member and a Chartered Chemist of The Royal Society of Chemistry since July 1984, an academician of The Royal Society of Chemistry since July 2002 and a Certified Food Scientist of The International Food Science Certification Commission since January 2013.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Li Zuhou (李祖后), aged 48, is the vice general manager of Dacheng primarily responsible for general management and operations. Mr. Li has 21 years of experience in business management. He joined the Group in November 2012 as a vice general manager of Dacheng. Prior to joining the Group, Mr. Li worked as the factory manager of Cangnan County Longgang Jingcheng Gift Box Craft Factory (蒼南縣龍港精誠禮盒工藝廠) from August 2001 to October 2012.

Mr. Li obtained his diploma in Economic Management from Zhejiang Staff University of Economics and Management (浙江經濟管理職工大學) in July 2009.

Mr. Zhou Chuanbo (周傳波), aged 43, is the Chief Finance Officer of the Company primarily responsible for the overall financial management of the Group. He joined the Group in March 2019 as the Chief Finance Officer of the Company.

Mr. Zhou has over 15 years of financial management and accounting experience. Prior to joining the Group, he worked at PricewaterhouseCoopers China as a senior associate of the assurance department from August 2004 to April 2007. From April 2007 to April 2008, he worked at Maersk (China) Ltd. (馬士基中國有限公司) as a deputy financial manager. From April 2008 to February 2009, he worked at TMT Multi Modal Transportation Company Limited (上海鐵洋多式聯運有限公司), a joint venture of A.P. Moller Maersk Group, as an accounting manager of the finance department. From April 2009 to June 2014, he worked at China Risun Group Limited (中國旭陽集團有限公司) (formerly known as China Risun Coal Chemicals Group Limited (中國旭陽煤化工集團有限公司) and a company listed on the Main Board of the Stock Exchange since March 2019 (Stock Code: 1907)) as general manager of the finance department, a general manager of the company secretary department and the company secretary. From July 2014 to December 2016, he worked at China New Higher Education Group (中國新高教集團有限公司) (a company listed on the Main Board of the Stock Exchange since April 2017 (Stock Code: 2001)) as the financial director. From January 2017 to December 2018, he worked at Leysen Jewellery Inc. (萊紳通靈珠寶股份有限公司) (a company listed on the Shanghai Stock Exchange since November 2016 (Stock Code: 603900)) first as head of finance department and was subsequently appointed as the financial head in April 2017. He qualified as a chartered accountant in 2004 in the PRC, was admitted as a member of ACCA in 2010 and as a member of the Hong Kong Institute of Certified Public Accountants in 2013.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhou obtained a master's degree in Economics majoring in International Trade in 2004 and a bachelor's degree in International Finance in 2001, both from the Beihang University (北京航空航天大學).

Mr. Yang Bo (楊波), aged 45, is the financial controller of the Company. Mr. Yang has over 15 years of experience in accounting and financial management. He joined the Group in February 2016 as the financial controller, primarily responsible for overseeing the daily operation of the finance and logistics department of Vastec and Vastec (Shanghai). Prior to joining the Group, Mr. Yang worked at CSSC Jiangnan Heavy Industry Co., Ltd. (中船江南重工股份有限公司), a company listed on the Shanghai Stock Exchange since 1997 (stock code: 600072), as the deputy director of finance department from 2009 to 2016 and as the assistant of the deputy director of finance department from 2007 to 2009.

Mr. Yang obtained a bachelor's degree in International Accounting from East China University of Science and Technology in 1999.

Please also refer to the section headed "Report of the Directors" in this annual report for further information of the Directors, including without limitation, their interests in shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, and the common control confirmation between Mr. Ho, Mr. Leung King Sun and Mr. Lin.

Certain Chinese names of institutions, natural persons or other entities have been translated into English and included in this annual report as unofficial translations for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

REPORT OF THE DIRECTORS

The Board is pleased to present this Report of the Directors together with the audited financial statements of the Group for the year ended 31 December 2022 (the Reporting Period).

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of Group's activities during the Reporting Period.

BUSINESS REVIEW

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the Reporting Period and the material factors underlying its results and financial position are provided in the section headed "Management Discussion and Analysis" in this annual report, which forms a part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of factors affecting the results and business operations of the Group, some of which are inherent in the market and some are due to external environment. Major risks and uncertainties are summarised as follows:

- The Group is heavily reliant on its relationship with Sysmex

  Sysmex haemostasis and urinalysis products are two of the Group's most sold types of products. During the Reporting Period, the Group relied heavily on Sysmex brand recognition and reputation in the sales and marketing of its products. There is no assurance that Sysmex will maintain the strength of its brand recognition and that its products will keep generating stable profits for the Group on a continuous basis. Any detriment to Sysmex reputation, change of its sales or marketing strategy or any adverse impact on its business and financial performance would in turn materially and adversely affect the Group's business operations and results of operations.

- The Group may face intense competition in light of the government's policies in encouraging the expansion of large distributors through acquisition of smaller ones

  The Group may face intense competition because the IVD product distribution industry in the PRC is highly fragmented and competitive. The PRC government encourages the consolidation in the drugs and medical device distribution industry and supports the expansion of large distributors to acquire smaller distributors in order to compress the multi-layer distribution value chain into one single layer. As a result, the Group's key competitors may expand their market shares by aggressive acquisition and the Group will have to face more fierce competition in the market.

  The Group will keep on monitoring the aforesaid competition situation and adopt corresponding measures.

REPORT OF THE DIRECTORS

KEY RELATIONSHIP

The Group fully understands that employees, customers and suppliers are the key to its sustainable and stable development. The Group is committed to establishing a close relationship with its employees, customers, and suppliers so as to ensure the Group's sustainable development.

Employees

The Group's employees are regarded as the Group's most significant resources. The Group's recruiting policy emphasises the importance of attracting competent employees through a combination of competitive salary incentives, on-the-job training and opportunities for development. The Group places significant emphasis on staff training and development. The Group invests in continuing education and training programs offered to its management staff and other employees to upgrade their skills and knowledge.

Customers

The principal customers of the Group are distributors, hospitals and healthcare institutions and logistics providers. The Group has been devoted to providing excellent customer services with the purpose of maintaining long term co-operation relationship, increasing sales volume and improving profitability.

A well-established and nationwide distribution network is one of the Group's most important strengths and valuable assets. The Group also adopts stringent guidelines to select, assess and monitor its distributors. In relation to the distribution of analysers and reagents that is conducted by distributors with which the Group had entered into sales agreements, the Group typically conducts background searches, attends onsite visits and conducts onsite evaluation for potential distributors. The Group also considers a wide range of factors, including their relevant experience and reputation, credibility, capability in operation and management, location, customer base and hospital sales volume, when determining whether to partner with such distributors.

The Group has also maintained strong ties with several leading hospitals through its subsidiaries in the PRC.

Suppliers

The Group has developed long-standing relationships with a number of suppliers and taken great care to ensure that they share the Group's commitment to quality and ethics.

During the Reporting Period, Vastec has signed a five-year distribution agreement of Sysmex haemostasis products with exclusive distribution rights in Mainland China from 1 April 2022 to 31 March 2027. This agreement would stabilise the relationship between the Group and Sysmex.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment in all material aspects during the Reporting Period.

The Group understands that a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group has maintained strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

The details of environmental, social and governance (ESG) policies and performance of the Group are disclosed in the "Environmental, Social and Governance Report" as set out on pages 83 to 122 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China while the Company is a holding company incorporated in the Cayman Islands with its Shares listed on the Main Board of the Stock Exchange. The Group's establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong. During the Reporting Period, the Group's businesses were in compliance with all relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong that have a significant impact on the Group.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 and the state of affairs of the Group as of 31 December 2022 are set out in the consolidated financial statements in this annual report.

The Board declared the payment of an interim dividend of HK2.729 cents per Share for the six months ended 30 June 2022, amounting to a total of approximately RMB32,035 thousand.

The Board recommended the payment of a final dividend out of the share premium account of the Company in the amount of HK5.556 cents per Share for the year ended 31 December 2022. Please refer to the paragraph headed "Proposed Declaration and Payment of Final Dividend Out of the Share Premium Account" below.

As of the date of this annual report, the Board was not aware that any Shareholders had waived or agreed to any arrangement to waive dividends.

REPORT OF THE DIRECTORS

PROPOSED DECLARATION AND PAYMENT OF FINAL DIVIDEND OUT OF THE SHARE PREMIUM ACCOUNT

The Board recommended the payment of a final dividend for the year ended 31 December 2022 out of the share premium account of the Company (the "**Share Premium Account**") in the amount of HK5.556 cents per Share to Shareholders, subject to the approval of Shareholders at the forthcoming AGM by way of an ordinary resolution. The final dividend is intended to be paid out of the Share Premium Account pursuant to the Articles of Association of the Company (the "**Articles of Association**") and in accordance with the Cayman Companies Act. As at 31 December 2022, based on the consolidated financial statements of the Group, the amount standing to the credit of the Share Premium Account amounted to approximately RMB2,328,800 thousand. The Board proposed to use an amount of approximately RMB66,206 thousand standing to the credit of the Share Premium Account for the payment of the final dividend. Following the payment of the final dividend on the basis of 1,354,590,080 Shares in issue as at the date of this annual report, there will be a remaining balance of approximately RMB2,262,594 thousand standing to the credit of the Share Premium Account.

It is expected that the final dividend, if approved by the shareholders at the AGM, will be paid in cash on Tuesday, 6 June 2023 to the qualifying Shareholders whose names appear on the register of members of the Company at close of business on Thursday, 25 May 2023, being the record date for determining the entitlements to the final dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining the Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 16 May 2023 to Friday, 19 May 2023, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Monday, 15 May 2023.

(b) For the purpose of determining the Shareholders who qualify for the final dividend (if approved by the Shareholders at the AGM), the register of members of the Company will be closed from Thursday, 25 May 2023 to Monday, 29 May 2023, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 24 May 2023.

REPORT OF THE DIRECTORS

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 228 of this annual report. The summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the Reporting Period in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, sales to the Group's five largest customers accounted for approximately 24.1% of the Group's total sales and sales to the largest customer included therein amounted to approximately RMB160,530 thousand, which accounted for approximately 5.8% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 89.8% of the Group's total purchases for the Reporting Period and purchase from the largest supplier included therein amounted to approximately RMB1,805,568 thousand, which accounted for approximately 82.9% of the Group's total purchases.

None of the Directors, any of their close associates or any Shareholders that to the knowledge of the Directors own more than 5% of the issued Shares had any interest in the Group's five largest customers or suppliers during the Reporting Period.

SHARE CAPITAL

As of 31 December 2022, the authorised share capital of the Company was US$1,500,000, divided into 3,000,000,000 Shares of US$0.0005 each. During the Reporting Period, the Company issued 1,600,080 Shares upon exercise of options under the Share Option Scheme by option holder(s), and received approximately HK$4.87 million. Details of the movements in the share capital of the Company for the Reporting Period are set out in note 26 to the consolidated financial statements in this annual report.

REPORT OF THE DIRECTORS

RESERVES

Details of the movements in the reserves of the Group for the Reporting Period are set out in the section headed "Consolidated Statement of Changes in Equity" in the consolidated financial statements in this annual report.

As of 31 December 2022, the Company's reserves available for distribution to the Shareholders were approximately RMB2,339,122 thousand. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution or dividend payment, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association, dividends shall be distributed out of the retained earnings, including the share premium, of the Company.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report are:

Executive Directors
Mr. Ho Kuk Sing *(Chairman & Chief Executive Officer)*
Mr. Leung King Sun *(Chief Operating Officer)*
Mr. Lin Xianya *(General Manager)*

Non-executive Directors
Mr. Yang Zhaoxu
Mr. Chan Kwok King, Kingsley
Ms. Yao Haiyun

Independent Non-executive Directors
Mr. Lau Siu Ki
Mr. Zhong Renqian
Mr. Leung Ka Sing

In accordance with the Articles of Association, Mr. Ho Kuk Sing ("**Mr. Ho**"), Mr. Leung King Sun ("**Mr. Leung**") and Mr. Lin Xianya ("**Mr. Lin**") will retire from office as Directors at the forthcoming AGM. Each of them will offer themselves for re-election.

REPORT OF THE DIRECTORS

SERVICE CONTRACTS OF DIRECTORS

Each of the Directors has entered into a service contract or letter of appointment with the Company which commenced from 1 July 2022 for a term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The Group's emolument policy for the Directors and senior management of the Company is to determine the payable emolument with reference to the Group's operating results, individual role and duties, experience, responsibilities and performance and comparable market practices. Review and evaluation are being conducted from time to time to consider individual performance and achievements, and consider if adjustment shall be made. The Group also operates the share incentive schemes as further detailed in the paragraph headed "Share Schemes" below in this Report of the Directors.

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in notes 8 and 9 to the consolidated financial statements in this annual report. The executive Directors' emoluments set out therein were for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive Directors' emoluments set out therein were for their services as directors of the Company.

The annual remuneration of the senior management by band for the Reporting Period is as follows:

Annual remuneration paid by the Group	Number of persons
RMB1,000,001 to RMB2,000,000	2
RMB2,000,001 to RMB3,000,000	1

REPORT OF THE DIRECTORS

PENSION SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

As of 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Company believes that all of its independent non-executive Directors are independent in accordance with the independence guidelines set out in the Listing Rules.

TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, (i) no transaction, arrangement or contract of significance had been entered into by the Company or any of the Company's subsidiaries or specified undertaking during or at the end of the Reporting Period in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly; (ii) no contract of significance had been entered into between the Company or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries during the Reporting Period; and (iii) no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries had been entered into during the Reporting Period.

REPORT OF THE DIRECTORS

INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF THE DIRECTORS

There were no loans, quasi-loans, or other dealings in favour of the Directors, bodies corporate controlled by such Directors and entities connected with such Directors subsisted as at 31 December 2022 or at any time during the Reporting Period.

NON-COMPETE UNDERTAKINGS

Each of Mr. Ho, Mr. Leung, Mr. Lin, KS&KL Investment Co. Limited, King Sun Limited and Lucan Investment Limited (collectively the "**Founding Group Covenantors**") has entered into a deed of non-competition dated 26 June 2019 in favour of the Company (the "**Founding Group Deed**"). Pursuant to the Founding Group Deed, each of the Founding Group Covenantors shall not, and shall procure its close associates (other than members of the Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business directly or indirectly in competition with or likely to be in competition with the existing business activities of the Group.

Separately, each of Shinva and Huatuo International Development Co., Limited (華佗國際發展有限公司) ("**Huatuo**") (collectively the "**Shinva Covenantors**") has entered into a deed of non-competition dated 26 June 2019 in favour of the Company (the "**Shinva Deed**"). Pursuant to the Shinva Deed, each of the Shinva Covenantors shall not, and shall procure its close associates (other than members of the Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company, any business in competition with or likely to be in competition with the Relevant Business, save for the Excluded Business (each term as defined therein).

Further details of the Founding Group Deed and the Shinva Deed are set out in the Prospectus.

The Company has received confirmations from the Founding Group Covenantors and the Shinva Covenantors on their full compliance with the Founding Group Deed and the Shinva Deed, respectively, for the Reporting Period. The independent non-executive Directors have reviewed these confirmations and concluded that Founding Group Deed and the Shinva Deed have been complied with and have been effectively enforced during the Reporting Period.

EQUITY-LINKED AGREEMENTS AND ARRAGEMENTS TO PURCHASE SHARES OR DEBENTURE

Save for the share schemes of the Company (including its share option schemes, the Share Award Scheme, and any options, awards and grant made thereunder), there was as disclosed in this annual report, during or as of the end of the Reporting Period (i) no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company; and (ii) no arrangement to which the Company (or a specified undertaking of the Company) is a party, and whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate subsisted.

REPORT OF THE DIRECTORS

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

As of 31 December 2022, the interests and short positions of the Directors and 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 Securities and Futures Ordinance (the "**SFO**")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, are as follows:

Name of Directors	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of interest in the Company
Mr. Ho[2][5]	Interest in controlled corporation	175,517,429 (L)	12.96%
	Beneficial owner	16,192,322 (L)	1.20%
Mr. Leung[3][5]	Interest in controlled corporation	175,517,429 (L)	12.96%
	Beneficial owner	11,047,766 (L)	0.82%
Mr. Lin[4][5]	Interest in controlled corporation	112,664,041 (L)	8.32%
	Beneficial owner	10,584,463 (L)	0.78%

REPORT OF THE DIRECTORS

Notes:

(1) The letter "L" denotes the Director's long position in the Shares.

(2) Mr. Ho is the sole shareholder and a director of KS&KL Investment Co. Limited. Therefore, Mr. Ho is deemed to be interested in KS&KL Investment Co. Limited's interest in the Shares pursuant to the SFO. The disclosed interest represents (i) 175,517,429 Shares held by KS&KL Investment Co. Limited; and (ii) 8,191,922 and 8,000,400 options held by Mr. Ho under the ESOP and the Share Option Scheme, respectively as of 31 December 2022.

(3) Mr. Leung is the sole shareholder and a director of King Sun Limited. Therefore, Mr. Leung is deemed to be interested in King Sun Limited's interest in the Shares pursuant to the SFO. The disclosed interest represents (i) 175,517,429 Shares in the Company held by King Sun Limited; (ii) 1,487,000 Shares held by Mr. Leung; and (iii) 1,560,366 and 8,000,400 options held by Mr. Leung under the ESOP and the Share Option Scheme, respectively as of 31 December 2022.

(4) Mr. Lin is the sole shareholder and a director of Lucan Investment Limited. Therefore, Mr. Lin is deemed to be interested in Lucan Investment Limited's interest in the Shares pursuant to the SFO. The disclosed interest represents (i) 112,664,041 Shares held by Lucan Investment Limited; and (ii) 3,250,763 and 7,333,700 options held by Mr. Lin under the ESOP and the Share Option Scheme, respectively as of 31 December 2022.

(5) By virtue of the Common Control Confirmation, Mr. Ho, Mr. Leung and Mr. Lin and their respective wholly-owned investment holding companies, namely KS&KL Investment Co. Limited, King Sun Limited and Lucan Investment Limited, collectively held 465,185,899 Shares as of 31 December 2022.

Save as disclosed above, as of 31 December 2022, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were recorded in the register in the required to be kept by the Company under section 352 of the SFO, or which were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware of, as of 31 December 2022, substantial shareholders' other persons' (other than the Directors or chief executive of the Company) interests or short positions in the Shares and the underlying Shares as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of interest in the company
Substantial Shareholders			
KS&KL Investment Co. Limited	Beneficial owner	175,517,429 (L)	12.96%
King Sun Limited	Beneficial owner	175,517,429 (L)	12.96%
Lucan Investment Limited	Beneficial owner	112,664,041 (L)	8.32%
Huatuo International Development Co., Limited[4]	Beneficial owner	443,654,371 (L)	32.75%
Shinva Medical Instrument Co., Ltd[4]	Interest in a controlled corporation	443,654,371 (L)	32.75%
Other Persons			
North Haven Private Equity Asia IVD Company Limited[2]	Beneficial owner	92,646,730 (L)	6.84%
North Haven Private Equity Asia IVD Holding Limited[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%
North Haven Private Equity Asia IV Holdings Limited[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%
North Haven Private Equity Asia IV, L.P.[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%
Morgan Stanley Private Equity Asia IV, L.L.C.[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%

REPORT OF THE DIRECTORS

Name	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of interest in the company
Morgan Stanley Private Equity Asia IV, Inc.[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%
MS Holdings Incorporated[2]	Interest in a controlled corporation	92,646,730 (L)	6.84%
Morgan Stanley[2][3]	Interest in a controlled corporation	92,752,756 (L) 250 (S)	6.85% 0.00%

Notes:

(1) The letter "L" denotes long position in the Shares and the letter "S" denotes short positions in the Shares.

(2) North Haven Private Equity Asia IVD Company Limited is 100% controlled by North Haven Private Equity Asia IVD Holding Limited, which is in turn 100% controlled by North Haven Private Equity Asia IV Holdings Limited. North Haven Private Equity Asia IV Holdings Limited is 100% controlled by North Haven Private Equity Asia IV, L.P., which is in turn 100% controlled by Morgan Stanley Private Equity Asia IV, L.L.C.. Morgan Stanley Private Equity Asia IV, L.L.C. is 100% controlled by Morgan Stanley Private Equity Asia IV, Inc., which is in turn 100% controlled by MS Holdings Incorporated. MS Holdings Incorporated is 100% controlled by Morgan Stanley. Therefore, Morgan Stanley is deemed to be interested in North Haven Private Equity Asia IVD Company Limited's interest in the Shares pursuant to the SFO.

(3) Morgan Stanley & Co. International plc is 100% controlled by Morgan Stanley Investments (UK), which is in turn 100% controlled by Morgan Stanley International Limited. Morgan Stanley International Limited is 100% controlled by Morgan Stanley International Holdings Inc., which is in turn 100% controlled by Morgan Stanley. Therefore, Morgan Stanley is deemed to be interested in Morgan Stanley & Co. International plc's interest in the 54,026(L) and 250(S) Shares pursuant to the SFO.

Morgan Stanley & Co. LLC is interested in 52,000(L) Shares. It is 100% controlled by Morgan Stanley Domestic Holdings, Inc., which is in turn 100% controlled by Morgan Stanley Capital Management, LLC. Morgan Stanley Capital Management, LLC is 100% controlled by Morgan Stanley. Therefore, Morgan Stanley is deemed to be interested in Morgan Stanley & Co. LLC's interest in 52,000(L) Shares pursuant to the SFO.

The above Morgan Stanley's interests in Shares include interests in 26(L) and 250(S) Shares in cash settled unlisted derivatives.

REPORT OF THE DIRECTORS

(4) Huatuo International Development Co., Limited is wholly owned by Shinva Medical Instrument Co., Ltd. Therefore, Shinva Medical Instrument Co., Ltd is deemed to be interested in Huatuo International Development Co., Limited's interest in the Shares pursuant to the SFO.

Save as disclosed above, the Directors are not aware of any other persons (other than the Directors and the chief executives of the Company) who had any interests or short positions in the Shares and underlying Shares as of 31 December 2022 as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed Shares during the Reporting Period.

SHARE SCHEMES

A. Pre-IPO Share Option Scheme (ESOP)

The following is a summary of the principal terms of the ESOP of the Company as approved by the Board on 29 December 2017 and further amended by the Board on 27 March 2019, more details as set out in the Prospectus.

(a) Purpose

The purpose of the ESOP is to attract and retain the best available personnel, to provide additional incentives to the employees, officers and Directors of the Company and to promote the success of the businesses of the Group.

Upon adoption of the ESOP, the Company granted to DVI Investment Limited (the "**Master Option Grantee**") an option (the "**Master Option**") to purchase up to such number of Shares equal to 5% of the total number of the then outstanding Shares on a non-diluted basis (the "**Total Option Shares**"). The Master Option Grantee is a limited liability company organised under the laws of the Cayman Islands and an SPV designated by the Company to be the Master Option Grantee.

REPORT OF THE DIRECTORS

(b) Who may join

Beneficial interest in the Master Option (the "**Management Option**", each represents one underlying Share under the ESOP) may be granted to full-time employees, including such officers and Directors of the Company who are full-time employees (the "**Participants**") upon vesting of any option of the Master Option (the "**Management Option Grantee**"). An employee, officer or Director of the Company who has been granted a Management Option may, if otherwise eligible, be granted additional Management Options.

(c) Maximum number of underlying Shares

The overall limit on the number of underlying Shares which may be issued is 32,507,627 Shares with a par value of US$0.0005 each.

(d) Administration

The ESOP is administered by the Board or the committee authorised by the Board (the "**Committee**") constituted in such a manner as to satisfy applicable laws and company charter documents (the "**Administrator**"). Subject to applicable laws and provisions of the ESOP and except as otherwise provided by the Board, the Administrator has the authority, in its discretion, to:

(i) select the employees, officers and Directors to whom the Management Options may be granted from time to time under the ESOP;

(ii) determine whether and to what extent the Management Options are granted under the ESOP;

(iii) determine the number of Shares or the amount of other consideration to be covered by each Management Option granted under the ESOP;

(iv) approve forms of Management Option Agreement (as defined below) for use under the ESOP;

(v) determine the terms and conditions of any Master Option or Management Option granted under the ESOP (including the Notice of Management Option Grant (as defined below) or any option agreement evidencing the grant of a Master Option or a Management Option executed by the Company and the Management Option Grantee);

REPORT OF THE DIRECTORS

(vi) amend the terms of any outstanding Master Option or Management Option granted under the ESOP, provided that any amendment that would materially and adversely affect the Master Option Grantee's or the Management Option Grantee's rights under an outstanding Master Option or Management Option shall not be made without the Master Option Grantee's and/or the Management Option Grantee's written consent;

(vii) construe and interpret the terms of the ESOP and the Master Options and Management Options, including, without limitation, any notice of award or option agreement granted pursuant to the ESOP;

(viii) grant Management Options to employees, officers and Directors on such terms and conditions different from those specified in the ESOP as may, in the judgment of the Administrator, be necessary or desirable to further the purpose of the ESOP; and

(ix) take such other action not inconsistent with the terms of the ESOP as the Administrator deems appropriate.

(e) Option grants

The Committee is authorised to grant options to purchase a specified number of Shares at a specified price during specified time periods. The Committee will issue a notice of Management Option grant (the "**Notice of Management Option Grant**") with a Management Option agreement (the "**Management Option Agreement**") attached thereto to the relevant Management Option Grantee, notifying him/her the number of Management Options that have been granted to him/her and the exercise price per Share. The Management Option Agreement includes additional provisions of the Management Option.

(f) Term of the ESOP

The ESOP commenced on 29 December 2017 (the "**Effective Date**") and shall continue in effect for a term of seven years unless terminated earlier in accordance with applicable laws and provisions of the ESOP or otherwise approved by the Board.

No further option will be granted under the ESOP, as the right to do so has been terminated upon Listing.

(g) Exercise of option

The option may not be exercised until vested. Except as approved by the Board and subject to provisions hereunder, in respect of the audited consolidated financial statements of the Company for each full calendar year from 2017 to 2021 (both years inclusive):

REPORT OF THE DIRECTORS

(i) if the consolidated net income attributable to equity shareholders of the Company, after tax and minority interest (and excluding any extraordinary or one-time income or gain) of the Company on a consolidated basis meets the respective target as set out below (the "**Net Income Target**") in such calendar year, 20% of the Management Options (whenever granted) will vest and become exercisable:

Year	**2017**	**2018**	**2019**	**2020**	**2021**
Net Income Target *(RMB million)*	110	130	281	325	375

(ii) in the event that the Net Income Target is not met in a calendar year, no Management Option may vest or become exercisable.

(h) Exercise price

The exercise price per Share under the ESOP will be a price determined by the Committee and set forth in the Management Option Agreement and will be not lower than RMB1.69.

The Administrator is authorised under the ESOP to award any type of arrangement to an employee, officer or Director that is not inconsistent with the provisions of the ESOP and that by its terms involves or might involve the issuance of Shares or Master Option or similar right with a fixed or variable price related to the Fair Market Value (as defined below) of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions.

"**Fair Market Value**" means, as of any date, the value of Shares determined as follows:

(i) if the Shares are traded on a securities exchange, the value shall be deemed to be the average of the security's closing prices on such exchange over the thirty-day period ending one day prior to such date, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) if the Shares are traded over the counter, the value shall be deemed to be the average of the closing prices over the thirty-day period ending three days prior to such date as reported in The Wall Street Journal or such other source as the Administrator deems reliable; and

(iii) in the absence of an established market for the Shares of the type described in (i) and (ii) above, the Fair Market Value thereof shall be determined by the Administrator in good faith.

The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be adjusted to make an appropriate discount from the market value determined as above in sub-clauses (i), (ii) or (iii) to reflect the fair market value thereof as determined in good faith by the Administrator or by a liquidator if one is appointed.

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(i) Outstanding options granted

On 29 December 2017, the Board granted the Master Option to the Master Option Grantee to purchase the Total Option Shares, being 32,507,627 Shares, under the ESOP. On 12 July 2019, all Management Options under the ESOP were granted by the Master Option Grantee to the executive Directors prior to the Listing. Further information of the Management Options during the Reporting Period is set out below:

					During the Reporting Period[2]				
Name of grantees	Date of grant[3]	Number of Management Options granted	Exercise price per Share	Outstanding as of 1 January 2022	Exercised (Relevant closing price[4])	Cancelled	Lapsed	Outstanding as of 31 December 2022	Vesting and exercise period
Directors									
Ho Kuk Sing	12 July 2019	20,479,805	RMB1.69	12,287,883	–	–	4,095,961	8,191,922	Note 5
Leung King Sun	12 July 2019	3,900,915	RMB1.69	2,340,549	–	–	780,183	1,560,366	Note 5
Lin Xianya	12 July 2019	8,126,907	RMB1.69	4,876,144	–	–	1,625,381	3,250,763	Note 5
Total		32,507,627		19,504,576[6]	–	–	6,501,525	13,003,051[7]	

Notes:

1. No Management Options were granted or available for grant during the Reporting Period.

2. A consideration of RMB0.1 was payable by each grantee upon acceptance of the Management Option.

3. The grant was made prior to the Company's listing on the Stock Exchange.

4. Being the weighted average closing price per Share immediately before the date on which the Management Options were exercised.

5. Each grantee, upon accepting the Management Options under the ESOP, is deemed to have undertaken to the Company that he will hold and exercise his Management Options in accordance with the rules of the ESOP and the Management Option Agreement, including with respect to the allotment and issue of Shares to him upon exercise of his Management Options and the holding of such Shares.

   See also "(d) Exercise of option" above regarding the vesting periods and performance targets of the Management Options. All Management Options have been vested prior to the Reporting Period.

   The Management Options may be exercised after they are vested until its expiration date on 28 December 2024 (unless terminated earlier in accordance with the terms of the ESOP).

6. Representing approximately 1.44% of the total issued Shares as of the beginning of the Reporting Period.

7. Representing approximately 0.96% of the total issued Shares as of the end of the Reporting Period and as of the date of this annual report, respectively.

REPORT OF THE DIRECTORS

No further options were available for grant under the ESOP upon the Company's listing.

Up to the date of this annual report, a total of 19,504,576 Management Options had lapsed in accordance with the terms of the ESOP. As a result, each of Mr. Ho, Mr. Leung and Mr. Lin was entitled to exercise 8,191,922, 1,560,366 and 3,250,763 Management Options, respectively, subject to the terms of the ESOP as of the date of this annual report. No Management Options granted have been exercised up to the date of this annual report.

B. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme, more details of which are set out in the Prospectus:

The Share Option Scheme is a share incentive scheme and is established to (a) attract and retain the best quality personnel for the development of the Group's businesses, (b) to provide additional incentives to the Qualifying Grantees (as defined below), and (c) to promote the long term financial success of the Group by aligning the interests of option holders to the Shareholders.

Subject to the provisions of the Listing Rules and applicable law and other regulations from time to time in force, the Board may, in its discretion, select Qualifying Grantees to whom options may be granted under the Share Option Scheme (the "**Options**").

"**Qualifying Grantee**" means any Eligible Person, any trust for the benefit of an Eligible Person or his immediate family members, or any company controlled by an Eligible Person or his immediate family members.

"**Eligible Person**" means (a) any employee (whether full-time or part-time employee) of any member of the Group or any affiliate and any person who is an officer of any member of the Group or any affiliate, (b) any person who is seconded to work for any member of the Group or any affiliates, (c) any consultant, agent, representative, adviser, customer, contractor of the Group or any affiliate, or (d) any business partner/ally/alliance, joint venture partner, supplier of goods or services to the Group or any affiliate or any employee thereof.

The number of Options that can be granted to any Qualifying Grantee during any 12-month period shall be subject to the restriction that the total number of Shares issued and to be issued upon exercise of Options (whether exercised or outstanding) granted in such 12-month period must not exceed 1% of the Shares in issue. Where any further grant of Options to a Qualifying Grantee would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be subject to separate approval by the Shareholders in general meeting with the relevant Qualifying Grantee and his close associates (or his associates if the participant is a connected person) abstaining from voting.

The total number of Shares available for issue under the Share Option Scheme was 106,672,000, representing 7.87% of the total number of issued Shares as of the date of this annual report.

REPORT OF THE DIRECTORS

Unless such further grant is approved by the Shareholders in general meeting, no Option may be granted to any substantial Shareholder or an independent non-executive Director, or any of their respective associates, which would result in the Shares issued and to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other scheme(s) of the Company in the 12-month period up to and including the date of board meeting for proposing such further grant (a) representing in aggregate over 0.1% of the issued share capital of the Company in issue, and (b) having an aggregate value, based on the closing price of the Shares at the date of the board meeting for proposing such further grant, in excess of HK$5 million.

An offer shall remain open for acceptance by the Qualifying Grantee concerned for a period of 28 days from the date of the offer (or such period as the Board may specify in writing). A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option.

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the Option is deemed to have been granted in accordance with the terms of the Share Option Scheme (the "**Date of Grant**"), which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(b) the average closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the Date of Grant; and

(c) the nominal value of a Share.

Subject to the provisions of the Listing Rules, applicable law and other regulations from time to time in force and the terms of the Share Option Scheme, the Board may, in its discretion, determine the period during which the Options may be exercised, and the minimum period, if any, for which an Option must be held before it vests or becomes exercisable in whole or in part.

Subject to earlier termination by the Company in general meeting or by the Board and the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from 12 July 2019.

REPORT OF THE DIRECTORS

Further information of the outstanding Options under the Share Option Scheme during the Reporting Period is set out below:

Name/category of grantees	Date of grant	Number of Options granted	Exercise price[3]	Outstanding as of 1 January 2022	During the Reporting Period Exercised (Relevant closing price[4])	Cancelled	Lapsed	Outstanding as of 31 December 2022	Vesting and exercise period
Directors									
Ho Kuk Sing	22 November 2019	8,000,400	3.042	8,000,400	–	–	–	8,000,400	Note 5
Leung King Sun	22 November 2019	8,000,400	3.042	8,000,400	–	–	–	8,000,400	Note 5
Lin Xianya	22 November 2019	7,333,700	3.042	7,333,700	–	–	–	7,333,700	Note 5
Employees participants									
Two of the five highest paid employees, in aggregate (also being senior management of the Company)	22 November 2019	1,800,090	3.042	1,800,090	1,600,080 (HK$2.58)	–	–	200,010	Note 6
One other senior management	22 November 2019	666,700	3.042	666,700	–	–	–	666,700	Note 6
Other employees, in aggregate	22 November 2019	866,710	3.042	866,710	–	–	–	866,710	Note 6
Total				26,668,000[7]	1,600,080[9] (HK$2.58)			25,067,920[8]	

Notes:

1. No Options were granted during the Reporting Period.

   The total number of Shares which may be issued upon exercise of all Options available for grant under the Share Option Scheme was 106,672,000 Shares as of both the beginning and the end of the Reporting Period, representing approximately 7.88% of the total issued Shares as at the relevant time, respectively. There has been no change after the Reporting Period and up to the date of this annual report in this regard.

2. A consideration of HK$1.00 was payable by each grantee upon acceptance of the Option.

3. The exercise price of HK$3.042 per Share represents the higher of: (i) the closing price of HK$3.04 per Share as stated in the daily quotation sheet of the Stock Exchange on the date of grant (also being the date on which the exercise price was fixed); (ii) the average closing price of HK$3.042 per Share as stated in the daily quotation sheets of by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of US$0.0005 per Share. The closing price per Share as stated in the daily quotation sheet of the Stock Exchange on the date immediately before the date of grant was HK$3.04. Further information about the fair values of the Options granted under the Share Option Scheme during the year of grant (i.e. 2019) is set out in the 2019 Annual Report of the Company, which is available at the websites of the Stock Exchange and the Company, respectively.

REPORT OF THE DIRECTORS

4. Being the weighted average closing price per Share immediately before the date on which the Options were exercised.

5. The Options were vested on 3 June 2020 (the date on which the grants were approved by the Shareholders at a general meeting). Their exercise period is from 3 June 2020 to 2 June 2025, subject to earlier cancellation, lapse or termination in accordance with the Share Option Scheme.

6. These Options were vested on 22 November 2019 (date of grant). Their exercise period is from 22 November 2019 to 21 November 2024.

7. Representing approximately 1.97% of the total issued Shares as of the beginning of the Reporting Period.

8. Representing approximately 1.85% of the total issued Shares as of end of the Reporting Period, and as of the date of this annual report, respectively.

9. The Company received approximately HK$4.87 million from the exercise of Options during the Reporting Period (With an exercise price and net price of HK$3.042 per Share, respectively). Such amount has been applied for working capital and other corporate purposes up to the date of this annual report.

C. Share Award Scheme

The Company adopted the Share Award Scheme on 19 May 2020. The following is a summary of the principal terms of the Share Award Scheme, more details as set out in the announcement dated 19 May 2020.

(a) Purpose

The purpose of Share Award Scheme is to recognise the contributions by certain employees and to provide incentives thereto to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group.

(b) Duration

Subject to any early termination determined by the Board and the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on 19 May 2020.

(c) Administration

The Share Award Scheme shall be subject to the administration of the Board and Bank of Communications Trustee Limited (the "**Trustee**") in accordance with the rules relating to the Share Award Scheme and a trust deed dated 19 May 2020 entered into between the Company as settler and the Trustee as trustee.

Pursuant to the Share Award Scheme, the Board may from time to time cause to be paid a contributed amount to the trust by way of settlement or otherwise contributed by the Company, any subsidiary, any of the controlling shareholders of the Company who are natural persons, or any party designated by the Company or any of the controlling shareholders of the Company who are natural persons as directed by the Board which shall constitute part of the trust fund, for the purchase or subscription (as the case may be) of the Shares.

REPORT OF THE DIRECTORS

(d) Maximum limit

The Board shall not make any further award of Shares to certain selected employee which will result in the aggregate number of Shares awarded by the Board under the Share Award Scheme to be in excess of 10% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to certain selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

(e) Participants, vesting period and conditions of award

Only employees (including executive directors) of any member of the Group could be awarded any Awarded Shares under the Share Award Scheme.

Any grant of Awarded Shares to select employee shall be at no consideration. The Board is entitled to impose any conditions (including a period of continued service within the Group), as it deems appropriate in its absolute discretion with respect to the vesting of the Awarded Shares on the selected employees.

In determining the number of Awarded Shares to be granted, the Board shall take into consideration matters including, but without limitation to:

(i) the present contribution and expected contribution of the relevant selected employee to the profits of the Group;

(ii) the general financial condition of the Group;

(iii) the Group's overall business objectives and future development plan; and

(iv) any other matter which the Board considers relevant.

REPORT OF THE DIRECTORS

Further information of the Awarded Shares during the Reporting Period is set out below:

Name/category of Grantees	Date of grant (Relevant closing price[3])	Number of Award Shares	Unvested awards as of 1 January 2022	During the Reporting Period[2] Vested (Relevant closing price[4])	Cancelled	Lapsed	Unvested awards as of 31 December 2022	Vesting period
Employee participants								
Two of the five highest paid employees, in aggregate (also being senior management of the Company)	29 March 2021 (HK$2.12)	2,902,000	2,902,000	2,902,000 (HK$2.58)	–	–	–	Date of grant to 1 April 2022[5]
One other senior management	29 March 2021 (HK$2.12)	959,000	959,000	959,000 (HK$2.58)	–	–	–	Date of grant to 1 April 2022[5]
In aggregate[6]	29 March 2021 (HK$2.12)	24,457,000	24,498,000	24,457,000 (HK$2.58)	–	41,000	–	Date of grant to 1 April 2022[5]
Total		30,000,000	28,359,000	28,318,000	–	41,000	–	

Notes:

1. As of 31 December 2022, 2,556,000 Shares were held in trust under the Share Award Scheme (excluding Shares vested but not yet transferred to the grantees).

   During the Reporting Period, no Awarded Shares were granted, no Awarded Shares were issued, and no Shares were acquired by the trustee under the Share Award Scheme.

   The number of Awarded Shares available for grant under the Share Award Scheme was 103,940,000 Shares as of the beginning of the Reporting Period and 107,141,000 Shares as of the end of the Reporting Period, respectively, representing approximately 7.68% and 7.91% of the total issued Shares as at the relevant time. There has been no change after the Reporting Period and up to the date of this annual report in this regard.

REPORT OF THE DIRECTORS

2. Grantees were not required to pay any application/acceptance amount, purchase price or exercise price for the Awarded Shares under the Share Award Scheme.

3. Represents the closing price per Share as quoted on the Stock Exchange immediately before the date on which the Awarded Shares were granted.

4. Being the weighted average closing price per Share immediately before the date on which the Award Shares were vested.

5. The Board resolved on 15 December 2020 to allot and issue 30,000,000 new Awarded Shares to the Trustee under the general mandate. These 30,000,000 Awarded Shares were granted by the Board to 405 selected employees (who are all employees of the Company or its subsidiaries) at nil consideration on 29 March 2021. The Awarded Shares were issued at its nominal value of US$0.0005 per Share, and the total subscription price of USD15,000 (being the aggregate nominal value of the Awarded Shares) was paid by the Company. These Awarded Shares were allotted to the Trustee on 20 April 2021. All the outstanding Awarded Shares were vested on 1 April 2022 in a single tranche, according to the terms of grant. The grant and vesting the these Awarded Shares were not subject to any performance target.

6. None of these employees were connected person, senior management, related entity participant or service provider of the Company save as disclosed above. None of them has options and awards granted and to be granted in excess of 1% of the total issued Shares of the Company save as disclosed above.

7. Since the adoption date of the Share Award Scheme and up to the date of this report, the total number of Shares being awarded was 30,000,000 Shares, representing approximately 2.25% of the total issued Shares as of the adoption date, and 2.21% of the total issued Shares as of the date of this annual report.

Further details of the Share Award Scheme are set out in note 28 to the consolidated financial statement in this annual report.

No grants were made under the above share schemes of the Company during the Reporting Period.

CONNECTED TRANSACTIONS

During the Reporting Period, the Group had conducted the following transactions which constituted non-exempt continuing connected transactions under Chapter 14A of the Listing Rules:

REPORT OF THE DIRECTORS

(A) Rental of premises from the Founding Group

On 31 December 2021, the Company entered into a framework property lease agreement with Mr. Ho, Mr. Leung and Mr. Lin (together with their associates, the "**Founding Group**") regarding the Group leasing premises owned by the Founding Group (as landlords) for use as office premises, dormitory, warehouse, or for other business needs (the "**Founding Group Framework Tenancy Agreement**"). In accordance with the HKFRS 16 applicable to the Group, the Group recognises rental payments to be paid by the Group under the Founding Group Framework Lease Agreement as acquisition of right-of-use asset and a lease liability, which are measured at the present value, discounted using the lessee's incremental borrowing rate in the year of entering into the lease where the relevant member(s) of the Group act as a lessee. The transactions under the Founding Group Framework Lease Agreement are being treated as continuing connected transactions of the Company. The annual caps in respect of the total value of right-of-use assets to be recognised by the Company for the year ended 31 December 2022, and for the year ending 31 December 2023 and 2024 are RMB18,000,000, RMB12,000,000 and RMB6,000,000, respectively.

Pursuant to the Founding Group Framework Lease Agreement, the Group (as tenant) rented properties from members of the Founding Group in Hong Kong, Shanghai and Hangzhou for use as office premises and dormitory during the Reporting Period. These individual leases have a lease term of not more than three years, with rental at fixed amount. The total value of right-of-use assets to be recognized by the Group to the Founding Group and their associates in respect of these leases under the Founding Group Framework Lease Agreement as of 31 December 2022 was approximately RMB9,641,000, and the aggregate value recognised during the year ended 31 December 2022 was approximate RMB14,462,000.

(B) Rental of premises from the Shinva Group

On 31 December 2021, the Company entered into the framework property lease agreement with Shinva Medical Instrument Co., Ltd ("**Shinva**", a controlling shareholder of the Company) regarding the Group leasing premises owned by Shinva and its associates ("**Shinva Group**") (as landlords) for use as office premises, dormitory, warehouse, or for other business needs (the "**Shinva Framework Lease Agreement**").

REPORT OF THE DIRECTORS

Short-term individual leases are being entered into under the Shinva Framework Lease Agreement, and the rental payments from the Group are being recognised as expenses in the consolidated statement of comprehensive income of the Company. The annual caps in respect of the total rental payment payable by the Group as contemplated under Shinva Framework Lease Agreement for the year ended 31 December 2022, and for the years ending 31 December 2023 and 2024 are RMB4,500,000, RMB4,600,000 and RMB4,700,000, respectively.

Pursuant to the Shinva Framework Lease Agreement, the Group (as tenant) rented properties from members of the Shinva Group in Shanghai and Jinan for use as office premises and warehouse during the Reporting Period. These individual leases are short term leases with a lease term of not more than one year, with rental at fixed amount and utilities and management fee. The actual rental fees paid by the Group to the Shinva Group for the Reporting Period were approximately RMB3,664,000.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions disclosed above and confirmed that these transactions have been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The actual transaction amount of the transactions disclosed above for the Reporting Period has not exceeded their respective annual caps.

REPORT OF THE DIRECTORS

The Company has also received a letter from Ernst & Young, the Company's auditor, to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *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. Ernst & Young have issued the letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules confirming that nothing has come to their attention that causes them to believe the continuing connected transactions disclosed above:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable);

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iv) have exceeded the corresponding annual cap.

RELATED PARTY TRANSACTIONS

Note 32 to the consolidated financial statements in this annual report contains further information about the Group's material transactions with related parties during the Reporting Period. During the Reporting Period, except for the transactions set out in the paragraph headed "Connected Transactions" above, the other related party transactions in the said note 32 either do not fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules, or are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. The Company has complied with all the disclosure requirements in accordance with Chapter 14A of the Listing Rules, and has followed its policies and guidelines when determining the price and terms of the continuing connected transactions conducted during the Reporting Period in line with guidance letter HKEx-GL73-14.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or their respective associates as defined under the Listing Rules has any interest in a business which competes or is likely to compete with the business of the Group, either directly or indirectly, or has any other conflict of interests during the Reporting Period.

REPORT OF THE DIRECTORS

BOARD DIVERSITY

The Company has adopted a diversity policy with respect to the composition of the Board (the "**Board Diversity Policy**"). Further information is set out in "Board Diversity Policy" in the Corporate Governance Report in this annual report. Details on the biographies and experience of the Directors are set out on pages 29 to 35 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times during the year ended 31 December 2022 and up to the date of this annual report, and the Company thus maintained a sufficient public float as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Board is not aware of any tax relief available to the Shareholders by reason of their holding of the Shares.

DONATION

In 2022, the Group made a total donation of RMB1,604 thousand.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts subject to applicable laws and regulations. Such provision was in force during the Reporting Period and remained in force as of the date of this annual report. The Company has also arranged appropriate directors' and officers' liability insurance for the Directors and officers of the Group.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING

The AGM will be held on 19 May 2023. The notice of the AGM will be sent to the Shareholders in accordance with the requirements under the Listing Rules and the Articles of Association.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 66 to 82 of this annual report.

MANAGEMENT CONTRACT

Except for service contracts or letters of appointment engaging the Directors and the Group's management in their employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisting during the Reporting Period.

SUBSEQUENT EVENTS

The Group has had no material event since the end of the Reporting Period and up to the date of this report.

AUDITOR

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2022. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

On behalf of the Board
Ho Kuk Sing
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 17 March 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group. The Board strives to apply and adhere to the principles under Part 2 of the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules as basis of the Company's corporate governance practices, based on the Company's individuality to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Board is of the view that throughout the Reporting Period, the Company has complied with all the code provisions as set out in Part 2 of the CG Code, except for Code Provision C.2.1 (the details of which are set out in the paragraph headed "Chairman and chief executive officer" below).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding directors' securities transactions.

Specific enquiry has been made of all the Directors and each Director has confirmed that he/she has complied with the Model Code throughout the Reporting Period.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should make decisions objectively in the best interests of the Company.

The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them. As disclosed in the section headed "Board of directors and senior management" in this annual report, Mr. Lau Siu Ki is holding directorships in six other listed companies in Hong Kong in addition to his directorship in the Company. Despite his directorships outside the Company, since Mr. Lau's appointment as an independent non-executive Director, he has maintained good attendance records for the Board committee and Board meetings and devoted time to review the materials provided by the Company before such meetings and actively shared his opinions and voiced his concerns in the discussion of the Company's issues. The Board is of the view that Mr. Lau is able to devote sufficient time to the Board and to the affairs of the Group and that Mr. Lau's directorships outside the Company would not hinder him in maintaining his current role in, and his functions and responsibilities for, the Company.

CORPORATE GOVERNANCE REPORT

Board Composition

The Directors place great emphasis on the fiduciary nature of the Board's responsibilities and strive to be accountable to the Shareholders as a whole.

The Board currently comprises the following Directors:

Executive Directors
Mr. Ho Kuk Sing *(Chairman, Chief Executive Officer, Chairman of the Nomination Committee and the Strategy and Investment Committee)*
Mr. Leung King Sun *(Member of Remuneration Committee)*
Mr. Lin Xianya

Non-executive Directors
Mr. Yang Zhaoxu *(Member of Strategy and Investment Committee)*
Mr. Chan Kwok King, Kingsley
Ms. Yao Haiyun

Independent Non-executive Directors
Mr. Lau Siu Ki *(Chairman of Audit Committee and Remuneration Committee, Member of Nomination Committee)*
Mr. Zhong Renqian *(Member of Audit Committee and Strategy and Investment Committee)*
Mr. Leung Ka Sing *(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" in this annual report.

Mr. Ho, Mr. Leung King Sun and Mr. Lin are parties to a common control confirmation dated 27 May 2016, under which they confirmed, among others, the existence of their collective control and management arrangements over the Group to consolidate their control over the Group. For further information, please refer to the Prospectus and the paragraph headed "Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in the Report of the Directors in this annual report. Save as the above, the Chairman Board member do not have any financial, business, family or other material/relevant relationships with each other.

Board Diversity Policy

The Board has formulated the Board Diversity Policy setting out the approach to maintaining a Board with a diversity of directors. The Company recognises the benefits of diversity at the Board level as an essential element in supporting its sustainable development. All Board appointments will continue to be based on meritocracy with due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Board would, from time to time, use its best endeavour and on suitable basis to seek female candidates into the Board as appropriate. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the executive Directors possess extensive experience in IVD and medical equipment industry while the three non-executive Directors and three independent non-executive Directors possess professional knowledge and broad experience in IVD and medical equipment, finance and accounting industry. As of the date of this report, the Board comprised both male and female (one out of nine), providing the Board with a direct and diversified channel of the opinion of both genders. The Directors are of the opinion that Board diversity (including gender diversity) has been achieved with reference to the current circumstances of the Company, and the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the Shareholders. The Board will continue to maintain Board diversity (including gender diversity), and maintain at least one female representation to ensure the opinions from different gender are well represented. If the Board determines that an additional or replacement Director is required, the Company will deploy multiple channels for identifying suitable candidates, for examples, referral from Directors, shareholders, management, advisors of the Company, with regarding to the range of diversity perspectives (including gender diversity) set forth in the Board Diversity Policy.

Please also refer to the paragraph headed "B1. Employment" in the ESG Report in this annual report for further information regarding the gender ratio and other information about the Group's workforce, and the Group's plan for achieving diversity.

Mechanism for ensuring independent views and input

Mechanism is available for ensuring independent views and input are available to the Board. The Board currently comprises a majority of non-executive Directors (including independent non-executive Directors). They have full and timely access to the Group's information, and are entitled to seek advice from the company secretary as well as independent professional advisers at the Company's expenses in appropriate circumstances. Supported also by the Company's conflict management and other internal control measures, these non-executive Directors (including independent non-executive Directors) provide a balance in the Board, bring in view and opinion independent of the executive Directors and the management, and oversee the Group's operation and corporate action. The Board and the Nomination Committee review at least once every year the Company's governance structure and such mechanism. Periodic review and evaluation are also being conducted to assess the Board and management's performance, monitoring and enhancing the effectiveness of the Company's governance structure and mechanism.

CORPORATE GOVERNANCE REPORT

Board Meetings and General Meetings

During the Reporting Period, four Board meetings and one general meeting were held and the attendance of each Director is set out as follows:

Name of Director	Number of Board meeting attended	Number of general meeting attended
Mr. Ho Kuk Sing	4/4	1/1
Mr. Leung King Sun	4/4	1/1
Mr. Lin Xianya	4/4	1/1
Ms. Yao Haiyun	4/4	1/1
Mr. Yang Zhaoxu	4/4	1/1
Mr. Chan Kwok King, Kingsley	4/4	1/1
Mr. Lau Siu Ki	4/4	1/1
Mr. Zhong Renqian	4/4	1/1
Mr. Leung Ka Sing	4/4	1/1

The Board holds at least four meetings each year at approximately quarterly intervals to discuss the Group's business development, operations and financial performance to comply with Code Provision C.5.1. Notice of at least 14 days was given to all Directors for all regular Board meetings and a formal agenda was addressed to the Directors together with the notice. All Directors were provided with adequate information which enabled them to make informed decisions on the matters discussed and considered at the Board meetings.

Apart from the regular Board meetings, the Chairman has also held a meeting with all independent non-executive Directors without the presence of other Directors during the Reporting Period.

Chairman and Chief Executive Officer

Code Provision C.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Ho is the Chairman and Chief Executive Officer of the Company. He is one of the founders of the Group and has extensive experience in the industry.

The Board believes that Mr. Ho can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies. The Board is of the view that given that Mr. Ho had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under his strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

Appointment and Re-election of Non-executive Directors

The non-executive Directors (including independent non-executive Directors) are appointed for a specific term of three years, subject to renewal after the expiry of the current term.

The Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by the Shareholders at the first general meeting after appointment.

Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

Responsibilities of the Board and Management

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

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

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

CORPORATE GOVERNANCE REPORT

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors shall disclose to the Company details of other offices held by them.

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

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management of the Company arising out of corporate activities.

Continuous Professional Development of Directors

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

Every newly appointed Director (if any) will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Directors have also been informed of the requirement under Code Provision C.1.4 of the CG Code regarding continuous professional development and they may join institutes and attend relevant training seminars or informative talk from time to time to enable them to better discharge their duties.

CORPORATE GOVERNANCE REPORT

All Directors understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills. During the Reporting Period, they attended courses organised by external professional bodies on topics relevant to the duties and responsibilities of a director. Directors are also provided with updates and materials on the Listing Rules and other key governance matters. They have provided the Company with their respective training records.

	Attending courses and reading materials
Executive Directors	
Mr. Ho Kuk Sing	✓
Mr. Leung King Sun	✓
Mr. Lin Xianya	✓
Non-executive Directors	
Mr. Yang Zhaoxu	✓
Mr. Chan Kwok King, Kingsley	✓
Ms. Yao Haiyun	✓
Independent Non-executive Directors	
Mr. Lau Siu Ki	✓
Mr. Zhong Renqian	✓
Mr. Leung Ka Sing	✓

BOARD COMMITTEES

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

The list of the Chairman and members of each Board committee is set out under the section headed "Corporate Information" in this annual report.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee consists of three members, being Mr. Lau Siu Ki, Mr. Zhong Renqian and Mr. Leung Ka Sing (all being independent non-executive Directors). Mr. Lau Siu Ki currently serves as the Chairman of the Audit Committee. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The Audit Committee is responsible for reviewing and monitoring the financial reporting, risk management and internal control principles of the Company, and assist the Board to fulfill its responsibility over the audit. The Audit Committee holds meetings at least twice a year to comply with its terms of reference. The duties and powers of the Audit Committee include:

1. To oversee, monitor and making recommendations regarding the Company's relationship with the Company's external auditor;

2. To review the Group's financial information;

3. To oversee of the Group's financial reporting system, risk management and internal control systems; and

4. To perform the Group's corporate governance functions.

During the Reporting Period, two meetings were held by the Audit Committee. The attendance of each member is set out as follows:

Name of Director	Number of meeting attended
Mr. Lau Siu Ki	2/2
Mr. Zhong Renqian	2/2
Mr. Leung Ka Sing	2/2

During the Reporting Period, two meetings were held between the Audit Committee and the Company's external auditor. At least one of these meetings was held in the absence of the management to discuss matters relating to the audit fees, any issues arising from the audit and any other matters the auditor wish to raise in order to comply with its terms of reference.

The Audit Committee had performed the following work during the Reporting Period:

(i) reviewed the audited annual financial statements for the year ended 31 December 2021;

(ii) reviewed the unaudited interim financial statements for the six months ended 30 June 2022;

CORPORATE GOVERNANCE REPORT

(iii) reviewed the continuing connected transactions of the Company;

(iv) made recommendations to the Board for approval of the above-mentioned financial statements;

(v) reviewed and approved the internal audit plans and reviewed reports from the internal control adviser engaged by the Company and reviewed the effectiveness of the Group's internal audit function;

(vi) reviewed and monitored the external auditor's independence, and objectivity and effectiveness of the audit process;

(vii) reviewed and approved the audit service memorandum presented by the external auditor;

(viii) discussed with the management and the external auditor on the issues concerning accounting policies and practices which may affect the Group, along with financial reporting matters;

(ix) reviewed the risk management and internal control systems;

(x) made recommendation to the Board on the re-appointment of the external auditors, and determined the interim review and annual audit fees and other terms of engagement of the external auditors; and

(xi) reviewed the terms of reference of the Audit Committee and whistleblowing policy and system of the Company to consider if any proposed changes that deemed appropriate or advisable; and

(xii) performed other duties under the CG Code and the terms of reference of the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of three members, being Mr. Lau Siu Ki, Mr. Leung Ka Sing (both being independent non-executive Directors) and Mr. Leung King Sun (an executive Director). Mr. Lau Siu Ki currently serves as the Chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The duties and powers of the Remuneration Committee include:

1. To make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

CORPORATE GOVERNANCE REPORT

3. To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. To make recommendations to the Board on the remuneration of non-executive Directors;

5. To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. To review and approve the compensation payable to executive Directors and senior management of the Company for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

8. To ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration;

9. To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules;

10. In respect of any service agreement to be entered into between any members of the Group and its Director or proposed Director, to review and provide recommendation to the Shareholders of the Company (other than Shareholder(s) who is/are Director(s) with a material interest in the relevant service agreements and their respective associates) as to whether the terms of the service agreements are fair and reasonable and whether such service agreements are in the interests of the Company and the Shareholders as whole, and to advise the Shareholders on how to vote; and

11. To consider other matters, as defined or assigned by the Board, or otherwise required by the Listing Rules and/or other applicable laws and rules from time to time.

During the Reporting Period, two meetings were held by the Remuneration Committee. The attendance of each member is set out as follows:

Name of Director	Number of meeting attended
Mr. Lau Siu Ki	2/2
Mr. Leung King Sun	2/2
Mr. Leung Ka Sing	2/2

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Remuneration Committee reviewed the remuneration policy of executive Directors and senior management of the Company; assessed performance of executive Directors and senior management of the Company; reviewed the composition of senior management of the Company; discussed and recommended the remuneration packages of the Directors and senior management of the Company for the Board's approval; reviewed the rules of the share schemes and relevant documentation of the Company to ensure they support the compensation and incentive framework of the Group; reviewed the terms of reference of the Remuneration Committee to consider any proposed changes that were deemed appropriate or advisable and performed other duties under the CG Code and the terms of reference of the Remuneration Committee.

Nomination Committee

The Nomination Committee consists of three members, being Mr. Ho Kuk Sing (an executive Director), Mr. Lau Siu Ki and Mr. Leung Ka Sing (both being independent non-executive Directors). Mr. Ho currently serves as the Chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The duties and powers of the Nomination Committee include:

1. To review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. To assess the independence of independent non-executive Directors;

4. To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer of the Company;

5. To review the Board Diversity Policy and any measurable objectives for implementing the Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives, and to make disclosure or its review results in the annual report of the Company annually; and

6. To consider other matters, as defined or assigned by the Board from time to time.

When considering the composition of the Board, and candidates for directorship and management of the Company (including in the re-election process), the Nomination Committee would consider the need of and balance of the Group and the Board, the Group's objectives and strategy, and assess the suitability of the candidate on his/ her individual qualities, and benefits he/she could bring.

CORPORATE GOVERNANCE REPORT

Nomination of candidates for directorship would be made in accordance with the Company's nomination policy, requiring the Nomination Committee to consider (among others) the above aspects, taking into account non-exhaustive factors in the assessment of individual candidate including his/her character, accomplishment and experience, qualifications, commitment, diversity in all aspects (see also the paragraph headed "Board Diversity Policy" above). The Nomination Committee would then make recommendation to the Board.

The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

One meeting of the Nomination Committee was held during the Reporting Period. The attendance of each member is set out as follows:

Name of Director	Number of meeting attended
Mr. Ho Kuk Sing	1/1
Mr. Lau Siu Ki	1/1
Mr. Leung Ka Sing	1/1

During the Reporting Period, the Nomination Committee reviewed the composition of the Board and its committee, reviewed and made recommendation to the Board on candidates for re-election by Shareholders at annual general meeting, reviewed the independence of the independent non-executive Directors, reviewed the time commitment and succession planning of the Board and the management, reviewed the terms of reference of the Nomination Committee and the Board diversity policy of the Company and performed other duties of the Nomination Committee under the CG Code and the terms of reference of the Nomination Committee. The Nomination Committee holds at least one meeting each year to perform its duties.

Strategy and Investment Committee

The Strategy and Investment Committee was established during the Reporting Period and is responsible for, among other things, assisting the Board and handling affairs regarding the development strategies and investment, strategic planning, and the overall investment direction and business development of the Company.

The Strategy and Investment Committee consists of three members, being Mr. Ho Kuk Sing (an executive Director), Mr. Yang Zhaoxu (a non-executive Director) and Mr. Zhong Renqian (an independent non-executive Director). Mr. Ho currently serves as the Chairman of the Strategy and Investment Committee.

The Strategy and Investment Committee did not hold any meeting during the Reporting Period.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions set out in the Code Provision A.2.1 of Part 2 of the CG Code, such as developing and reviewing the Company's corporate governance policies and practices, reviewing and monitoring training and continuous professional development of the Directors and senior management of the Company, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing and monitoring the compliance with the Model Code and other applicable corporate compliance manuals, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIVIDEND POLICY

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association and all applicable laws and regulations. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. A general dividend policy of declaring and paying an annual dividend of not less than 20% of the Group's distributable net profit attributable to the equity Shareholders was adopted by the Board in principle.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for maintaining the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The main feature of the Group's risk management and internal control system is its ability to dynamically and effectively capture and evaluate significant emerging risks and risk changes, both quantitatively and qualitatively, and to timely manage risks by appropriate risk responses and mitigation strategies.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including policy on securities trading, safety control system for production and fire, methods of prevention from occupational disease, guidelines regarding using official seal, policy on confidential control (as updated and amended from time to time), policy on employees' external training, guidelines regarding information management and transition.

CORPORATE GOVERNANCE REPORT

All divisions/departments of the Company conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The senior management of the Company, in coordination with division/department heads, assessed the likelihood of risk occurrence, provide treatment plans, and monitor the risk management progress. No significant control failings or weaknesses have been identified during the Reporting Period.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2022.

The internal control team is responsible for performing internal audit function and conducting independent review of the adequacy and effectiveness of the risk management and internal control systems. The internal control team examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

In addition, the Group has engaged an internal control adviser to assist the Group to review and provide recommendations on improving the Group's internal control system. The Group has improved its internal control system in accordance with the recommendation of such review.

The Board, as supported by the Audit Committee, reviewed the effectiveness of the risk management and internal control systems, including the financial, operational and compliance controls periodically during the Reporting Period and considered that such systems are effective and adequate for the purpose of financial reporting and Listing Rules compliance. The Board conducts such review at least once every year.

The Company has developed its inside information and disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries, and to ensure that inside information is disseminated to the public in fair and timely manner in accordance with applicable laws and regulations. Monitoring and control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence and anonymity, concerns about improprieties (such as criminal offences or financial impropriety) or other matters of the Company.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company has engaged Ms. Lam Wai Yan ("**Ms. Lam**") as the company secretary of the Company (the "**Company Secretary**"). The primary contact person at the Company, whom Ms. Lam can contact, is Mr. Zhou Chuanbo, the Chief Finance Officer of the Company.

During the Reporting Period, Ms. Lam has taken no less than 15 hours of relevant professional training to update her skills and knowledge.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the Reporting Period.

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

The statement of the independent auditor of the Company, Ernst & Young, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 123 to 127 of this annual report.

AUDITOR'S REMUNERATION

A breakdown of the remuneration paid/payable to the external auditor of the Company, Ernst & Young, in respect of the following services for the Reporting Period is set out below:

Services rendered	**Remuneration paid and payable** ***RMB' 000***
Audit services	3,400
Non-audit services:	
Review of interim financial statements	750
Review of continuing connected transactions	100
Total	4,250

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

The Company engages with its Shareholders through various communication channels and a shareholders' communication policy is in place to ensure that the Shareholders' views and concerns are appropriately addressed.

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

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals at Shareholders' Meetings

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business or add resolution specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

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

CORPORATE GOVERNANCE REPORT

Contact Details

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

Address: IVD Medical Holding Limited
Room 1703
Grandtech Centre
8 On Ping Street
Sha Tin
Hong Kong (For the attention to Directors' Office)

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with the Shareholders and in particular, through annual general meetings and other general meetings. The Directors (or their delegates as appropriate) will attend annual general meeting to meet the Shareholders and answer their enquiries.

The Company discloses information and publishes periodic reports and announcements to the public in accordance with the Listing Rules, the relevant law and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling the Shareholders and investors of the Company as well as the public to make rational and informed decisions.

The Company has reviewed the Shareholders and investors communication activities conducted in 2022 and was satisfied with the implementation and effectiveness of the Company's shareholders communication policy.

During the Reporting Period, the Company has amended its Articles of Association to, among other things, conform with the amendments to the Listing Rules and applicable laws of the Cayman Islands. The current version of the Articles of Association is available on the Company's website and the Stock Exchange's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

As the leading distributor of In Vitro Diagnostic ("**IVD**") products in the People's Republic of China (the "**PRC**"), IVD Medical Holding Limited (the "**Company**") together with its subsidiaries (the "**Group**" or "**we**") adhere to the environmental, social and governance ("**ESG**") management direction in accordance with the concept of sustainable development, are committed to progress effectively and responsibly against ESG affairs, and have integrated this key part into our business strategy as we know sustainability is a key to achieve continuous success in the future. We strongly believe that environmental protection, low carbon footprint, resource conservation and sustainable development will be the key trends in society, hence we will continuously and steadily satisfy the needs of our customers, contribute to the society, and also stimulate long term development of the Group.

The ESG Commitments

The Group strictly complies with the principles of sustainable development and strives to achieve prescribed standards of each ESG scope, so as to create positive value for its stakeholders. In line with the carbon neutrality goal of the Hong Kong Government, the Group has set goals for the year ended 31 December 2021 (the "**2021**") to improve its performance in greenhouse gas ("**GHG**") emissions, waste management, energy management and water management. The Group believes that the formulation of ESG-related goals and targets promotes the Group to fulfill its commitments to corporate social responsibility and enables the stakeholders of the Group to better understand its ESG performance.

The ESG Governance Structure

The Group has established an ESG governance framework to ensure the consistency between the ESG governance and our business strategy and to incorporate the ESG management into our business operation and decision-making process.

The board of directors (the "**Board**") of the Company takes overall responsibility for the Group's ESG issues and shall formulate ESG management policies, strategies, assessments, priorities and objectives. In order to better manage the Group's performance, related problems and potential risks in ESG, the Board meets annually to evaluates and determines the nature and extent of the Group's ESG risks and opportunities, and reviews its performance and progress on ESG-related goals and targets, and adjust policies as necessary. The Board is also responsible for ensuring the effectiveness of risk management and internal control systems as well as examining and approving the information disclosed in this ESG report (the "**ESG Report**").

The Group has established the ESG taskforce (the "**Taskforce**"). The Taskforce comprises of core members from different departments of the Group and is responsible for collecting relevant information and data on its ESG aspects for the preparation of the ESG reports. The Taskforce meets annually to report to the Board, assists in identifying the Group's ESG risks, and assesses the effectiveness of the Group's ESG internal control mechanism. The Taskforce also examines and evaluates the performance in different aspects such as environment, health and safety, labor standards, and product responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE OF REPORTING

This ESG Report generally covers the core business of the Group in the PRC, including distribution business, maintenance services and self-branded products business. Data collection includes the core operating locations of some subsidiaries such as Vastec Medical Equipment (Shanghai) Co., Ltd. ("**Vastec (Shanghai)**") and Dacheng Medical Equipments (Shanghai) Co., Ltd. ("**Dacheng**"), including the offices located in different regions of the PRC as well as the warehouse in Shanghai. The reporting scope of the ESG report was identified with reference to their ESG materiality to the Group, its core businesses and major revenue sources. Unless specify otherwise, the ESG key performance indicator ("**KPI**") data is gathered and included under the Group's operational control mechanism. The Group will continue to extend the scope of disclosures as its data collection system and sustainable strategies further evolves.

REPORTING PERIOD

Unless otherwise specified, the ESG Report covers the ESG-related activities, challenges and initiatives taken by the Group for the year ended 31 December 2022 (the "**Reporting Period**" or "**2022**").

REPORTING FRAMEWORK

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") as set out in the Appendix 27 of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Information relating to the corporate governance practices of the Group has been set out in the section headed "Corporate Governance Report" of this annual report.

While preparing this ESG Report, the Group adopted the reporting principles in the ESG Reporting Guide, shown as follows:

Materiality: During the Reporting Period, the Group has conducted materiality assessment to identify material issues, and has taken the identified material issues as the focus of the preparation of this ESG Report. The materiality of ESG issues has been reviewed and confirmed by the Board and the Taskforce. For further details, please refer to the Section headed "Materiality Assessment".

Quantitative: Information about the standards, criteria, methodologies and source of key conversion factors used to calculate the KPI data and the applicable assumptions have been supplemented in the notes.

Consistency: Unless otherwise specified, this ESG Report has used consistent methodologies as the previous year to allow for a meaningful comparisons as far as reasonably practicable. In case of any change in the scope of disclosure and calculation method, which may affect the comparison with previous reports, the Group will explain the corresponding data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is an essential part on continuously developing the sustainability performance of the Group, hence we value our stakeholders and their feedback regarding our businesses and ESG aspects. In order to understand and address their key concerns, we have maintained close communication with our key stakeholders, including but not limited to shareholders and investors, customers, business partners and suppliers, employees, as well as the community, non-governmental organisations and media.

In formulating our operational strategies and ESG measures, the Group takes into account the stakeholders' expectations through different stakeholder engagement methods and communication channels. The Group's communication channels with the key stakeholders and their respective expectations are as follows:

Stakeholders	Communication Channels	Expectations
Investors and shareholders	• Annual general meeting and other shareholder meetings • Annual reports, interim reports and quarterly reports • Announcements and circulars	• Compliance with relevant laws and regulations • Timely disclosure of latest corporate information • Financial performance • Corporate sustainable development
Customers	• Customer service hotline and email • Business negotiation • Company website	• Product and service responsibility accomplishment • Customers' information and privacy protection
Business partners and suppliers	• Supplier meetings and events • Business negotiation	• Establish partnerships and grow together
Employees	• Regular performance appraisal • Trainings and seminars • Employees announcement and management notices • Email	• Health and safety • Equal opportunities • Remuneration and benefits • Career development
The community, NGOs and media	• ESG reports • Charitable events	• Contribution to the community • Environmental protection • Compliance operations

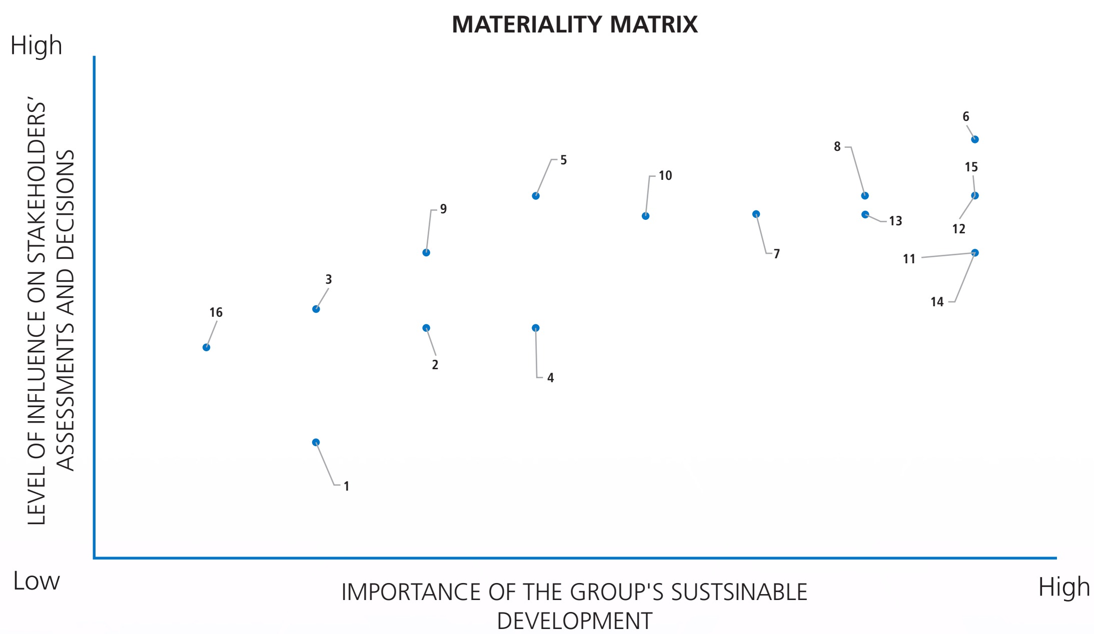
We aim to collaborate with our stakeholders to improve our ESG performance and create greater value for the wider community on a continuous basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

The Group values stakeholder's opinion, and identifies and determines material topics included in the ESG Report through feedback from relevant stakeholders. The Group's management and staff in major functions are involved in the preparation of the ESG Report, so to assist the Group in reviewing its operations and identifying the relevant ESG issues, and assess the importance of those relevant matters to our business and stakeholders. The Group conducts regular surveys on material issues to ensure that the importance of issues at various levels to different stakeholders can be accurately reflected in the materiality matrix.

The following is the matrix showing a summary of the Group's material ESG issues during the Reporting Period:



Environmental
1. Emissions Control
2. Waste Management
3. Use of Resources
4. Corresponding action to climate change

Social
5. Employment
6. Employee Health Management
7. Training Management
8. Prevention of Child and Forced Labour
9. Supply Chain Management
10. Fair and Open Procurement
11. Quality Control
12. Customer Services
13. Privacy Protection
14. Intellectual Property Rights
15. Anti-corruption
16. Community Investment

During the Reporting Period, the Group confirmed that it has established appropriate and effective management policies and monitoring systems for ESG issues, and confirmed that the disclosed information complied with the requirements of the ESG Reporting Guide.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONTACT US

We welcome stakeholders to provide valuable opinions and suggestions on the ESG Report or the Group's performance on sustainable development via the following methods:

Address: Room 1703, Grandtech Centre, 8 On Ping Street, Shatin, Hong Kong
Telephone: (86)4008209809
Email: ivd@ivdholding.com

A. ENVIRONMENTAL

A1. Emissions

The Group attaches great importance to good environmental management and strives to protect the environment so to fulfill social responsibilities of the Group. The Group strives to protect the environment through the implementation of control activities and monitoring measures in its business activities and workplace. We are committed to promoting a green environment by introducing environmentally friendly business practices, educating its employees to enhance their awareness on environmental protection and complying with relevant environmental laws and regulations.

We have formulated relevant environmental policy and established relevant internal control mechanism in workplace and operations. We strive to implement relevant monitoring measures, introduce environmentally friendly business practices into operations, raise employees' environmental awareness and comply with relevant laws and regulations simultaneously, in order to reduce the negative impacts on the environment. At the same time, we continuously seek for opportunities to formulate and implement environmental measures within the policy framework to improve our environmental performance. We believe the Group has set a good example in fulfilling corporate social responsibility through various measures on energy conservation and use of resources, and has established a corporate image that promotes environmental protection and low carbon operations.

The Group strictly complies with the Environmental Protection Law of the PRC, Water Pollution Prevention and Control Law of the PRC, Prevention and Control of Atmospheric Pollution Law of the PRC, Prevention and Control of Pollution from Environmental Noise Law of the PRC, Prevention and Control of Environmental Pollution by Solid Wastes Law of the PRC and other laws and regulations related to environmental protection in the PRC. The Group has established environmental protection responsibility system, actively adopts environmental protection measures on the environmental pollution generated during business operations. During the Reporting Period, the Group was not aware of any non-compliance with relevant laws and regulations on exhaust gas and greenhouse gas emissions, sewage discharge and generation of hazardous and non-hazardous waste, etc. that would have a significant impact on the Group.

The Group will continuously improve our environmental management system to minimize the negative impacts on the environment, achieve targets on reducing GHG emissions and non-hazardous wastes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Emission Control

Exhaust Gas Emissions

As an IVD product distributor, the Group's major sources of exhaust gas emission are originated from petrol consumed by vehicles, and no significant exhaust gas emissions was generated during its business operation. The Group is committed to minimizing the exhaust gas emitted from our business operation, the following are the emission reduction measures we have taken on vehicles emissions:

- Choose the most reasonable shortest route when vehicles are travelling between the Group's operating locations and destinations to reduce consumption of gasoline and diesel;
- Turn off engines for idling vehicles; and
- Conduct regular vehicle maintenance to ensure efficient use of fuel.

During the Reporting Period, the exhaust gas emissions performance of the Group was as follows:

Indicator[1]	**Unit**	**2022**	2021
Nitrogen Oxides (NOx)	kg	**160.90**	166.99
Sulphur Oxides (SOx)	kg	**2.99**	2.92
Particulate Matter (PM)	kg	**12.48**	13.06

Note:

1. Exhaust gas emissions and related emission factors were calculated based on (including but not limited to) "How to prepare an ESG report – Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

GHG Emissions

The major sources of the Group's GHG emissions represent direct greenhouse gas emissions (Scope 1) generated from diesel and gasoline consumption of vehicles and indirect greenhouse gas emissions (Scope 2) generated from the energy consumption of purchased electricity. The Group actively adopts electricity and energy conservation measures to reduce GHG emissions. Apart from the measures described above in the section headed "Exhaust Gas Emissions" under this Aspect, the Group has formulated Policy on Facilities and Equipment Maintenance, Verification and Calibration to ensure the normal operation of the equipment on detecting temperature and humidity in the warehouse, and control temperature and humidity of the warehouse through temperature and humidity records to control the use of energy in the warehouse. Besides, we actively adopt other environmental conservation measures, the corresponding measures are described in the sections headed "Energy Management".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's total GHG emissions intensity (per RMB million revenue) increased by approximately 12.90% as compared to 2021, mainly due to a recovery in business activities involving the use of vehicles. The GHG emissions performance of the Group was as follows:

Indicator[2]	**Unit**	**2022**	2021
Direct GHG emissions (Scope 1)	**tCO^2e**	**620.22**	526.45
Petrol	tCO^2e	**507.96**	N/A
Diesel	tCO^2e	**30.81**	N/A
Refrigerants	tCO_2e	**81.45**	N/A
Energy indirect GHG emissions (Scope 2)	**tCO^2e**	**345.71**	331.90
Purchased electricity	tCO^2e	**345.71**	331.90
Total GHG emissions (Scope 1 and 2)	**tCO^2e**	**965.93**	858.35
Total GHG emissions intensity	**tCO^2e/employee**[3]	**1.28**	1.16
	tCO^2e/RMB million revenue[4]	**0.35**	0.31

Notes:

2. GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, "How to prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, "Global Warming Potential Values" from the IPCC Fifth Assessment Report, and the "2019 Baseline Emission Factor of China Regional Power Grid for Emission Reduction Projects" issued by the Ministry of Ecology and Environment of China.

3. For the year ended 31 December 2022, the Group had 755 employees (as of 31 December 2021: 743). These data are also used for calculating other intensity data.

4. During the Reporting Period, the Group achieved a revenue of approximately RMB2,748,809,000 (2021: RMB2,730,670,000). These data are also used for calculating other intensity data.

Sewage Discharge

We do not consume a significant volume of water in our business activities, hence our business activities did not generate material discharges into water during the Reporting Period. Since the sewage discharged by the Group will be discharged into the municipal sewage pipe network and then treated, and most of the water supply and discharge facilities are provided and managed by property management company. The amount of water consumption of the Group represents the wastewater discharge volume, and the relevant data and water conservation measures will be described in the section headed "Water Management" during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste Management

The Group adheres to the waste management principle and strives to properly manage and dispose wastes generated by its business activities. The Group maintains high standard in waste reduction, educates its employees the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge in sustainable development. The distribution business of the Group strictly complies with Prevention and Control of Environmental Pollution by Solid Wastes Law of the PRC, that regulates the generation, collection and disposal of waste.

Hazardous Wastes

Due to the Group's business nature, the hazardous wastes we generated are mainly an insignificant amount of waste energy-saving lamps and waste batteries, thus we didn't set up relevant goals. For the disposal of hazardous wastes, we will ensure relevant environmental laws and regulations are complied with. In case any other hazardous chemical wastes are produced, we will engage a qualified chemical waste collector to handle such wastes to ensure its compliance.

Non-hazardous Wastes

The non-hazardous wastes generated by the Group's business activities are mainly paper used at the office. To promote waste reduction, we promote waste sorting and waste reduction from source, and strive to establish a digitalized office. To make good use of the online system in office, general administrative notices and data transmission, etc. are carried out using internet system in order to avoid printing and copying documents, reduce the use of paper and encourage the use of double-sided printing. We recommend employees to sort out recyclables and non-recyclables, for example waste paper and packing box are listed and treated under "Recyclables" waste. The Group has implemented various plans and events to encourage the participation of its employees, details of which are as follows:

- Recommend double-sided printing and copying where possible;
- Circulate documents and communicate through electronic media to minimize paper consumption;
- Require employees to use waste paper when testing printers;
- Collect one-sided paper with collection boxes for re-use;
- Set up collection boxes next to each copier and printer for collecting one-sided paper;
- Place environmental protection messages on office equipment; and
- Suggest to use recycled paper.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's total non-hazardous waste intensity (per RMB million revenue) decreased by approximately 50.00% as compared to 2021, mainly due to the increased awareness of waste reduction of employees. The non-hazardous waste discharge performance of the Group was as follows:

Indicator	**Unit**	**2022**	2021
Paper	tonnes	**3.91**	5.55
General wastes	tonnes	**0.04**	–
Ink cartridge	tonnes	**0.02**	0.45
Total non-hazardous waste	**tonnes**	**3.97**	6.00
Total non-hazardous waste intensity	**tonnes/employee**	**0.005**	0.008
	tonnes/RMB million revenue	**0.001**	0.002

A2. Use of Resources

With an aim of actively promoting efficient use of resources, the Group monitors the potential impact on the environment caused by its business operation and promotes a green operational environment to minimize the impact of the Group's operation on the environment. We insist on using resources reasonably and efficiently to conduct reasonable and effective control and management on the environment factors during the Group's operation. The Group has formulated relevant policies and procedures to manage the efficient use of resources. The Group regulates the use of water and energy such as electricity, and focuses on managing energy intensive equipment, in order to standardizes procedures on operating equipment so as to enhance efficient use of resources. In addition, to achieve sustainable development on the environment, the Group has established green practice guidelines in office and regularly circulates environmental messages and practical suggestions on an environmentally friendly lifestyle to employees to reduce the impacts on environment caused by office operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group continuously implements various measures in order to introduce resource efficiency and environmental protection measures to the Group's operations, and is committed to optimizing the use of resources in the process of business operations. The Group has set environmental related targets, including:

Environmental Targets	Condition
Emissions:	
1. GHG Emissions	
• Starting from 2022, the Group will participate or hold one or two carbon reduction activities every year to promote low-carbon life; and • In 2025, the total GHG emission intensity (per RMB million revenue) to be reduced by 3% from that in 2021.	**Ongoing**
Waste Management:	
2. Non-hazardous Wastes	
• Starting from 2022, participate or hold waste reduction activities (such as exchange activities) every year to enhance employees' awareness of waste reduction; and • Starting from 2022, set up waste paper recycling points to promote and enhance employees' awareness of waste reduction.	**Ongoing**
Use of Energy:	
3. Energy Management	
• Starting from 2022, put up posters or other publicity materials in conspicuous positions in offices to encourage energy conservation; and • Starting from 2022, participate or hold one or two energy conservation activities every year, such as Earth Hour (the last/penultimate Saturday of March every year).	**Ongoing**
Use of Resources:	
4. Water Consumption:	
• Starting from 2022, put up posters or other publicity materials in conspicuous positions in offices to encourage water saving.	**Ongoing**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy Management

During daily operation, the major sources of the Group's energy consumption are diesel and gasoline consumption for vehicles and electricity consumption in operation.

The Group controls the electricity consumed by facilities and equipment in the warehouse through Facilities and Equipment Maintenance, Verification and Calibration Policy. The Quality Management Department is responsible for organizing relevant department to verify and calibrate relevant facilities and equipment. Warehouse keeper of the Logistics Department is responsible for the daily maintenance on facilities and equipment in the warehouse, and to ensure the warehouse is equipped with facilities and equipment that have light protection, ventilation, dust-proof, damp-proof, pest control, lighting and fire protection that meets the IVD reagent storage requirement.

Also, the Group has implemented relevant energy use efficiency program to achieve the goal of energy saving and efficient use of energy, the relevant measures are as follows:

- Set all printers, copiers and computers to energy-saving mode where possible;
- Set the room temperature at between 20°C to 25.5°C, with the most suitable temperature at 25.5°C;
- Turn off unnecessary lightings;
- Encourage employees to switch off idle equipment, computers and lightings when not in use or after work;
- Monitor monthly energy usage and investigate material differences;
- Use energy-saving office equipment and computers;
- Purchase energy-saving equipment only when it is necessary to replace old electrical appliances or for new business needs; and
- Post energy-saving slogans in visible area to infiltrate the awareness of energy conservation and environmental protection to the work and life of every employee.

During the Reporting Period, the Group's total energy consumption intensity (per RMB million revenue) increased by approximately 2.17% as compared to 2021, mainly due to a recovery in business activities involving the use of vehicles.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's energy consumption performance was as follows:

Types of energy	Unit	2022	2021
Direct energy consumption[5]	**MWh**	**1,973.74**	1,928.06
Diesel	MWh	**122.99**	118.31
Petrol	MWh	**1,850.75**	1,809.75
Indirect energy consumption	**MWh**	**606.19**	588.40
Electricity	MWh	**606.19**	588.40
Total energy consumption	**MWh**	**2,579.93**	2,516.46
Total energy consumption intensity	**MWh/employee**	**3.42**	3.39
	MWh/per RMB million revenue	**0.94**	0.92

Note:

5. The unit conversion of energy consumption data is based on the Energy Statistics Manual published by the International Energy Agency.

Water Consumption

The Group's water consumption is mainly water consumed in office, with an insignificant amount of water consumed in warehouse. To enhance water efficiency of the Group, we have adopted the following measures:

- Use water-saving appliances in water facilities where possible;
- Turn off water-taps after using to avoid running, overflowing, dripping and leaking of water;
- Notify relevant department if problems are found to avoid wasting water resources; and
- Post environmental protection messages in pantry and toilets to remind employees on water conservation.

Due to the locations of our offices and warehouses, we do not encounter any significant issue in sourcing water.

During the Reporting Period, the Group's water consumption intensity (per RMB million revenue) increased 11.54% as compared to 2021, mainly due to the high frequency of water use during the epidemic for its internal cleaning and disinfection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's water consumption performance was as follows:

Indicators	Unit	2022	2021
Water consumption	m^3	**3,186.61**	2,850.61
Water consumption intensity	m^3/employee	**4.22**	3.84
	m^3/RMB million revenue	**1.16**	1.04

Use of Packaging Material

Despite that the Group's business does not involve production process, we consume packaging material for transportation of products, which include cartons and wooden boxes. We have formulated guidelines for packaging material usage, and conduct annual review on packaging material consumption.

During the Reporting Period, the Group's packaging material consumption performance was as follows:

Types of packaging material	Unit	2022	2021
Carton	tonnes	**86.32**	102.03
Wooden box	tonnes	**14.18**	21.71

A3. The Environment and Natural Resources

The Group pursues the best practice with the environment and focuses on its business impact on the environment and natural resources. Aside from abiding to the relevant environmental laws and regulations and properly protect the natural environment, the Group also finds ways to integrate the concepts of environmental protection into its internal management and daily operations, and establishes relevant policies and endeavours to achieve the goal of environmental sustainability. We understand our responsibility to minimize the negative impact on the environment caused by our business operations in order to achieve sustainable development and create long-term value for our stakeholders and the community. We continuously monitor whether our business operations have any potential impact on the environment, and minimize the impact of our operations on the environment by promoting green operation. If applicable, we will adopt green procurement strategy and the most practical technology to protect natural resources.

Improve Working Environment

To enhance working efficiency, the Group is committed to providing employees a comfortable and green working environment. We also strive to maintain clean and tidy environment in the workplace. We inspect the office area regularly to ensure that a good working environment is maintained. Once the Group has promptly found problems within the workplace, we will take precautionary measures to minimize the potential harm to employees. In addition, the Group will regularly monitor the indoor air quality of the workplace, and will clean air-conditioning systems regularly to maintain good indoor air quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A4. Climate Change

The probability of extreme weather events has becoming increasingly frequent and severe, so addressing climate change has become a global consensus. The Group is aware of the impact of climate change on its business operations in different aspects. Therefore, we have established a set of procedures and relevant policies to identify, monitor and manage ESG issues including climate change. Based on these procedures, we have identified the following climate-related risks.

Physical Risk

The increasing frequency and severity of extreme weather events such as extreme cold or heat, storms, rainstorms and typhoons may increase the risk of power shortages, disrupt the supply chains and damage the Group's assets, which will not only interrupt the operations of the Group's offices and warehouse and reduce revenue, but also increase the cost of repairing or restoring damaged locations. These events may also hinder the work of employees and even cause casualties. To deal with the above risks, the Group has formulated business continuity plans to reduce or avoid losses when extreme weather affects the Group's business premises. The Group will identify these risks and give priority to the risks with serious impact so that preventive measures can be taken in the first instance.

Transition Risk

In addition to the above-mentioned physical risks, the Group also faces the risk arising from the transition to a low-carbon economy. Currently, more and more aggressive climate policies and regulations are available to support the vision of global decarbonization. For example, the Stock Exchange has required listed companies to strengthen climate-related disclosures in their ESG reports. China has also set up powerful goals of achieving "carbon peaking" by 2030 and "carbon neutrality" by 2060, and promulgated relevant action plans and policies. Stricter environmental laws and regulations may expose enterprises to higher risk of claims and litigations. Corporate reputation may also be diminished due to failure to meet climate change compliance requirements, leading to increase in the Group 's related capital investment and compliance cost.

To cope with policy and legal risks and reputational risks, the Group monitors existing and emerging climate-related trends, policies and regulations on a regular basis and is prepared to alert senior management when necessary to prevent cost increase, fines for non-compliance or reputational risk arising from delayed response. In addition, we set targets for reducing energy consumption and GHG emissions in 2021 to advance the Group's sustainable development progress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL

B1. Employment

The Group actively adheres to the laws and regulations such as the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and the Labour Law of PRC. The Group has formulated the policies on administration and human resources such as the Employees Handbook, so as to provide a healthy and pleasant working atmosphere for our employees, and to encourage employees to push forward the long-term development of the Group. During the Reporting Period, the Group was not aware of any material non-compliance with relevant laws and regulations on compensation and dismissal, recruitment and promotion, working hours, holidays and rest periods, equal opportunities, diversity, anti-discrimination and other benefits and welfare that would have a significant impact on the Group.

Employees are the most valuable asset and the core of competitive advantage of the Group, and they provide the Group with driving force for continuous innovation. The Group adheres to a "people-oriented" business strategy, focuses on the introduction, absorption and learning of outstanding talents, advanced technology and modernized corporate management method. The Group respects and protects the legitimate rights of every employee, standardizes labour employment management, protects occupational health and safety of employees, strengthens democratic management, protects the personal interest of employees, fully respects and values the motivation, initiative and creativity of employees, and is committed to constructing a harmonious labour relationship with its employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As of 31 December 2022, the Group had a total of 755 employees (as of 31 December 2021: 743) with its composition shown by different categories as below:

	As of 31 December 2022		As of 31 December 2021	
	Number	**Percentage (%)**	Number	Percentage (%)
By employment type				
Full-time	**749**	**99.21**	727	97.85
Part-time	**6**	**0.79**	16	2.15
By gender				
Male	**468**	**61.99**	457	61.51
Female	**287**	**38.01**	286	38.49
By age group				
<30	**233**	**30.86**	220	29.61
30-50	**492**	**65.17**	490	65.95
>50	**30**	**3.97**	33	4.44
By geographical location				
Shanghai	**181**	**23.97**	194	26.11
Others (other than Shanghai)	**574**	**76.03**	549	73.89
By employee category				
Senior management	**26**	**3.44**	37	4.98
Middle management	**52**	**6.89**	84	11.31
General employees	**677**	**89.67**	622	83.71

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the employee turnover rate[6] of the Group was approximately 13.64% (2021: 17.90%) with its composition shown as below:

	2022		2021	
	Number	**Percentage[7] (%)**	Number	Percentage[7] (%)
By gender				
Male	**61**	**13.03**	83	18.16
Female	**42**	**14.63**	50	17.48
By age group				
<30	**50**	**21.46**	66	30.00
30-50	**50**	**10.16**	63	12.86
>50	**3**	**10.00**	4	12.12
By geographical location				
Shanghai	**20**	**11.05**	30	15.46
Others (other than Shanghai)	**83**	**14.46**	103	18.76

Notes:

6. The employee turnover rate of the Group is calculated by dividing the total number of turnovers during the Reporting Period by the total workforce at the end of the year.

7. The employee turnover rate by category of the Group is calculated by dividing the number of turnovers in a category during the Reporting Period by the total workforce in the category at the end of the year.

Recruitment, Promotion and Dismissal

Adhering to the recruitment principle of "Merit selection; competitiveness in good faith", the Group actively implements talents retain strategy, continuously establishes and improves talents recruitment policy. Our Vastec Human Resources Management Policy has detailly listed out the application, process, prohibited matters and responsibility of the recruitment process. Integrated Management Department is responsible for the human resources management of the Group, to comply with the national policies and regulations, and to formulate and implement the strategies and plans on human resources in accordance with the Group's situation. The Group adheres to the recruitment principle of equality, adopts a recruitment process based on merit selection against the job criteria applied, which the job applicants are assessed based on their mindset, knowledge, morality, ability, experience and physique, etc, in order to continuously attract and recruit outstanding talents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has a clear basis and process for management of employees' promotion, transfer and demotion, and we standardize the dismissal process to protect the interests of both employees and the Group. The relevant process and details are listed in the Employees Handbook. The major considerations of the Group are the attitude, professional skills and performance of the employees. Employee's promotion is generally recommended by their immediate supervisor and decided through assessment. We have implemented a fair and open assessment system to provide employees with the opportunity for promotion and development, so as to discover their potentials.

Dismissal of the Group's employees is categorized into "death", "retirement", "resignation", "dismissal or layoff", and "termination", where the definition and relevant procedures of each dismissal are listed in Employees Handbook and Human Resources Management Policy. All dismissal procedures must comply with the requirement of relevant laws and regulations and the occupational requirements.

Remuneration and Benefits

The Group has established a fair, cyclical, reasonable and competitive remuneration system, and pays employees based on the principles of fairness, competitiveness, motivation, reasonableness and legitimacy. The Group provides a competitive salary structure, with key considerations of the Group's operating situation, socio-economic prosperity and employees' performance, ability and contribution to the Group's business are the major considerations on remuneration.

The Group has adopted a performance-based remuneration policy, where employees' remuneration is composed of basis salary and performance salary. We also issue year-end bonus, in which the amount is adjusted based on the employee's performance appraisal and the Group's operation situation. The Group pays "five social insurance and one housing fund" for its employees in compliance with the laws, namely endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to ensure employees are covered by social insurance.

According to the requirements of national and regional laws and regulations such as the Labour Law of the PRC, the Group protects the rights and interests of its workers, respects employees' rights to rest and leave. We have regulate our staffs' working hours, paid annual leave and other leaves, such as paid marriage leave, paid maternity leave and paid funeral leave, etc., which are all established in accordance with the relevant national regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Equal Opportunities and Anti-discrimination

The Group adheres to the three attitudes towards employees, which are the corporate culture of "Everyone is equal", "Respect each other" and "Just, open and fair", strictly complies with relevant national and regional laws and regulations, and has developed Employee Handbook to list out all activities related to recruitment, employment, promotion, benefits and other social events held by the company are treated equally and free from any discrimination. The Group hopes that a well-developed management system provides every employee a competitive environment with good faith, that can attract and retain outstanding talents.

B2. Health and Safety

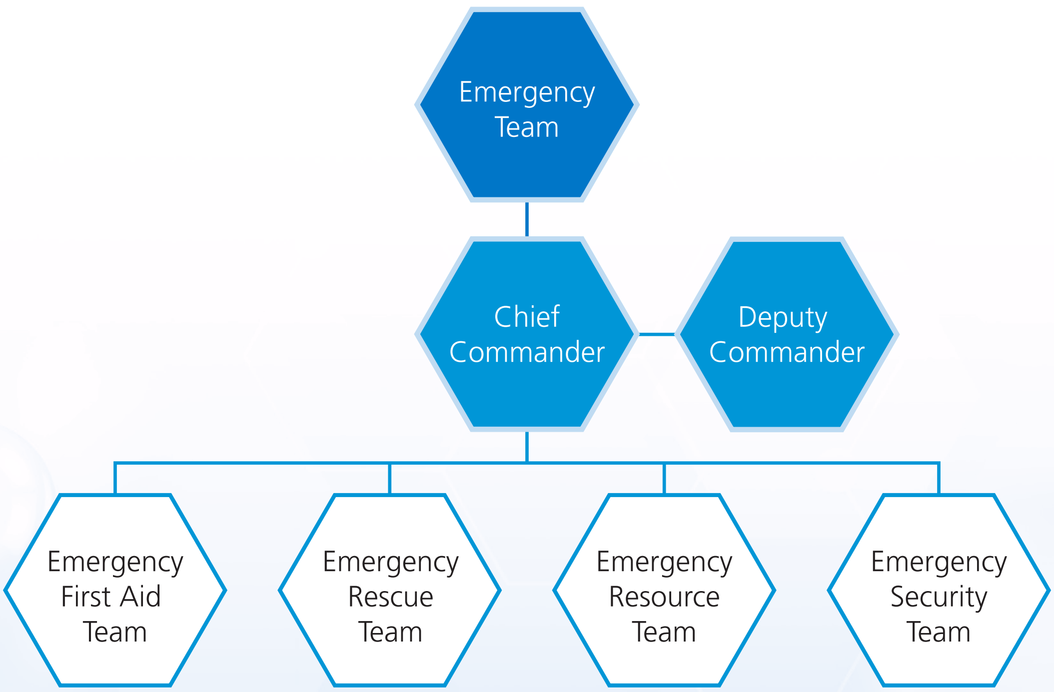
The Group highly values employees' health and safety, and is committed to providing employees a healthy, safe and comfortable working environment. We strictly comply with relevant laws and regulations such as the Law of the PRC on the Prevention and Treatment of Occupational Diseases, the Production Safety Law of the PRC, the Labour Law of the PRC and the Fire Protection Regulation of the PRC. During the Reporting Period, the number of lost days due to work injury was 120 (2021: 201). Over the past three years (including the Reporting Period), the Group has not recorded any major safety accidents and work-related fatalities, or paid any claims or compensations to its employees for such incidents. The Group has neither found any material violation of relevant local health and safety laws and regulations.

The Group is committed to providing safe working environment to our employees in order to prevent and reduce accidents as well as to ensure the safety of employees and national properties. We implement occupational safety guidelines for all employees, that list out our occupational safety policy and promote workplace safety. We have also adopted internal training plan and the code of workplace health and safety procedures, in order to educate the employees on the importance of proper workplace health and safety practices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Emergency Organizational System

The Group's Emergency Organizational System is divided into internal emergency organization and social emergency support. Internal emergency organization has established an Accidents Emergency Team, which is led by the General Manager as the Chief Commander and the safety responsible personnel as Deputy Chief Commander. The responsible person from each business departments as unit members, are responsible for organizing and directing every aspects to handle major accidents, and to direct emergency rescue and control the spread of the accident. The Emergency Team includes four units: Emergency First Aid Team, Emergency Rescue Team, Emergency Resource Team and Emergency Security Team. The Emergency First Aid Team is responsible for aiding and performing immediate treatment for the injured at the accident scene and transporting serious injured person to hospital. Emergency Rescue Team is responsible for speedy rescue of people in danger and injured, transportation of various property under safe conditions, fire extinguishing, searching and rescuing injured and sterilizing the contaminated area after accident. Emergency Resource Team is responsible for communicating instructions for the Emergency Team, contacting and supervising the work of each team, reporting issues of the cooperation between each team, reporting the accidents to Zhangjiang Hi-Tech Park Safety Production Monitoring Team, Pudong New District Safety Production Monitoring Authority, Fire and Environmental Department and asking for their support. Emergency Security Team is responsible for protecting and directing people around the scene of the accident, evacuation and transportation of supplies.



Employee Health Management

In order to create a good working environment for our employees, we enhance safety inspection to ensure the safety of equipment and facilities. For health management of employees, the Group has formulated Hygiene and Employees' Health Management Policy to closely monitor the health conditions of all employees through annual health check-ups. Warehouse responsible personnel should inspect the conditions and environment of warehouse regularly, and ensure the facilities and equipment for the prevention of fire, pollution, insects and rats are safe. In addition, for employees engaged in quality management, acceptance and warehouse management, etc. of medical device that have direct contact with medical device, they are required to undertake health check-ups from hospitals before performing their duty, with the items and results of the health check-ups meeting the needs of quality management. They should undertake at least one health check-ups every year, and conduct the health check-ups strictly according to the required health check-ups items.

To prevent occupational diseases and injuries caused by occupational hazards, the Group has also arranged occupational health check-ups for employees and established Employee Health File. The Administrative Department is responsible for arranging the health check-ups for all employees and archiving the medical files.

B3. Development and Training

The Group focuses on the establishment of the corporate's internal training management and development system, encourages employees to conduct further education on business through organizing job training and other skills training, and implements policy of "Multi-ability in one position" to help with the Group's sustainability development as well as the growth and development of employees.

Training Management

The Group has formulated Staff Training and Assessment Policy, and listed out relevant training process in Human Resources Management Policy to standardize staff training management. Training can be divided into internal and external training, individual and centralized training, expert visits and study tours. Through analyzing assessment results, we confirm the personnel need to be trained and training contents, and develop training plans accordingly with the approval of Integrated Management Department. The Group also arranges relevant personnel to undertake regular training and assessments on regulations related to national medical device management, administrative regulations, medical device knowledge and ethical knowledge, etc. The Group supports and encourages employees to participate in studies related to their professions and titles during their spare time. The Quality Management Department is responsible to keep relevant records on details of each training. The Group also values the good relationship established with suppliers, and receives their necessary technical support and training.

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During the Reporting Period, the percentage of trained employees[8] was approximately 30.19%, and the average training hours per employee[9] were approximately 51.07 hours. During the Reporting Period, the average training hours and the percentage of trained employees by gender and category were as follows:

	2022		2021	
	Average training hours[10]	**Percentage of trained employees[11] (%)**	Average training hours[10]	Percentage of trained employees[11] (%)
By gender				
Male	**53.19**	**33.27**	23.17	38.95
Female	**47.67**	**25.23**	15.11	31.47
By employee category				
Senior management	**1.19**	**7.41**	71.33	8.11
Middle management	**14.32**	**73.68**	52.82	20.24
General employees	**55.52**	**27.78**	17.63	39.87

Notes:

8. The percentage of trained employees of the Group is calculated by dividing the total number of trained employees during the Reporting Period (including turnovers during the Reporting Period) by the total workforce at the end of the Reporting Period (including turnovers during the Reporting Period).

9. The average training hours of the Group is calculated by dividing the total number of training hours of employees during the Reporting Period by the total workforce at the end of the Reporting Period (including turnovers during the Reporting Period).

10. The percentage of trained employees in a category is calculated by dividing the number of trained employees in the category during the Reporting Period (including turnovers during the Reporting Period) by the total workforce in the category at the end of the Reporting Period (including turnovers during the Reporting Period).

11. The average training hours in a category is calculated by dividing the total number of training hours in the category employees during the Reporting Period (including turnovers during the Reporting Period) by the total workforce in the category at the end of the Reporting Period (including turnovers during the Reporting Period).

Training Programs

The Group's training includes three categories: pre-job training, on-the-job training and professional training. Pre-job training is organized by Training Manager for new employees before on board. The training contents include company introduction, explanation on Human Resources Management regulations, knowledge on corporate cultures, and the description of job requirements, procedures and responsibilities. On-the-job training provides skills training for existing employees to improve their skills for the position or stimulate skills for second position. The training is organized by Training Manager that adopts the combination method of internal and external training, and form a fixed training material. Professional training is specifically for outstanding employees, that is tailored for the needs of the business. Professional training includes professional courses by training institutions, inviting experts for special lectures, off-the-job learning and study abroad.

In addition, employees working on quality management are arranged by the Group to receive continuing education and training organized by Drug Supervision and Management Department. During the Reporting Period, the Shanghai Engineering Department of the Group has held basic training for new engineers, and invited professional personnel as lecturers. To improve the overall level of the Group's employees, we enhance employees' knowledge on medical device through technical training, and familiarize themselves with instrument settings and sample handling process, etc. to establish a good corporate image, corporate culture and atmosphere.

B4. Labour Standards

Prevention of Child and Forced Labour

The Group has complied with relevant laws and regulations about labour employment, including but not limited to Labour Law of the PRC, Law of the PRC on the Protection of Minors, and Provisions on the Prohibition of Using Child Labour. During the Reporting Period, the Group was not aware of any material non-compliance with child and forced labour related laws and regulations that would have a significant impact to the Group.

The Group strictly prohibits our business in Mainland China from hiring any child and forced labour. The Group has clearly stated in the recruitment regulations of only recruiting employee with age above 16, and require recruits to provide true and accurate personal information at the beginning of employment. Recruitment staff will stringently verify their information including medical certificates, academic certificates, ID cards and hometown information, etc. The Group has established a comprehensive recruitment process that checks the candidates' background and a formal reporting procedure for handling any exceptions, as well as conducts regular inspections to prevent any child labour in its business operations. If any violations are found, the Group will immediately investigate, punish or dismiss the relevant employees. If necessary, the Group will further improve the labor mechanism for violations.

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In addition, the Group's employees work overtime on a voluntary basis to avoid any violation of the labour standards. The Group prohibits any personnel in any department to detain employees' ID card, deposit or salary for any reasons, and will never use bonded labour. The Group also does not allow corporal punishment, mental abuse and fines, and prohibits punitive measures, management methods and behaviours in a form of abusive, corporal punishment, violence, mental stress, sexual harassment (including inappropriate language, posture and physical contact) and sexual abuse for any reasons. In addition, the Group also conducts self-reviews and inspections on a regular basis to prevent any child labor and illegal forced labor in its operations. If any violations are found, they will be dealt with in accordance with relevant internal regulations.

B5. Supply Chain Management

As an IVD products distributor, the Group's suppliers are mainly IVD manufacturers. According to the marketing research and the information collected during our daily operation process, the Group insists on carefully selecting brands and products which have favourable growth potentials, keeping in touch with IVD manufacturers and initiating negotiation and procurement process. We value the potential environmental and social risk management within the supply chain, evaluate the suppliers' performance on environmental and social aspects during procurement processes, and only purchase products which meet related standards. Also, we evaluate the compliance level of suppliers on environmental and social aspects, in order to protect the environment and prevent social risks within the supply chain. The Group promises to continuously and actively search for suitable new brands or products and introduces to customers, and take much count of the management of potential environmental and social risks so as to ensure the products' origin, standard and quality.

Supplier Quality Management

The Group upholds the procurement principle of "making purchases based on the stock and sales demand, achieving no backlog and no out of stock to control stock reasonably", and has formulated Procurement, Products Receiving and Quality Acceptance Check Policy to control the procurement and acceptance checking processes so as to ensure purchased medical device products meeting the requirements. Our procurement officers in the logistic department are responsible for purchasing medical device products from qualified suppliers and the employees in warehouse are responsible for acceptance check on the purchased medical device products. According to the laws and regulations of medical devices, we require suppliers to provide Medical Devices Registration Certificates before purchasing medical devices so as to ensure the purchased medical devices are legally valid. The Group has established strict and regulated procurement mechanism, including regulated procurement, products receiving and acceptance checking processes to guarantee the safety of medical devices after sale and laying the foundation of requirements for products received.

In addition, the Group also fully considers the social, ethical and environmental performance of suppliers in the procurement process. The Group reviews the following contents during the regular audit of suppliers:

- The supplier understands the environmental, social and ethical issues related to its business and has established minimum standards for these issues;
- Try to minimize discrimination against SMEs or local suppliers on the premise of meeting the needs of the Group; and
- When other conditions are equivalent, the Group will give priority to selecting suppliers who are responsible for the environment and society, or those who promote products and services that are beneficial to the environment.

During the Reporting Period, the Group had a total of five (2021: five) major suppliers. All major suppliers have been reviewed through the above practices during the Reporting Period. In 2022 and 2021, the Group has not found any of its major suppliers having significant negative impact on business ethics, environmental protection, human rights and labor practices.

New Supplier Management

In order to strengthen the corporate operation quality control and ensure the medical device products with reliable quality are purchased from legally qualified corporations, the Group has formulated New Suppliers and New Variety Review Policy to regulate the reviewing work towards the new suppliers' legal qualification, quality reputation and the new varieties' validity and quality reliability. Such departments including the commerce department and the sales department are responsible for analyzing market outlook and operating benefits. The Group has strict and mature endorsement process for new suppliers, including collecting licenses, site visiting and conducting high spot review on whether quality control system can satisfy the requirement on medical devices' quality. Before conducting procurement activities, the Group provides each department materials of the new variety for a strict verification and reviews whether the medical devices fulfill the production scope regulated by the "Permit for the Medical Device Production" of the supplier, in order to ensure the legality and quality reliability of the supplier, and grasp the quality status of the new medical device products comprehensively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Fair and Open Procurement

The Group also highly values the anti-corruption work of the procurement and other stages, and propagates active, fair, honest and legal competition behaviour. The Group's procurement process rigorously complies with the Tendering and Bidding Law of the PRC and other related regulations, and operates under an open, fair and impartial condition with no discrimination against any suppliers. Employees and other individuals who have interests with relevant suppliers will not be allowed to participate in related procurement activities. Each employee should treat suppliers fairly, and is not allowed to conduct improper statement of substantive event or any unfair trades or behaviours towards the substantive event through manipulation, concealment and misusing of information privilege. The Group also concerns about suppliers' and partners' integrity. We only select suppliers and partners who have good track records on operation with no serious violations on business ethics. We have zero tolerance for bribery and corruption, and strictly prohibit suppliers and partners from obtaining procurement contracts or partnerships through any forms of interest transfer.

B6. Product Responsibility

The Group attaches great importance to product quality and corporate reputation, actively ensures our product and service quality through internal controls, and is committed to selling quality products that meet the international standards with the aim of "Providing high cost-performance ratio product and service to the inspection industry". We also maintain communication with customers to ensure we understand and meet their needs and expectation. We hope to continuously improve our products and services, so as to achieve 100% customer satisfaction. The Group has complied with relevant laws and regulations related to products and services, including but not limited to the Regulation on the Supervision and Administration of Medical Devices, Product Quality Law of the PRC, Advertising Law of the PRC, Law of the PRC on the Protection of Consumer Rights and Interests, Trademark Law of the PRC and Patent Law of the PRC.

During the Reporting Period, the Group was not aware of any material non-compliance with relevant laws and regulations related to health and safety, advertising, labelling and privacy matters relating to products and services provided that would have a significant impact on the Group. Also, during the Reporting Period, the Group did not have any recalled products due to safety and health reasons and did not receive any complaints in relation to product and services, which our customer satisfaction also meets the expectation.

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Quality Management System

The Group highly values the importance of quality control to our operations. We have formulated Inspection and Evaluation for the Implementation of Quality Management Policy to establish a monitoring mechanism for quality management. To promote continuous improvement on the quality management system, we organize at least one inspection on the implementation of quality management system annually to ensure the effective implementation of each quality management system, standards and operating procedures. The Quality Management Department is responsible for managing the execution of the policy, inspecting every execution, implementation and record standardization of the quality management policy, position management standard and operating procedures. A Quality Management Policy Self-examination Report points out the potential problem and reports to major responsible person of the corporate and responsible person of quality management to seek approval on the proposed rewards and penalties method and corrective measures.

In addition, we have set the Quality Management Self-examination Policy to regulate the self-examination of quality management, and carry out annual self-examination on quality management system in year end to ensure the quality management system is continuously in compliance with the requirements of the Medical Device Operation Quality Management Specifications and the documents of the Group's management system. The self-examination is carried out by the Quality Management Department of the Group through reviewing documents and records, on-site inspection etc., in order to examine the compliance and evaluate the effectiveness of the quality management system. The Quality Management System Self-examination Report is formulated, which is reviewed by the management representative of the Group, and is reported to Food and Drug Administration after being approved by the General Manager.

We have formulated Quality Management Documents Management Policy in order to facilitate the documentation, modification, review, approval, revocation, release and storage control procedure of quality management documents. We have set Document Issue and Retrieve Registration Form, Document Modification Request Form and Document Directory Listing, etc., to ensure the valid versions of documents are available at all locations of the Group.

Quality Control

To enhance the management of dispatch products and ensure the safety and effectiveness of the medical devices sold, the Group has formulated Medical Device Dispatch and Review Management Policy to standardize the management on all dispatch products. Following the principle of "First in, first out", the Group requires the warehouse keeper of the Logistics Department to take the responsibility for the review of the delivery products, and carry out detailed review and inspection of the product entity according to the purchase order. Any inconsistency with customer's purchase order or unqualified appearance found must be corrected, to ensure the quantity is accurate, quality is satisfying and packaging is firm. If problems are discovered, such as abnormal sound or liquid leakage are found inside the packaging of medical device, the outer packaging is damaged, contaminated, the seal is not strong enough and damaged or the gasket is broken, the delivery must be terminated and reported to Quality Management Department. We have Dispatch Review and Delivery Record for inspectors to fill in after inspection, which the record should be kept until effective date or two years after expiry.

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The Group has also established Expiry Management Policy to ensure all expiry of the medical devices are under controlled and to enhance the management of expiry date of the medical devices. Logistics Department is responsible for arranging and summarizing the inventory of the medical devices that are soon expired, and urging the Sales Department to adopt some quick sales measures and reporting the inventory situation to the Quality Management Department and Sales Department regularly. The selling of the medical devices should issue invoice according to the principle of "First produce, first out; soon expire, first out; dispatch by batch". The products should be clearly marked and stored according to their batch number. The Group can only sell products with expiration date more than six months, products with close expiry date cannot be purchased and accepted to the warehouse. Logistics Department will timely report to Quality Management Department of the IVD reagents with less than six months expiration to ensure the medical device sold are safe and effective.

The Group highly values the storage, maintenance and delivery of products, so as to ensure management of the quality of the medical device inventory and delivery process. The Group has formulated the Warehouse Storage and Maintenance Management Policy and established storage and maintenance procedures, while the warehouse keeper of Logistics Department is responsible for the storage and maintenance management after purchasing the medical devices to ensure the medical devices are safe and effective. The refrigeration meets the storing temperature requirement of the product, and the warehouse is equipped with facilities such as shelves and underlay. The maintenance of the medical devices is also subject to strict regulations, in which quality inspection is carried out on all products in stock every three months to examine if there is any unusual situation on the appearance, packaging and expiry date of the products in stock, where extra care is needed on products with long storage, close expiry date and new products. The warehouse keeper monitors the temperature and humidity of the room temperature warehouse at least two times in every morning and afternoon, in order to ensure the temperature and humidity of the warehouse meets the requirement. When the temperature and humidity of the warehouse exceed the standardized range, the warehouse keeper will adopt corresponding adjustment and control measures and record on the Product Warehouse Temperature and Humidity Record which will be kept for two years. Refrigerated warehouse is equipped with automatic record alarm device on temperature and humidity to perform real-time monitoring. When the temperature and humidity exceed or fall below the range of the refrigerated warehouse, the system will automatically send emergency message to the mobile phone of the quality management personnel and facilitate them to take timely emergency measures. Also, we have set the Medical Device Delivery Management Policy to regulate medical device delivery, to adopt different delivery methods according to the physical and chemical properties of the medical devices, and to ensure timely deliver to customers and the quality of medical devices is not affected during delivery. We require the warehouse delivery staff of the Logistics Department who is responsible for product distribution and delivery to strictly follow the delivery procedures, including correct loading in accordance to the packaging to prevent damage to medical device and adopt waterproof, heatproof and shock-proof measures to reduce damages during delivery; using refrigerated trucks or insulated containers for delivery of refrigerated medical devices to real-time monitor and record the temperature data of the refrigerated medical equipment; complying with delivery operation regulations and transit time limit, delivery upon receipt, product return etc., as well as delivery on time and shorten storage time to ensure the quality and safety during delivery. We also collect, track, report and manage medical device adverse event information for medical devices operated by the Group, in order to implement effective monitoring, and understand the use of medical devices.

Unqualified Products Handling

The Group has established procedures for the identification, labelling, isolation and disposal of unqualified products and has formulated the Unqualified Medical Devices Management Policy, in order to ensure that all unqualified medical devices are under control and to avoid any misuse. The Quality Management Department is responsible for the confirmation of unqualified products, handling procedures of the confirmation, and filing of relevant records. Personnel in charge of quality is responsible for the decision of disposal of unqualified products. Warehouse keeper is responsible for identification and labelling of unqualified products, and processed by relevant department. We will identify, record and isolate any unqualified products found during the inspection process, including medical devices with quality problem and the identified model announced by Medical Devices Monitoring Management Department. We will reject the unqualified products found during inspection and return to the supplier. For the unqualified products found during maintenance inspection in warehouse and dispatch review, Logistics Department will immediately stop the selling system to achieve the control management of unqualified products.

If we receive notification on recalling products from medical device manufacturer, the Quality Management Department will immediately stop selling the product in accordance with Medical Device Product Recall Policy, assist the medical device manufacturer to control and recall the defective medical devices, communicate and provide feedback on recalling messages to medical device manufacturer in a timely manner, as well as document and keep the recall record of medical device.

Customer Services

The Group highly values the importance of customer services, and believes that customer satisfaction is one of the key factors for the sustainable development of the Group's business.

The Group has formulated the Sales Management Policy and established sales management procedures, in order to standardize selling procedure including sales order, sales contracts and sales records so as to satisfy customer's requirement. Salesperson from Business Department is responsible for accepting sales order from customer and establishing correspondence sales record, while warehouse keeper is responsible for preparing products according to sales order before the delivery staff deliver the products to designated location according to customer's request. The Group ensures the sales must complied with the requirement of relevant laws and regulations, that the products are sold to medical devices operating corporations or units with legal qualifications. The qualifications of first-time buyers need to be reviewed to ensure they have legal operating qualifications. Class 2 or 3 medical device (medical devices with medium risk and relatively high risk) operation enterprise must have a medical device operation enterprise permit, recordation certificate and business license within effective date.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To provide customers with better services, meet customer needs and enhance market competitiveness, the Group has formulated the After-sales Services and Quality Tracking Management Policy and established a management system to manage the after-sales services and quality tracking of all medical devices. The Group has also established the Product Return Management Policy to strengthen the management of returned products and to prevent errors and losses. After-sales service personnel is responsible for organizing and implementing the Group's after-sales services, receiving and processing customers' feedback so as to timely report users' opinions and suggestions to the Quality Management Department and provide feedback to manufacturer, with the aim of achieving "Enthusiastic and openminded attitude; prompt and fair handling". The Quality Management Department is responsible for collecting and sorting out the opinions and suggestions put forward by customers, as well as investigating and handling the complaint products. To ensure that our customers are satisfied with our services, we accept returns or exchanges for defective products. In addition, if it is found that the product has quality problems, the packaging is damaged or the serial number of the product does not match the number listed on the delivery note, we will be responsible for recalling the products and all relevant expenses. If the quality problem is caused by suppliers, we can seek indemnification from the supplier for all the recalling expenses we incurred.

In addition, we have formulated the Quality Problems and Complaints Handling Management Policy to regulate all complaints filed by users regarding the devices and reagents. The after-sales service personnel or any other employees are required to notify the Quality Management Department within 3 working days after receiving the complaint. The Quality Management Department should investigate and understand the user's complaint, analyse the cause and contact manufacturer or supplier in a timely manner. We require joint investigation for accidents, remedial measures, resolution process follow-up and timely report to user on the results. We promise to provide results and solutions on complaints within three working days in order to maintain the Group's reputation and to establish a first-class image and to effectively establish a user feedback system.

Data and Privacy Protection

The Group strictly and carefully manages customers' documents to avoid leakage of customer privacy. Customers' information and data are part of the Group's resources, in which no one can sell, share or disclose for any purpose. Every employee must protect customers' information and data in accordance with the Group's regulations. We have strictly complied with laws and regulations related to privacy, including but not limited to the Law of the PRC on the Protection of Consumer Rights and Interests. Our conversations with customers, transaction history, documents and reports provided by customers (if not public) will be kept confidential, and disclosure of customer data to third parties without customer's consent is strictly prohibited. At the same time, customers have the rights to review and modify their data and choose not to participate in any direct marketing activities. We are committed to protecting customers' privacy, thereby winning their trust and confidence, maintaining the Group's competitiveness in the market, and driving the Group's sustainable business development and service quality assurance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IP Rights

The Group understands the importance of IP rights protection, therefore we are committed to protecting the Group's own IP and the IP of our customers. The Group's IP policy aims to protect the IP rights of third parties and does not infringe the interests of any third parties (especially in terms of IP). According to the relevant regulations of Contract Law of the People's Republic of China, Trademark Law of the PRC and Regulation for the Implementation of the Trademark Law of the PRC, we obtained trademark registration certificate for the Vastec trademark which is used in the Group's business operations. In addition, we will closely monitor infringements in the market and halt any infringement such as counterfeiting trademarks. When infringements on the Group's IP are found, such as malicious registration and imitation of the Group's trademark etc., the Group will consult relevant lawyers and professional consultants to protect the Group's IP under their guidance. We will take action such as filling lawsuit against infringer according to Article 213 of the Criminal Law of the PRC to protect the legitimate rights of the IP held by the Group. In addition, we also avoid infringing the IP rights of others by not using similar or identical wordings, graphics or their combinations on products and services with same nature. We will conduct patent search to analyze the technical functions and patent rights of similar products to avoid IP infringement.

Advertising and Labelling

To ensure the labels of the Group's products conform to the actual conditions of the products, the Group has formulated Medical Device Labelling Management Policy to standardize the use of the Group's medical device labels and to ensure the product meets relevant national requirements. At the same time, the Legal Department pays close attention to the latest relevant national laws and regulations in order to ensure that the Group's medical device product labels comply with regulations. Labels in Chinese are formulated according to relevant information in the Registration Certificate, which includes the name of product, specification, name and address of the manufacturer, etc., while the product manual has to be submitted for the label registration. For the labels of all the Group's medical device products, the Marketing Department is responsible for the production of the labels on the product outer packaging in accordance with the laws and regulations. The Commerce Department follows up the registration and recording work of the registration companies, while the Legal Department is responsible to review the content of the label samples on the outer packaging of the products. The labels on the outer packaging of the product shall be affixed by the personnel of the designated relevant department in accordance with the product requirements. We have established a strict monitoring procedure to ensure the labels of the medical devices consist of the contents required by the Provisions on the Administration of Instructions and Labels of Medical Device under the China Food and Drug Administration Order No. 6, and do not contain prohibited content such as description on cure rates or efficiency, and the comparison of effectiveness and safety with products from other companies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the newly registered products sold by the Group, the Marketing Department shall submit their labels to the Food and Drug Administration Department for review or record when the registration, and the labels will then be produced according to the latest approved label template and the Group's label model. During promotion, we strictly require the sales and marketing team to comply with laws and regulations related to the use of advertising and labelling to avoid any form of deceptive advertising.

B7. Anti-corruption

The Group believes that a corporate culture of high integrity is the key to our continuous success, and therefore we value the importance of anti-corruption work and system establishing. The Group is committed to build an honest, transparent and efficient internal management atmosphere that requires employees, especially management level, to treat honesty and integrity as the most basic code of conduct, and does not allow any behaviour related to fraud, corruption, bribery, opportunism, concealment and private gain. Once identified, the Group will take serious penalties. During the Reporting Period, our directors and employees have taken relevant anti-corruption training courses. Through relevant training, directors and employees of different ranks have further clarified their corresponding roles and responsibilities in anti-corruption and business ethics, as well as the precautions for compliant operation.

The Group has complied with relevant laws and regulations of bribery, extortion, fraud and money laundering, including but not limited to the Company Law of the PRC, Tendering and Bidding Law of the PRC, Criminal Law of the PRC, Anti-unfair Competition Law of the PRC and Interim Provisions on Prohibition Commercial Bribery etc. During the Reporting Period, the Group was not aware of any material non-compliance with relevant laws and regulations of bribery, extortion, fraud and money laundering that would have a significant impact on the Group, nor any concluded legal cases regarding corrupt practices brought against the Group or its employees.

Whistleblowing Mechanism

The Group has implemented whistleblowing policy to build and maintain our culture of integrity and transparency. We have established a comprehensive reporting channel, which include anti-fraud whistle-blowing telephone, email address and reception desk for letters on whistle-blowing etc., and published the respective telephone number, email address and address for letters. For reports involving fraud, the Audit Committee will determine whether to file an investigation while an Investigation Report must be issued after the investigation. Fraud investigation must be confidential, and the anti-fraud protection mechanism ensures that complainants and whistle-blowers are protected when assisting the investigations, to safeguard the confidentiality of the whistle-blower's identity. The Group will review its mechanism regularly to ensure its effectiveness.

Conflict of Interest Management

The Group has established Vastec Conflict of Interest Management Policy to prevent the employees being affected by their personal interests when dealing with the Group's beneficial relationship which do not adopting relevant measures and leads to harmful behaviour to the Group's interests and other employees caused by employees' personal interests. The Group requires employees to implement reporting policy regarding the situation on conflict of interests, and report to their supervisors to avoid potential damage to the Group and other employees caused by conflict of interest. The Group has established a Conflict of Interest Investigation and Review Team and adopted a consensus method in order to determine the judgement and solutions on the conflicts of interests of the Group's affairs. The Group has also implemented Code of Ethics for Employees to establish legal and ethical standards for employees, to ensure employees are aware of the resolution of conflicts of interests, and to urge employees to consciously reflect the Group's professional style and ethical standard so as to maintain the image of the Group.

B8. Community Investment

Corporate Social Responsibility

The Group has established the community investment policy, and at the same time the corporate shoulders the responsibility of giving back to the society. Therefore, we are dedicated to contribute to the society continuously while promoting business development and fighting for better returns for shareholders so to fulfill our corporate social responsibility. The Group aims to groom the employees' social responsibilities, thus always encourages employees to participate in social welfare activities during work and private hours for greater contribution the society. The Group motivates employees to take part in social charity and fundraising activities, including visiting nursing homes, orphanage, participating in blood donating activities to express their concerns for the society. The Group believes that the abovementioned activities do not only improve employees' quality of mind, but also bring care to those in need. We believe that through participation in activities which give back to the society in person, employees' civil consciousness can be raised, and right values can be built.

During the Reporting Period, the Group made a total donation of RMB1,604 thousand to different institutions, showing the Group's determination to fulfill its corporate social responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONTENT INDEX OF THE ESG REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Mandatory Disclosure Requirements	Section/Declaration
Governance Structure	ESG Governance Structure
Reporting Principles	Reporting Framework
Reporting Boundary	Reporting Boundary

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1	The types of emissions and respective emissions data.	Emissions – Exhaust Gas Emissions, GHG Emissions
KPI A1.2	Direct (scope 1) and energy indirect (scope 2) GHG emissions (in tonnes) and, if applicable, intensity (e.g. per unit of production volume, per facility).	Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity. Total hazardous waste produced (in tonnes) and, if applicable, intensity (e.g. per unit of production volume, per facility).	Emissions – Explained
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, if applicable, intensity (e.g. per unit of production volume, per facility).	Emissions – Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions – Exhaust Gas Emissions, GHG Emissions; Use of Resources
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and description of waste reduction target(s) set and steps taken to achieve them.	Emissions – Waste Management; Use of Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI 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).	Use of Resources – Energy Management
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Use of Resources – Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources – Energy Management
KPI 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.	Use of Resources – Water Consumption
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Use of Resources – Use of Packaging Material
Aspect A3: The Environment and Natural Resources		
General Disclosure	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
KPI A3.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	The Environment and Natural Resources

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI 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.	Climate Change
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Employment
KPI B1.1	Total workforce by gender, employment type (for example, full or part-time), age group and geographical region.	Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI 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.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
KPI B6.4	Description of quality assurance process and recycle procedures.	Product Responsibility
KPI B6.5	Description of consumer information protection and privacy policies, how they are implemented and monitored.	Product Responsibility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI 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.	Anti-corruption
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

INDEPENDENT AUDITOR'S REPORTS

Year ended 31 December 2022

To the shareholders of IVD Medical Holding Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of IVD Medical Holding Limited (the "Company") and its subsidiaries (the "Group") set out on pages 128 to 227, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of goodwill, trademarks and patents

As at 31 December 2022, the Group has (i) goodwill of RMB898.1 million and trademarks of RMB737.8 million before impairment, respectively, which related to the cash-generating units ("CGUs") of distribution of IVD reagents and medical equipment ("Distribution CGU") and (ii) patents of RMB16.9 million before impairment, which related to production and sales of microbiology equipment ("Microbiology CGU").

Given the size of the carrying values of the goodwill and trademarks, which have indefinite useful life and are tested for impairment annually, and there is internal source of information indicate that impairment of patents may exist, management of the Company engaged an external valuer to perform impairment assessments on goodwill, trademarks and patents by using value in use calculations with cash flow projections based on financial budgets covering a five-year period.

During the year, an impairment of RMB16.9 million was recognised for patents.

The impairment assessment has been identified as a key audit matter due to the significant estimations involved in the assessment of the recoverable amounts of the goodwill, trademarks and patents.

The accounting policies and disclosures in relation to the impairment of goodwill, trademarks and patents are included in notes 2.4, 2.5 and 14 to the consolidated financial statements.

We evaluated the impairment assessment performed by the management of the Company and our audit procedures included the following:

- obtaining and reviewing the valuation report prepared by the external valuer engaged by the Group;
- assessing the external valuer's qualification, experience and expertise and considering its competence, objectivity and independence;
- enquiring of management in relation to the key assumptions applied in the cash flow projections, such as the revenue growth rates and gross margins, and comparing them to historical information and our understanding of the latest market information and conditions;
- involving our internal valuation specialists to assist us in the assessment of the methodologies and the discount rates used to determine the recoverable amounts; and
- assessing the adequacy of the disclosures of the Group's impairment assessment of goodwill and other intangible assets in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORTS

Year ended 31 December 2022

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORTS

Year ended 31 December 2022

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LAM, Wai Ming, Ada.

Ernst & Young
Certified Public Accountants
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong
17 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
REVENUE	4	**2,748,809**	2,730,670
Cost of sales		**(2,140,668)**	(2,164,402)
GROSS PROFIT		**608,141**	566,268
Other income and gains	5	**26,016**	26,265
Selling and distribution expenses		**(117,239)**	(122,568)
Administrative expenses		**(152,917)**	(183,850)
Impairment of trade receivables		**(2,694)**	(800)
Other expenses		**(38,278)**	(19,206)
Finance costs	6	**(30,580)**	(20,422)
Fair value (loss)/gain on financial assets at fair value through profit or loss		**(11,455)**	13,918
Share of profits of associates		**495**	683
Share of profit of a joint venture		**2,300**	7,652
PROFIT BEFORE TAX	7	**283,789**	267,940
Income tax expense	10	**(88,259)**	(106,190)
PROFIT FOR THE YEAR		**195,530**	161,750
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(5,198)**	156
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements		**47,283**	(15,110)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**42,085**	(14,954)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**237,615**	146,796

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	**2022** RMB'000	2021 RMB'000
Profit attributable to:			
Owners of the parent		**209,999**	174,541
Non-controlling interests		**(14,469)**	(12,791)
		195,530	161,750
Total comprehensive income attributable to:			
Owners of the parent		**252,084**	159,587
Non-controlling interests		**(14,469)**	(12,791)
		237,615	146,796
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB15.61 cents**	RMB13.19 cents
Diluted		**RMB15.50 cents**	RMB12.94 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**83,103**	71,695
Intangible assets	14	**1,635,885**	1,654,323
Investments in associates	15	**17,460**	2,741
Investment in a joint venture	16	**38,447**	22,147
Financial assets at fair value through profit or loss	17	**59,378**	79,485
Deferred tax assets	25	**5,366**	5,167
Total non-current assets		**1,839,639**	1,835,558
CURRENT ASSETS			
Inventories	18	**628,622**	672,683
Trade and bills receivables	19	**566,796**	553,119
Prepayments and other receivables	20	**240,693**	347,091
Pledged deposits	21	**17,901**	124,284
Cash and cash equivalents	21	**1,020,626**	834,626
Total current assets		**2,474,638**	2,531,803
CURRENT LIABILITIES			
Trade and bills payables	22	**324,054**	492,657
Other payables and accruals	23	**253,722**	218,797
Interest-bearing bank borrowings	24	**329,497**	408,809
Tax payable		**37,891**	35,636
Total current liabilities		**945,164**	1,155,899
NET CURRENT ASSETS		**1,529,474**	1,375,904
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,369,113**	3,211,462

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Other payables and accruals	23	**12,566**	11,498
Deferred tax liabilities	25	**203,083**	206,552
Total non-current liabilities		**215,649**	218,050
Net assets		**3,153,464**	2,993,412
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**4,637**	4,632
Reserves	29	**3,148,749**	2,974,233
		3,153,386	2,978,865
Non-controlling interests		**78**	14,547
Total equity		**3,153,464**	2,993,412

Mr. Ho Kuk Sing
Director

Mr. Leung King Sun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

		Attributable to owners of the parent												
	Notes	Share capital RMB'000 (note 26)	Share premium RMB'000 (note 29)	Shares held for Award Scheme RMB'000 (note 28)	Merger reserve RMB'000 (note 29)	Capital reserve RMB'000 (note 29)	Statutory reserve RMB'000 (note 29)	Share option reserve RMB'000 (note 29)	Award share reserve RMB'000 (note 29)	Exchange fluctuation reserve RMB'000 (note 29)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022		4,632	2,415,733	(98)	60,700	(13,767)	24,895	38,243	38,555	(33,520)	443,492	2,978,865	14,547	2,993,412
Profit for the year		-	-	-	-	-	-	-	-	-	209,999	209,999	(14,469)	195,530
Other comprehensive income/ (loss) for the year:														
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(5,198)	-	(5,198)	-	(5,198)
Exchange differences on translation of the Company		-	-	-	-	-	-	-	-	47,283	-	47,283	-	47,283
Total comprehensive income for the year		-	-	-	-	-	-	-	-	42,085	209,999	252,084	(14,469)	237,615
Issuance of new shares upon exercise of share options	26	5	5,019	-	-	-	-	(1,077)	-	-	-	3,947	-	3,947
Vesting of shares under the Award Scheme		-	-	92	-	-	-	-	(92)	-	-	-	-	-
Purchase of shares for the Award Scheme	28	-	-	(1,551)	-	-	-	-	-	-	-	(1,551)	-	(1,551)
Employee share-based compensation benefits under the Award Scheme	28	-	-	-	-	-	-	-	11,993	-	-	11,993	-	11,993
Final 2021 dividend	11	-	(59,917)	-	-	-	-	-	-	-	-	(59,917)	-	(59,917)
Interim 2022 dividend	11	-	(32,035)	-	-	-	-	-	-	-	-	(32,035)	-	(32,035)
Transfer from retained profits		-	-	-	-	-	892	-	-	-	(892)	-	-	-
At 31 December 2022		4,637	2,328,800*	(1,557)*	60,700*	(13,767)*	25,787*	37,166*	50,456*	8,565*	652,599 *	3,153,386	78	3,153,464

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

		Attributable to owners of the parent												
	Notes	Share capital RMB'000 (note 26)	Share premium RMB'000 (note 29)	Shares held for Award Scheme RMB'000 (note 28)	Merger reserve RMB'000 (note 29)	Capital reserve RMB'000 (note 29)	Statutory reserve RMB'000 (note 29)	Share option reserve RMB'000 (note 29)	Award share reserve RMB'000 (note 29)	Exchange fluctuation reserve RMB'000 (note 29)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021		4,534	2,415,733	–	60,700	(13,767)	24,375	38,243	–	(18,566)	339,901	2,851,153	8,122	2,859,275
Profit for the year		–	–	–	–	–	–	–	–	–	174,541	174,541	(12,791)	161,750
Other comprehensive income/ (loss) for the year:														
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	156	–	156	–	156
Exchange differences on translation of the Company		–	–	–	–	–	–	–	–	(15,110)	–	(15,110)	–	(15,110)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	(14,954)	174,541	159,587	(12,791)	146,796
Issuance of new shares	26	98	–	(98)	–	–	–	–	–	–	–	–	–	–
Acquisition of a subsidiary that is not a business	30	–	–	–	–	–	–	–	–	–	–	–	19,216	19,216
Employee share-based compensation benefits under the Award Scheme	28	–	–	–	–	–	–	–	38,555	–	–	38,555	–	38,555
Final 2020 dividend		–	–	–	–	–	–	–	–	–	(40,405)	(40,405)	–	(40,405)
Interim 2021 dividend	11	–	–	–	–	–	–	–	–	–	(30,025)	(30,025)	–	(30,025)
Transfer from retained profits		–	–	–	–	–	520	–	–	–	(520)	–	–	–
At 31 December 2021		4,632	2,415,733*	(98)*	60,700*	(13,767)*	24,895*	38,243*	38,555*	(33,520)*	443,492*	2,978,865	14,547	2,993,412

* These reserve accounts comprise the consolidated reserves of RMB3,148,749,000 (2021: RMB2,974,233,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**283,789**	267,940
Adjustments for:			
Finance costs	6	**30,580**	20,422
Share of profits of associates		**(495)**	(683)
Share of profit of a joint venture		**(2,300)**	(7,652)
Interest income	5	**(1,972)**	(1,758)
Loss/(gain) on disposal of items of property, plant and equipment	7	**5**	(87)
Loss on disposal of an associate	7	**–**	2,070
Fair value loss/(gain) on financial assets at fair value through profit or loss		**11,455**	(13,918)
Impairment of trade receivables	7	**2,694**	800
Write-off of prepayments	7	**7,495**	2,579
Write-down of inventories to net realisable value	7	**955**	9,622
Depreciation of owned assets	7	**21,007**	25,080
Depreciation of right-of-use assets	7	**12,745**	11,684
Gain on modification of lease contracts	5	**(82)**	(14)
Amortisation of intangible assets	7	**1,537**	2,042
Impairment of property, plant and equipment	7	**3,542**	3,092
Impairment of intangible assets	7	**16,901**	11,465
Employee share-based compensation benefits under the Award Scheme	7	**11,993**	38,555
		399,849	371,239
Decrease/(increase) in inventories		**43,106**	(166,240)
Increase in trade and bills receivables		**(16,131)**	(122,238)
Decrease/(increase) in prepayments and other receivables		**98,975**	(116,552)
(Increase)/decrease in trade and bills payables		**(175,212)**	248,771
(Increase)/decrease in other payables and accruals		**(11,244)**	31,122
Cash generated from operations		**339,343**	246,102
Income tax paid		**(89,672)**	(82,994)
Net cash flows from operating activities		**249,671**	163,108

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	**2022** RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(34,285)**	(25,232)
Proceeds from disposal of items of property, plant and equipment		**2,547**	8,243
Proceeds from disposal of an associate		**–**	2,173
Proceeds from disposal of financial assets at fair value through profit or loss		**12,177**	–
Purchases of financial assets at fair value through profit or loss		**–**	(20,000)
Acquisition of a subsidiary that is not a business	30	**–**	9
(Advance to)/repayment from associates		**(158)**	134
Investments in associates		**(14,100)**	(288)
Investment in a joint venture		**(14,000)**	(2,560)
Interest received		**1,972**	1,758
Decrease in pledged deposits		**106,383**	7,879
Net cash flows from/(used in) investing activities		**60,536**	(27,884)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of new ordinary shares	26	**3,947**	–
Purchases of shares for the Award Scheme	28	**(1,551)**	–
New bank loans		**1,255,489**	1,073,488
Repayment of bank loans		**(1,350,406)**	(1,057,798)
Advance from shareholders		**86**	720
Repayment to shareholders		**–**	(312)
Principal portion of lease payments		**(15,309)**	(11,526)
Dividends paid		**(52,963)**	(50,439)
Interest paid	6	**(30,580)**	(20,422)
Net cash flows used in financing activities		**(191,287)**	(66,289)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**118,920**	68,935
Cash and cash equivalents at beginning of year		**834,626**	788,613
Effect of foreign exchange rate changes, net		**67,080**	(22,922)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,020,626**	834,626
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**1,020,626**	834,626

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at the office of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 1703, Grandtech Centre, 8 On Ping Street, Shatin, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 July 2019 (the "Listing").

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the sale and manufacture of medical equipment and consumables and provision of after-sales services related to medical equipment.

Information about subsidiaries

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

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital/ contributed capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
IVD International Limited#	Hong Kong	HK$10,000	100	–	Investment holding
IVD China Limited ("IVD China")	Hong Kong	HK$24,051,250	100	–	Sale of medical equipment and consumables
Vastec Medical Limited ("Vastec")	Hong Kong	HK$10,000	100	–	Sale of medical equipment and consumables, and provision of after-sales services related to medical equipment

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital/ contributed capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dacheng Medical Equipments (Shanghai) Co., Ltd. #* 達承醫療設備(上海)有限公司	People's Republic of China ("PRC")/ Mainland China	RMB50,000,000	–	100	Sale of medical equipment and consumables, and provision of after-sales services related to medical equipment
IVD Medical Equipments (Shanghai) Co., Ltd. *# 艾維德醫療器械(上海)有限公司	PRC/ Mainland China	US$3,000,000	–	100	Sale of medical equipment and consumables
Suzhou DiagVita Biotechnology Co., Ltd.**^ ("Suzhou DiagVita") 蘇州德沃生物技術有限公司	PRC/ Mainland China	RMB20,046,519	–	51	Manufacture and sale of medical equipment and consumables
Vastec Medical Equipment (Shanghai) Co., Ltd. #* 威士達醫療設備(上海)有限公司	PRC/ Mainland China	US$300,000	–	100	Sale of medical equipment and consumables, and provision of after-sales services related to medical equipment

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital/ contributed capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Yunnan Vastec Medical Equipment Co. Ltd. *# 雲南威士達醫療設備有限公司	PRC/ Mainland China	RMB30,000,000	–	70	Sale of medical equipment and consumables
Bazoe Medical Co., Ltd. ("Bazoe")*# 貝知(上海)醫療科技有限公司	PRC/ Mainland China	RMB20,000,000	–	51	Sale of medical equipment and consumables and research and development
Jiaxing Huineng Investment Partner (Limited Partner)*@ 嘉興惠能股權投資合夥企業(有限合夥)	PRC/ Mainland China	–	–	100	Investment in private funds
Langmai (Shandong) Biotechnology Co., Ltd. *^ ("Langmai") 朗邁(山東)生物科技有限公司	PRC/ Mainland China	RMB10,000,000	–	51	Sale of medical equipment and consumables and research and development

* The English names of the companies are direct translation of their Chinese names as no English names have been registered or are available.

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

\# A wholly-foreign-owned enterprise under PRC law.

^ A limited liability company under PRC law.

@ A limited partnership under PRC law.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

None of the subsidiaries has issued any debt securities at the end of the year.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there was no business combination during the year, the amendments did not have any impact on the financial position and performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contract was identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that is applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1,5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2,4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

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

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

Asset acquisition

Where an asset is acquired, via corporate acquisition or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Asset acquisition *(Continued)*

Where such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity or assets and liabilities is allocated between the identifiable assets and liabilities (of the entity) based on their relative values at the acquisition date. Accordingly, no goodwill or deferred taxation arises.

Business combinations and goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

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

Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Owned assets	
Fixtures and furniture	10%
Service equipment	20%
Plant and machinery	20% – 33.3%
Office equipment	20% – 33.3%
Motor vehicles	20%
Leasehold improvement	25%
Rights-of-use assets	
Buildings	Over the lease term
Service equipment	5 years or over the lease term, whichever is shorter

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Right-of-use assets

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

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

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Trademarks

Trademarks acquired in a business combination are registered in the PRC and the current registration will expire in 2026. In the opinion of directors, the Group will not incur significant costs to renew the registration of the trademarks which is a routine administrative procedure. The Group would review the trademarks continuously and has the ability to do so. Accordingly, the trademarks are deemed to have an indefinite useful life and are stated at fair value at the date of acquisition less any subsequent accumulated impairment losses.

Patents

Purchased patents are stated at fair value at the date of acquisition less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 12 years.

Technical knowhow

Purchased technical knowhow is stated at fair value at the date of acquisition less any impairment losses and are amortised on the straight-line basis over the useful life of 10 years.

Leases

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

The Group as a lessee

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as a lessee *(Continued)*

(a) Lease liabilities

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

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

The Group's lease liabilities are included in other payables and accruals.

(b) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). 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.

Lease payments on short-term leases and leases of low-value assets that are not capitalised are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*

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

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

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

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

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals and interest-bearing bank borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares and shares held for a share award scheme ("Award Scheme")

Own equity instruments which are reacquired and held by the Company (treasury shares and shares held for Award Scheme) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale issue or cancellation of the Group's own equity instruments.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

Income tax

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*

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

Sales of goods

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

Provision of after-sales services

Revenue from provision of after-sales services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Interest income is recognised on an accrual basis using the EIR method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Contract liabilities

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

The dilutive effect of outstanding options and award shares ("Awarded Shares") is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in RMB, while the functional currency of the Company is Hong Kong dollar ("HK$"). As the major revenues and assets of the Group are derived from operations in the Mainland China, RMB is chosen as the presentation currency to present the financial statements. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

The functional currencies of the Company and certain Hong Kong subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and Hong Kong subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and Hong Kong subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Assessment of fund investments as structured entities

Management has assessed whether the funds in which it invests should be classified as structured entities. Management has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. Judgement is made on an individual investment in each fund where the Group has ownership interest. Management has evaluated whether these rights of investors are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds. As at 31 December 2022, having considered the fact patterns surrounding each of the investment funds in which the Group has interest, the Group considers that it controls one (2021: two) investment fund and has joint control over one (2021: one) investment fund.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 14 to the financial statements. Significant judgements and estimation are involved in the assessment of their recoverable amounts.

Impairment of intangible assets (other than goodwill)

The Group assesses whether there are any indicators of impairment of all intangible assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Intangible assets with finite useful lives are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Given that the intangible assets relating to the Distribution CGU are with indefinite useful lives and the Microbiology CGU is loss-making during the year and sales of new products of the Microbiology CGU was significantly less than expected, the management of the Company performed an impairment assessment on the intangible assets of the Distribution CGU and the Microbiology CGU. This requires an estimation of the value in use of the CGUs to which the intangible assets belong. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the sale and manufacture of medical equipment and consumables and the provision of after-sales services related to medical equipment. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	2022	2021
	RMB'000	RMB'000
Mainland China	**2,747,574**	2,721,009
Others	**1,235**	9,661
	2,748,809	2,730,670

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

(b) Non-current assets

	2022	2021
	RMB'000	RMB'000
Mainland China	**1,769,320**	1,748,149
Others	**5,575**	2,757
	1,774,895	1,750,906

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

Information about major customers

During the years ended 31 December 2022 and 2021, no revenue from transactions with a single external customer amounted for 10% or more of the total revenue of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

4. REVENUE

An analysis of revenue is as follows:

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers		
Sales of trading goods	**2,575,382**	2,584,320
Sales of manufactured goods	**6,258**	3,914
Provision of after-sales services	**167,169**	142,436
	2,748,809	2,730,670

Revenue from contracts with customers

(i) Disaggregated revenue information

	2022 **RMB'000**	2021 RMB'000
Types of goods and services		
Sales of medical equipment	**362,252**	388,458
Sales of medical consumables	**2,219,388**	2,199,776
Provision of after-sales services	**167,169**	142,436
Total revenue from contracts with customers	**2,748,809**	2,730,670
Types of customers		
Sales to hospitals and healthcare institutions	**282,912**	310,527
Sales to logistics providers	**120,963**	119,683
Sales to distributors	**2,177,765**	2,158,024
Sales to service customers	**167,169**	142,436
Total revenue from contracts with customers	**2,748,809**	2,730,670
Timing of revenue recognition		
Goods transferred at a point in time	**2,581,640**	2,588,234
Services transferred over time	**167,169**	142,436
Total revenue from contracts with customers	**2,748,809**	2,730,670

NOTES TO FINANCIAL STATEMENTS

31 December 2022

4. REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

The following table shows the amounts of revenue recognised during the year that were included in the contract liabilities at the beginning of that period:

	2022	2021
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
– Sales of goods	**24,253**	36,662

(ii) Performance obligations

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

(i) Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally in advance or due within 120 days from delivery.

(ii) Provision of after-sales services

The performance obligation is satisfied over time in which the services are rendered. After-sales service contracts are billed for a period of one year or less, or are billed based on the time incurred.

No performance obligation was unsatisfied or partially unsatisfied as at 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Other income		
Bank interest income	**1,972**	1,758
Rental income	**629**	398
Government subsidies*	**23,186**	19,042
Others	**147**	1,324
	25,934	22,522
Gains		
Gain on modification of lease contracts	**82**	14
Foreign exchange differences, net	**–**	3,642
Gain on disposal of items of property, plant and equipment	**–**	87
	82	3,743
	26,016	26,265

* Government grants have been received from the PRC local government authorities to support subsidiaries' daily operating activities. There are no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank loans	**29,404**	19,326
Interest on lease liabilities	**1,176**	1,033
Interest on factored trade receivables	**–**	63
	30,580	20,422

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold*		**2,070,006**	2,088,885
Cost of services provided*		**70,662**	75,517
Depreciation of owned assets	13	**21,007**	25,080
Depreciation of right-of-use assets	13	**12,745**	11,684
Amortisation of intangible assets	14	**1,537**	2,042
Research and development costs		**7,219**	7,274
Lease payments not included in the measurement of lease liabilities		**12,179**	13,480
Auditors' remuneration		**3,400**	3,080
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries*****		**136,929**	133,733
Employee share-based compensation benefits under the Award Scheme		**11,993**	38,555
Pension scheme contributions******		**28,595**	26,025
		177,517	198,313
Foreign exchange differences, net		**10,335****	(3,642)***
Impairment of trade receivables	18	**2,694**	800
Impairment of property, plant and equipment**	13	**3,542**	3,092
Impairment of intangible asset**	14	**16,901**	11,465
Write-off of prepayments**		**7,495**	2,579
Write-down of inventories to net realisable value****		**955**	9,622
Loss on disposal of an associate**		**–**	2,070
Loss/(gain) on disposal of items of property, plant and equipment		**5****	(87)***
Fair value loss/(gain) on financial assets at fair value through profit or loss		**11,455**	(13,918)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

7. PROFIT BEFORE TAX *(Continued)*

* These expenses are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

** These expenses are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

*** These income are included in "Other income" on the face of the consolidated statement of profit or loss and other comprehensive income.

**** This expense is included in "Cost of inventories sold" above.

***** In 2022, the Group successfully applied for the funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. The amount of RMB293,000 was recognised in "Administrative expenses" and has been offset with the employee benefit expense (2021: Nil).

****** At 31 December 2022 and 31 December 2021, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 **RMB'000**	2021 RMB'000
Fees	**504**	504
Other emoluments:		
Salaries, allowances and benefits in kind	**8,271**	8,277
Performance-related bonuses	**2,101**	1,738
Pension scheme contributions	**153**	147
Sub-total	**10,525**	10,162
Total	**11,029**	10,666

NOTES TO FINANCIAL STATEMENTS

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2022 RMB'000	2021 RMB'000
Mr. Lau Siu Ki	**264**	264
Mr. Zhong Renqian	**120**	120
Mr. Leung Ka Sing	**120**	120
	504	504

There were no other emoluments paid or payable to the independent non-executive directors of the Company during the year (2021: Nil).

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

	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022				
Executive directors:				
Mr. Ho Kuk Sing*	3,685	951	15	4,651
Mr. Leung King Sun	2,559	627	5	3,191
Mr. Lin Xianya	2,027	523	133	2,683
Sub-total	8,271	2,101	153	10,525
Non-executive directors:				
Mr. Yang Zhaoxu	–	–	–	–
Mr. Chan Kwok King, Kingsley	–	–	–	–
Ms. Yao Haiyun	–	–	–	–
Sub-total	–	–	–	–
Total	8,271	2,101	153	10,525

NOTES TO FINANCIAL STATEMENTS

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

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

	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021				
Executive directors:				
Mr. Ho Kuk Sing*	3,685	785	15	4,485
Mr. Leung King Sun	2,549	518	15	3,082
Mr. Lin Xianya	2,043	435	117	2,595
Sub-total	8,277	1,738	147	10,162
Non-executive directors:				
Mr. Yang Zhaoxu	–	–	–	–
Mr. Chan Kwok King, Kingsley	–	–	–	–
Mr. Chen Xingang**	–	–	–	–
Ms. Yao Haiyun***	–	–	–	–
Sub-total	–	–	–	–
Total	8,277	1,738	147	10,162

* Mr. Ho Kuk Sing is also the chief executive of the Company.

** Mr. Chen Xingang resigned as a non-executive director of the Company on 19 October 2021.

*** Ms. Yao Haiyun was appointed as a non-executive director of the Company on 19 October 2021.

There were emoluments payable of RMB7,061,000 to the executive directors of the Company as at 31 December 2022 (31 December 2021: RMB6,946,000).

During the year, no remuneration was paid by the Group to any of these directors as an inducement to join or upon joining the Group, or as a compensation for loss of office.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2021: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2021: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries, allowances and benefits in kind	**1,849**	1,920
Performance-related bonuses	**900**	100
Pension scheme contributions	**264**	128
Employee share-based compensation benefit under the Award Scheme (as herein defined in note 28)	**1,235**	7,269
	4,248	9,417

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**–**	1
	2	2

During the year, Awarded Shares (as herein defined in note 28) were granted to employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such Awarded Shares, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%). Tax on profits assessable in Mainland China has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the year.

	2022	2021
	RMB'000	RMB'000
Current – Hong Kong		
Charge for the year	**2,308**	4,117
Current – China		
Charge for the year	**80,645**	85,946
Underprovision in prior years	**8,974**	7,666
Deferred (note 25)	**(3,668)**	8,461
Total tax charge for the year	**88,259**	106,190

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	2022	2021
	RMB'000	RMB'000
Profit before tax	**283,789**	267,940
Tax at the statutory tax rate	**70,031**	70,556
Lower tax rate for specific provinces or enacted by local authority	**(141)**	(137)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**187**	6,144
Adjustment in respect of current tax of previous periods	**8,974**	7,666
Profits and losses attributable to associates and joint venture	**(524)**	(2,057)
Income not subject to tax	**(193)**	(623)
Expense not deductible for tax	**1,700**	13,584
Tax losses utilised from previous periods	**–**	(71)
Tax losses not recognised	**8,225**	11,128
Tax charge at the Group's effective rate	**88,259**	106,190

10. INCOME TAX *(Continued)*

For the year ended 31 December 2022, the weighted average applicable tax rate was 24.7% (2021: 26.3%). The change in the weighted average applicable tax rate was caused by changes in the profitability of the Group in the respective jurisdictions.

The share of tax attributable to the associates amounting to RMB48,000 (2021: RMB50,000) is included in "Share of profits of associates" in the consolidated statement of profit or loss and other comprehensive income. No share of tax was attributable to the joint venture for the years ended 31 December 2022 and 2021.

11. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Interim – HK2.729 cents (2021: HK2.66 cents) per ordinary share	**32,035**	30,025
Proposed final (HK5.556 cents) (2021: HK5.284 cents) per ordinary share	**66,206**	59,917
	98,241	89,942

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to owners of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT *(Continued)*

The calculations of the basic and diluted earnings per share are based on:

	2022	2021
	RMB'000	RMB'000
Earnings		
Profit attributable to owners of the parent used in the basic earnings per share calculation	**209,999**	174,541

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue less shares held for Award Scheme held by the Company during the year used in the basic earnings per share calculation	**1,344,983,241**	1,322,990,000
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	**2,999,126**	4,103,782
Assumed issue at no consideration on deemed vesting of all Awarded Shares outstanding during the year	**6,986,786**	22,178,130
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**1,354,969,153**	1,349,271,912

13. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets			Owned assets							
	Buildings RMB'000	Service equipment RMB'000	Total RMB'000	Fixtures and furniture RMB'000	Service equipment RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
31 December 2022											
At 1 January 2022											
Cost	48,752	9,388	58,140	1,800	171,148	13,477	8,703	15,320	4,559	215,007	273,147
Accumulated depreciation and impairment	(34,785)	(4,207)	(38,992)	(1,270)	(130,804)	(12,441)	(6,782)	(9,160)	(2,003)	(162,460)	(201,452)
Net carrying amount	13,967	5,181	19,148	530	40,344	1,036	1,921	6,160	2,556	52,547	71,695
At 1 January 2022	13,967	5,181	19,148	530	40,344	1,036	1,921	6,160	2,556	52,547	71,695
Additions	16,365	–	16,365	11	28,258	1,762	1,409	64	2,781	34,285	50,650
Depreciation provided during the year	(10,865)	(1,880)	(12,745)	(184)	(16,158)	(512)	(1,221)	(1,512)	(1,420)	(21,007)	(33,752)
Disposals/write-off	–	–	–	(3)	(2,500)	(45)	(4)	–	–	(2,552)	(2,552)
Impairment	(664)	–	(664)	–	(27)	(23)	(903)	(55)	(1,870)	(2,878)	(3,542)
Lease modification	619	–	619	–	–	–	–	–	–	–	619
Exchange realignment	(14)	–	(14)	–	–	(2)	1	–	–	(1)	(16)
At 31 December 2022, net of accumulated depreciation	19,408	3,301	22,709	354	49,917	2,216	1,203	4,657	2,047	60,394	83,103
At 31 December 2022											
Cost	38,413	9,388	47,801	434	164,289	8,106	3,454	8,832	7,340	192,455	240,256
Accumulated depreciation and impairment	(19,005)	(6,087)	(25,092)	(80)	(114,372)	(5,890)	(2,251)	(4,175)	(5,293)	(132,061)	(157,153)
Net carrying amount	19,408	3,301	22,709	354	49,917	2,216	1,203	4,657	2,047	60,394	83,103

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31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Right-of-use assets			Owned assets							
	Buildings RMB'000	Service equipment RMB'000	Total RMB'000	Fixtures and furniture RMB'000	Service equipment RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000	Total RMB'000
31 December 2021											
At 1 January 2021											
Cost	40,843	9,388	50,231	1,723	162,563	11,224	6,360	12,242	3,820	197,932	248,163
Accumulated depreciation	(24,658)	(2,327)	(26,985)	(1,097)	(110,752)	(8,654)	(5,037)	(8,148)	(923)	(134,611)	(161,596)
Net carrying amount	16,185	7,061	23,246	626	51,811	2,570	1,323	4,094	2,897	63,321	86,567
At 1 January 2021	16,185	7,061	23,246	626	51,811	2,570	1,323	4,094	2,897	63,321	86,567
Additions	8,565	–	8,565	81	16,289	2,253	2,346	3,524	739	25,232	33,797
Depreciation provided during the year	(9,804)	(1,880)	(11,684)	(173)	(20,052)	(1,072)	(1,691)	(1,012)	(1,080)	(25,080)	(36,764)
Disposals/write-off	–	–	–	(4)	(7,704)	–	(2)	(446)	–	(8,156)	(8,156)
Impairment	(323)	–	(323)	–	–	(2,715)	(54)	–	–	(2,769)	(3,092)
Lease modification	(656)	–	(656)	–	–	–	–	–	–	–	(656)
Exchange realignment	–	–	–	–	–	–	(1)	–	–	(1)	(1)
At 31 December 2021, net of accumulated depreciation	13,967	5,181	19,148	530	40,344	1,036	1,921	6,160	2,556	52,547	71,695
At 31 December 2021											
Cost	48,752	9,388	58,140	1,800	171,148	13,477	8,703	15,320	4,559	215,007	273,147
Accumulated depreciation and impairment	(34,785)	(4,207)	(38,992)	(1,270)	(130,804)	(12,441)	(6,782)	(9,160)	(2,003)	(162,460)	(201,452)
Net carrying amount	13,967	5,181	19,148	530	40,344	1,036	1,921	6,160	2,556	52,547	71,695

NOTES TO FINANCIAL STATEMENTS

31 December 2022

14. INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks RMB'000	Patents RMB'000	Total RMB'000
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation and impairment	**898,083**	**737,802**	**18,438**	**1,654,323**
Amortisation provided during the year	**–**	**–**	**(1,537)**	**(1,537)**
Impairment during the year	**–**	**–**	**(16,901)**	**(16,901)**
At 31 December 2022	**898,083**	**737,802**	**–**	**1,635,885**
At 31 December 2022				
Cost	**898,083**	**737,802**	**19,206**	**1,655,091**
Accumulated amortisation and impairment	**–**	**–**	**(19,206)**	**(19,206)**
Net carrying amount	**898,083**	**737,802**	**–**	**1,635,885**

	Goodwill RMB'000	Trademarks RMB'000	Patents RMB'000	Technical knowhow RMB'000	Total RMB'000
31 December 2021					
Cost at 1 January 2021, net of accumulated amortisation and impairment	898,083	737,802	–	12,739	1,648,624
Acquisition of a subsidiary that is not a business (note 30)	–	–	19,206	–	19,206
Amortisation provided during the year	–	–	(768)	(1,274)	(2,042)
Impairment during the year	–	–	–	(11,465)	(11,465)
At 31 December 2021	898,083	737,802	18,438	–	1,654,323
At 31 December 2021					
Cost	898,083	737,802	19,206	12,739	1,667,830
Accumulated amortisation and impairment	–	–	(768)	(12,739)	(13,507)
Net carrying amount	898,083	737,802	18,438	–	1,654,323

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31 December 2022

14. INTANGIBLE ASSETS *(Continued)*

Impairment testing of intangible assets

During the year, the Group has performed impairment testing for the following cash generating units ("CGU"):

Distribution CGU

Goodwill acquired through business combinations has been allocated to the distribution of IVD reagents and medical equipment cash-generating unit ("Distribution CGU").

Trademarks were purchased as part of the step acquisition of Vastec and its subsidiary in January 2019 and were recognised at their fair values at the date of acquisition. The directors of the Company are of the opinion that the upkeep of these trademarks is at minimal cost and the Group would renew these trademarks continuously. These trademarks are considered by the management of the Group as having an indefinite useful life and will not be amortised until their useful life is determined to be finite upon reassessment of their useful life annually by management. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. Trademarks acquired through business combination have been allocated to the Distribution CGU for impairment testing.

The carrying amount of goodwill is allocated to the following cash-generating unit:

	2022 **RMB'000**	2021 RMB'000
Distribution CGU	**898,083**	898,083

The carrying amount of intangible assets with indefinite useful lives is allocated to the following cash-generating unit:

	2022 **RMB'000**	2021 RMB'000
Distribution CGU	**737,802**	737,802

During the year, the management of the Company determined that there was no impairment of goodwill and trademarks in the Distribution CGU.

The recoverable amount of the Distribution CGU has been determined by Roma Appraisals Limited, an independent professionally qualified valuer for the years ended 31 December 2022 and 2021. The recoverable amount is based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The average growth rate applied to the cash flow projection was 12.0% (2021: 8.7%). The discount rate applied to the cash flow projection was 19.9% (2021: 19.1%). The growth rate used to extrapolate the cash flows of this CGU beyond the five-year period was 2.0% (2021: 2.0%).

14. INTANGIBLE ASSETS *(Continued)*

Impairment testing of intangible assets *(Continued)*

Microbiology CGU

Patents acquired through an acquisition of a subsidiary have been allocated to the production and sales Microbiology equipment CGU ("Microbiology CGU") of the Group (primarily representing the business operations and undertakings of a subsidiary of the Group, Langmai). The estimated useful life of the patents was 12 years. The carrying value of the patent is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Given the Microbiology CGU is loss marking during the year and the sales of new products of the Microbiology CGU was significantly less than expected, the management of the Company performed an impairment assessment of the patents relating to this CGU to determine the recoverable amount. The recoverable amounts of patents were determined as the higher of the fair value less cost of disposal and value in use. Since the fair value less cost of disposal is minimal, the recoverable amounts of patents were determined based on the value in use of the CGU to which they belong. Full impairment of RMB16.9 million was made for the patents in the Microbiology CGU during the year.

The recoverable amount of Microbiology CGU has been determined by Roma Appraisals Limited, an independent professionally qualified valuer for the year ended 31 December 2022. The recoverable amount is based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The average growth rate applied to the cash flow projection was 0%. The discount rate applied to the cash flow projection was 11.8%. The growth rate used to extrapolate the cash flows of this CGU beyond the five-year period was 2.0%. The recoverable amount of the Microbiology CGU as at 31 December 2021 has been determined based on fair value less costs of disposal.

Mass Spectrum CGU

During the year ended 31 December 2021, full impairment of RMB11,500,000 was made for the technical knowhow in the Mass Spectrum CGU, as a result of loss marking in production and sales of mass spectrum reagents and postponement in the rollout of new products during the year ended 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

14. INTANGIBLE ASSETS *(Continued)*

Impairment testing of intangible assets *(Continued)*

Mass Spectrum CGU *(Continued)*

Assumptions were used in the value-in-use calculation of the Distribution CGU and the Microbiology CGU for the year. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Forecasted growth rates – The rates are based on historical operating results, expected market development as well as industry forecast.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development of the medical equipment and consumables industry.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units. The values assigned to the key assumptions on market development of the medical equipment and consumables industry and discount rates are consistent with external information sources.

15. INVESTMENTS IN ASSOCIATES

The following table illustrates the aggregate summarised financial information of the Group's associates that are not individually material:

	2022 **RMB'000**	2021 RMB'000
Share of the associates' profit for the year	**495**	683
Aggregate carrying amount of the Group's investments in the associates	**17,460**	2,741

NOTES TO FINANCIAL STATEMENTS

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16. INVESTMENT IN A JOINT VENTURE

The following table illustrates the aggregate summarised financial information of the Group's joint venture that is not individually material:

	2022 RMB'000	2021 RMB'000
Share of the joint venture's profit for the year	**2,300**	7,652
Aggregate carrying amount of the Group's investment in a joint venture	**38,447**	22,147

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Unlisted fund investments	**36,130**	13,733
Unlisted equity investments	**23,248**	65,752
	59,378	79,485

The above unlisted fund and equity investments at 31 December were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**2,710**	1,212
Finished goods	**625,912**	671,471
	628,622	672,683

NOTES TO FINANCIAL STATEMENTS

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19. TRADE AND BILLS RECEIVABLES

	2022	2021
	RMB'000	RMB'000
Trade receivables	**572,218**	547,884
Impairment	**(5,422)**	(2,765)
	566,796	545,119
Bills receivable	**–**	8,000
	566,796	553,119

The majority of the Group' sales of products were mainly made on the payment-in-advance basis or granted with credit periods ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. There is a certain concentration of credit risk. The total trade and bills receivables from the five largest debtors at 31 December 2022 represented 42.5% (2021: 41.4%) of the total trade receivables, while 13.4% (2021: 13.8%) of the total trade receivables was due from the largest debtor.

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amount due from the Group's associate of RMB3,000 (2021: Nil) which are repayable on credit term similar to those offered to the major customers of the Group.

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

	2022	2021
	RMB'000	RMB'000
Within 1 month	**409,310**	395,293
1 to 2 months	**69,444**	57,529
2 to 3 months	**22,434**	21,011
Over 3 months	**65,608**	79,286
	566,796	553,119

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**2,765**	2,666
Impairment losses	**2,694**	800
Amounts written off as uncollectible	**(60)**	(694)
Exchange realignment	**23**	(7)
At end of year	**5,422**	2,765

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
As at 31 December 2022					
Expected credit loss rate	**0.1%**	**0.6%**	**0.5%**	**10.6%**	**0.9%**
Gross carrying amount (RMB'000)	**485,991**	**18,799**	**21,745**	**45,683**	**572,218**
Expected credit losses (RMB'000)	**335**	**119**	**113**	**4,855**	**5,422**
As at 31 December 2021					
Expected credit loss rate	0.0%	0.3%	0.5%	8.6%	0.5%
Gross carrying amount (RMB'000)	492,277	10,718	15,569	29,320	547,884
Expected credit losses (RMB'000)	152	30	74	2,509	2,765

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. TRADE AND BILLS RECEIVABLES *(Continued)*

During the year, a subsidiary of the Group has entered into receivable purchase agreements with a financial institution for the factoring of trade receivables with certain designated customers. As at 31 December 2022, trade receivables factored to the financial institution aggregated to RMB1,372,000 (2021: Nil), all of which were derecognised from the consolidated statement of financial position because, in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to the financial institution.

20. PREPAYMENTS AND OTHER RECEIVABLES

	Note	**2022** **RMB'000**	2021 RMB'000
Prepayments		**217,795**	338,333
Deposits and other receivables		**21,227**	7,159
Amounts due from associates	(i)	**185**	27
Amounts due from shareholders	(i)	**1,486**	1,572
		240,693	347,091

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

20. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(i) Particulars of the amounts due from associates and shareholders are as follows:

	Note	At 1 January 2022 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2022 RMB'000
Due from associates				
Alifax Diagnostics Co., Limited ("Alifax SH")	(a)	**27**	**185**	**185**
Due from shareholders				
Mr. Lin Xianya ("Mr. Lin") and his affiliate	(a)	**138**	**149**	**149**
Mr. Ho Kuk Sing ("Mr. Ho") and his affiliate	(a)	**578**	**613**	**613**
Mr. Leung King Sun ("Mr. Leung") and his affiliates	(a)	**96**	**110**	**110**
Shinva Medical Instrument Co., Ltd. ("Shinva") and its subsidiary ("Shinva Group")*	(a)	**760**	**760**	**614**
		1,572		**1,486**

The balances with associates and the shareholders and their affiliates are unsecured, non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

20. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(i) Particulars of the amounts due from associates and shareholders are as follows: *(Continued)*

	Note	At 1 January 2021 RMB'000	Maximum amount outstanding during the year RMB'000	At 31 December 2021 RMB'000
Due from associates				
Hunan AKJD Biomedical Co., Ltd. ("Hunan AKJD", formerly known as Hunan Brahms Biotech Co., Ltd.)**		1,595	1,595	–
Alifax SH	(a)	161	161	27
		1,756		27
Due from shareholders				
Mr. Lin and his affiliate	(a)	139	139	138
Mr. Ho and his affiliate	(a)	564	578	578
Mr. Leung and his affiliates	(a)	62	96	96
Shinva Group*	(a)	1,527	1,527	760
		2,292		1,572

* Shinva is the ultimate holding company of Huatuo International Development Co., Limited ("Huatuo"), a substantial shareholder of the Company.

** Hunan AKJD ceased to be a related party as at 31 December 2021 as it was disposed during the year ended 31 December 2021.

Note:

(a) The balances with the associates and the shareholders are unsecured, non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

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21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**1,038,527**	958,910
Less: Pledged deposits pledged for bank facilities	**(17,901)**	(124,284)
Cash and cash equivalents	**1,020,626**	834,626

The cash and cash equivalents of the Group are denominated in HK$, RMB, EUR and US$.

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB264,192,000 (2021: RMB279,806,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 month	**131,146**	73,999
1 to 2 months	**71,531**	66,335
2 to 3 months	**57,479**	115
Over 3 months	**63,898**	352,208
	324,054	492,657

Included in the trade and bills payables are trade payables of RMB110,000 (2021: RMB228,000) due to an associate which are repayable within 60 days, which represents credit terms similar to those offered by the associate to its major customers.

Trade payables are non-interest-bearing and are normally settled on terms of 60 days.

NOTES TO FINANCIAL STATEMENTS

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23. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Contract liabilities	(i)	**56,937**	44,253
Other payables		**25,962**	50,540
Accruals		**45,025**	44,256
Dividend payables		**117,674**	72,021
Lease liabilities	(ii)	**20,424**	18,844
Others		**266**	381
		266,288	230,295
Less: other payables included in non-current liabilities		**(12,566)**	(11,498)
		253,722	218,797

Notes:

(i) Details of contract liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Short-term advances received from customers		
Sales of goods	**36,937**	24,253
Provision of services	**20,000**	20,000
	56,937	44,253

Contract liabilities include short-term advances received to deliver goods and services.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

23. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: *(Continued)*

(ii) The Group as a lessee

The Group has lease contracts for offices and warehouses and medical equipment used in operations. Leases of offices and warehouses generally have lease terms between 2 and 7 years while medical equipment generally has a lease term of 5 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022	2021
	RMB'000	RMB'000
Carrying amount at 1 January	**18,844**	22,475
New leases	**16,365**	8,565
Accretion of interest recognised during the year	**1,176**	1,033
Payments	**(16,485)**	(12,559)
Lease modification	**537**	(670)
Exchange realignments	**(13)**	–
Carrying amount at 31 December	**20,424**	18,844
Analysed into:		
Current portion	**7,858**	7,346
Non-current portion	**12,566**	11,498
	20,424	18,844

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

The Group has applied practical expedient to all eligible rent concessions granted by the lessors for leases of certain offices and warehouses during the year.

The amounts recognised in profit or loss in relation to leases are as follows:

	2022	2021
	RMB'000	RMB'000
Interest on lease liabilities	**1,176**	1,033
Depreciation charge of right-of-use assets	**12,745**	11,684
Expenses relating to short-term leases	**12,179**	13,480
Gain on modification of lease contracts	**(82)**	(14)
Total amount recognised in profit or loss	**26,018**	26,183

(iii) Other payables are non-interest-bearing and have an average term of 60 days.

NOTES TO FINANCIAL STATEMENTS

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24. INTEREST-BEARING BANK BORROWINGS

		31 December 2022			31 December 2021		
	Note	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current:							
Bank loans – unsecured	(a)	**4.0-4.57**	**2023**	**329,497**	4.0-6.0	2022	153,726
Bank loan – secured		**–**	**–**	**–**	LIBOR+2.1	2022	255,083
				329,497			408,809

	2022 **RMB'000**	2021 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**329,497**	408,809
	329,497	408,809

Notes:

(a) The bank loans bear interest at fixed rates ranging from 4.0% to 4.57% (2021: 4.0% to 6.0%) and are denominated in Renminbi.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities

	Fair value adjustments of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Fair value gains arising from business combination RMB'000	Total RMB'000
At 1 January 2021	–	12,934	187,611	200,545
Deferred tax charged to profit or loss during the year	6,756	2,797	(3,160)	6,393
Exchange realignment	–	(2)	–	(2)
At 31 December 2021 and 1 January 2022	6,756	15,729	184,451	206,936
Deferred tax charged to profit or loss during the year	(985)	–	–	(985)
At 31 December 2022	**5,771**	**15,729**	**184,451**	**205,951**

NOTES TO FINANCIAL STATEMENTS

31 December 2022

25. DEFERRED TAX *(Continued)*

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Impairment of trade receivables RMB'000	Unrealised gains resulting from intra-group transactions RMB'000	Total RMB'000
At 1 January 2021	4,572	597	2,451	7,620
Deferred tax charged to profit or loss during the year	(4,572)	(6)	2,510	(2,068)
Exchange realignment	–	–	(1)	(1)
At 31 December 2021 and 1 January 2022	–	591	4,960	5,551
Deferred tax charged to profit or loss during the year	–	2,560	123	2,683
At 31 December 2022	**–**	**3,151**	**5,083**	**8,234**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes.

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**5,366**	5,167
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(203,083)**	(206,552)
As at 31 December	**(197,717)**	(201,385)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

25. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

The Group has tax losses arising in Hong Kong of RMB55,000 (2021: RMB503,000) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in the PRC of RMB75,361,000 (2021: RMB68,226,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen from subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

	2022 **RMB'000**	2021 RMB'000
Authorised: 3,000,000,000 ordinary shares of US$0.0005 each (2021: 3,000,000,000 ordinary shares of US$0.0005 each)	**10,280**	10,280
Issued and fully paid: 1,354,590,080 ordinary shares of US$0.0005 each (2021: 1,352,990,000 ordinary shares of US$0.0005 each)	**4,637**	4,632

NOTES TO FINANCIAL STATEMENTS

31 December 2022

26. SHARE CAPITAL *(Continued)*

The movements in the Company's issued share capital during the years ended 31 December 2022 and 2021 were as follows:

	Number of ordinary shares	Nominal value of ordinary shares US$'000	Equivalent to RMB'000
At 1 January 2021	1,322,990,000	662	4,534
Issue of new shares pursuant to the share award	30,000,000	15	98
At 31 December 2021 and 1 January 2022	1,352,990,000	677	4,632
Share options exercised (note a)	1,600,080	1	5
At 31 December 2022	**1,354,590,080**	**678**	**4,637**

Notes:

(a) The subscription rights attaching to 1,600,080 share options were exercised at the subscription price of HK$3.042 (equivalent to RMB2.467 as of the date of exercise) per share, resulting in the issue of 1,600,080 shares for a total cash consideration, before expense, of RMB3,947,000. An amount of RMB1,077,000 was transferred from the share option reserve to share premium upon the exercise of the share option.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES

The Company operates a pre-initial public offering share option scheme (the "ESOP Scheme") and a share option scheme (the "Share Option Scheme") (collectively, the "Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Schemes include the Company's directors, employees, executives, officers, advisers, consultants, suppliers, customers and agents of the Group and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group.

a) Share Option Scheme

The Share Option Scheme was approved on 21 June 2019 and became effective on 12 July 2019 and, unless otherwise cancelled or amended, will remain in force for a period of 10 years from the Listing Date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the Listing Date. The maximum number of shares issued and issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at the date of grant. Any further grant of share options in excess of this limit is subject to among others, shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates would result in the total number of shares of the Company issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme to such person in any 12-month period up to and including the date of such grant, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES *(Continued)*

a) Share Option Scheme *(Continued)*

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings of the Company.

The offer of a grant of share option under the Share Option Scheme may be accepted within 7 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted under the Share Option Scheme is determinable by the directors, and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price of share options under the Share Option Scheme is determinable by the Board, but shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares on the date of offer.

The following share options were outstanding under the Share Option Scheme during the year:

	2022		2021	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At beginning of year	**3.042**	**26,668,000**	3.042	26,668,000
Exercised during the year	**3.042**	**(1,600,080)**	–	–
At end of year	**3.042**	**25,067,920**	3.042	26,668,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.58 per share (2021: No share options were exercised).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES *(Continued)*

a) Share Option Scheme *(Continued)*

The exercise prices and exercise period of the Share Options outstanding as at the end of the reporting period are as follows:

2022

Number of options	**Exercise price* HK$ per share**	**Exercise period**
1,733,420	3.042	Note 1
23,334,500	3.042	Note 2

2021

Number of options	**Exercise price* HK$ per share**	**Exercise period**
3,333,500	3.042	Note 1
23,334,500	3.042	Note 2

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Note 1: All share options are exercisable from 22 November 2019 to 21 November 2024.

Note 2: All share options are exercisable from 3 June 2020 to 2 June 2025.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES *(Continued)*

a) Share Option Scheme *(Continued)*

There was no share option expense recognised during the year ended 31 December 2022 and 2021. There was no new share option granted during the year ended 31 December 2022 and 2021.

At the end of the reporting period, the Company had 25,067,920 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 25,067,920 additional ordinary shares of the Company and additional share capital of RMB82,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 25,067,920 share options outstanding under the Share Option Scheme, which represented approximately 1.85% of the Company's shares in issue as at that date.

b) ESOP Scheme

The ESOP Scheme became effective on 29 December 2017 (the "Effective Date") and was further amended on 27 March 2019. The ESOP Scheme will remain in force for 7 years from the Effective Date unless terminated in accordance with the applicable laws and provisions of the ESOP Scheme or otherwise approved by the Board.

The principal terms of the ESOP Scheme are similar to the terms of the Share Option Scheme except that (i) no further options could be granted under the ESOP Scheme prior to the Listing Date; and (ii) the exercise conditions, exercise price and exercise period of the share options granted under the ESOP Scheme ("Management Options") are different as further detailed below.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES *(Continued)*

b) ESOP Scheme *(Continued)*

The following Management Options were outstanding under the ESOP Scheme during the year:

	2022		2021	
	Weighted average exercise price RMB per share	**Number of options**	Weighted average exercise price RMB per share	Number of options
At beginning of year	**1.69**	**13,003,051**	1.69	19,504,576
Lapsed during the year	**–**	**–**	1.69	(6,501,525)
At end of year	**1.69**	**13,003,051**	1.69	13,003,051

The exercise prices and exercise periods of the Management Options outstanding as at the end of the reporting period are as follows:

2022

Number of options	**Exercise price* RMB per share**	**Exercise period**
13,003,051	1.69	Note

2021

Number of options	**Exercise price* RMB per share**	**Exercise period**
13,003,051	1.69	Note

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. SHARE OPTION SCHEMES *(Continued)*

b) ESOP Scheme *(Continued)*

Note: The Management Options may not be exercised until vested, except as approved by the Board and subject to the provisions hereunder, in respect of the audited consolidated financial statements of the Company for each full calendar year from 2017 to 2021 (both years inclusive):

(i) if the consolidated net income attributable to equity shareholders of the Company, after tax and minority interest (and excluding any extraordinary or one-time income or gain) of the Company on a consolidated basis meets the respective target as set out below (the "Net Income Target") in such calendar year, 20% of the Management Options (whenever granted) will vest and become exercisable:

	2017 RMB (million)	2018 RMB (million)	2019 RMB (million)	2020 RMB (million)	2021 RMB (million)
Net Income Target	110	130	281	325	375

(ii) in the event that the Net Income Target is not met in a calendar year, no Management Options may vest or become exercisable.

There was no share option expense recognised in profit or loss during the year ended 31 December 2022 and 2021. There was no new share option granted under the ESOP Scheme during the years ended 31 December 2022 and 2021.

At the end of the reporting period, the Company had 13,003,051 Management Options outstanding under the ESOP Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 13,003,051 additional ordinary shares of the Company and additional share capital of RMB45,452 (before issue expenses).

At the date of approval of these financial statements, the Company had 13,003,051 Management Options outstanding under the Scheme, which represented approximately 0.96% of the Company's shares in issue as at that date.

28. SHARE AWARD SCHEME

On 19 May 2020 (the "Adoption Date"), the Board of directors ("the Board") adopted a share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of the Awarded Shares awarded to each of the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

28. SHARE AWARD SCHEME *(Continued)*

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay Bank of Communications Trustee Limited (the "Trustee"), the Trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they vest in accordance with the rules of the Award Scheme.

Also, the Board shall not make any further award of the Awarded Shares which will result in the aggregate number of the Shares awarded by the Board under the Award Scheme exceeding 10% of the issued share capital of the Company from time to time.

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of 10 years unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

On 29 March 2021, the Board resolved to grant the Awarded Shares to 405 Selected Employee (the "Grantees") in accordance with the terms of the Award Scheme at nil consideration. Each of the Grantees is an employee of the Company or its subsidiaries.

The following Awarded Shares were outstanding under the Award Scheme during the year:

	Notes	**2022 Number of Awarded Shares '000**	2021 Number of Awarded Shares '000
At 1 January			
Number of Awarded Shares held by the Trustee		**30,000**	–
Number of Awarded Shares granted but not yet vested		**28,359**	–
Maximum number of Awarded Shares available for grant		**103,940**	–
At 31 December			
Number of Awarded Shares held by the Trustee		**2,556**	30,000
Number of Awarded Shares granted but not yet vested		**–**	28,359
Maximum number of Awarded Shares available for grant*		**107,141**	103,940
Granted during the year	(a)	**–**	30,000
Lapsed during the year		**41**	1,641
Vested during the year	(a)	**28,318**	–
Allotted and issued during the year	(b)	**–**	30,000
Purchased during the year	(c)	**874**	–

28. SHARE AWARD SCHEME *(Continued)*

Notes:

(a) For the year ended 31 December 2021, a total of 30,000,000 Awarded Shares were granted to the Selected Persons who are employees of the Group. The fair value of the Awarded Shares granted to the Selected Employees was HK$63,600,000, equivalent to RMB53,550,000 (HK$2.12 per share), of which the Group recognised employee share-based compensation benefits under the Awarded Share expense of RMB11,993,000 during the year ended 31 December 2022 (2021: RMB38,555,000) in respect of the Awarded Shares granted to the Selected Employees. The Awarded Share were vested to the Selected Employees on 1 April 2022.

(b) For the year ended 31 December 2021, 30,000,000 Award shares were allotted and issued to the Trustee.

(c) For the year ended 31 December 2022, the Trustee purchased 874,000 (2021: Nil) Awarded Shares at a total cost (including transaction costs) of approximately HK$1,705,000 (equivalent to RMB1,551,000) (2021: Nil).

* As mentioned above, the Board shall not make any further award of Awarded Shares which will result in the aggregate number of the Awarded Shares granted under the Award Scheme exceeding 10% of the number of issued shares of the Company from time to time. For the avoidance of doubt, Awarded Shares awarded but lapsed in accordance with the terms of the Award Scheme will not be counted for the purpose of calculating the aforesaid 10% scheme limit; yet, those Awarded Shares conditionally granted on 29 March 2021 were counted towards the 10% scheme limit. No further Awarded Shares have been granted thereafter up to 31 December 2022 and the date of approval of these financial statements.

Therefore, the maximum number of Awarded Shares available for grant equal to the said 10% scheme limit less those Awarded Shares conditionally granted on 29 March 2021 plus those lapsed Awarded Shares out of the aforesaid granted Awarded Shares.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 132 to 133 of the consolidated financial statements.

(a) Share premium

The Group's share premium represents the difference between the par value of the shares issued and the consideration received. Details of the movements in the share premium are set out in the consolidated statement of changes in equity.

(b) Merger reserve

The Group's merger reserve represents the nominal value of the shares of subsidiaries and acquisition of non-controlling interests pursuant to the reorganisation in 2016.

(c) Capital reserve

The Group's capital reserve represents the difference between the amounts of net consideration and the carrying values of non-controlling interests acquired or disposed of.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

29. RESERVES *(Continued)*

(d) Statutory reserve

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

(e) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to related profits should the related options expire after the vesting period.

(f) Award share reserve

The award share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Persons at the date of award.

(g) Exchange fluctuation reserve

The Group's exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations and the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

30. ACQUISITION OF A SUBSIDIARY THAT IS NOT BUSINESS

During the year ended 31 December 2021, the Group entered into an agreement with two independent parties (the "Langmai sales-purchase Agreement"), to subscribe for 51% of Langmai (the "Langmai Acquisition"). The Langmai Acquisition was made as part of the Group's strategy to expand its market share of medical equipment and consumables related to microbiologic diagnosis in the PRC. The subscription consideration for the Langmai Acquisition was RMB20,000,000, which is payable in two instalments. The first instalment has been paid on 14 July 2021. The Langmai Acquisition was completed on 14 July 2021 (the "Langmai Acquisition Date").

The net assets acquired by the Group during the year ended 31 December 2021 are as follows:

	RMB'000
Net assets acquired:	
Bank balances	**10,009**
Consideration receivable	**10,000**
Intangible asset	**19,206**
	39,215
Non-controlling interests	**(19,215)**
	20,000
Satisfied by:	
Cash	**10,000**
Consideration payable	**10,000**
	20,000

An analysis of cash flows in respect of the acquisitions of Langmai is as follows:

	RMB'000
Cash consideration	**(10,000)**
Bank balances acquired	**10,009**
Net inflow of cash and cash equivalents included in cash flows from investing activities for the year	**9**

NOTES TO FINANCIAL STATEMENTS

31 December 2022

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to the right-of-use assets and lease liabilities of RMB16,365,000 and RMB16,365,000, respectively, in respect of lease arrangements for buildings and service equipment.

(b) Changes in liabilities arising from financing activities:

2022

	Lease liabilities included in other payables RMB'000	Interest-bearing bank borrowings RMB'000
As at 1 January 2022	18,844	408,809
Changes from financing cash flows	(15,309)	(94,917)
New leases	16,365	–
Lease modification	537	–
Exchange realignment	(13)	15,605
Accretion of interest recognised	1,176	–
Interest paid	(1,176)	–
As at 31 December 2022	20,424	329,497

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

(b) Changes in liabilities arising from financing activities: *(Continued)*

2021

	Lease liabilities included in other payables RMB'000	Amounts due to shareholders included in other payables RMB'000	Interest-bearing bank borrowings RMB'000
As at 1 January 2021	22,475	312	399,320
Changes from financing cash flows	(11,526)	(312)	15,690
New leases	8,565	–	–
Lease modification	(670)	–	–
Exchange realignment	–	–	(6,201)
Accretion of interest recognised	1,033		
Interest paid	(1,033)	–	–
As at 31 December 2021	18,844	–	408,809

(c) Total cash outflow for leases

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

	2022 RMB'000	2021 RMB'000
Within operating activities	**(12,179)**	(13,480)
Within financing activities	**(16,485)**	(12,559)
	(28,664)	(26,039)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

32. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2022 RMB'000	2021 RMB'000
Sales of products:			
Alifax SH	(i)	**686**	1,103
Shinva Group		**–**	185
Purchases of products:			
Hunan AKJD*		**–**	73
Alifax SH	(ii)	**365**	1,203
Shinva Group	(iii)	**645**	398
Rental expense:			
Mr. Ho		**–**	231
Mr. Leung		**–**	770
Mr. Lin		**–**	2,248
Shinva Group **	(iv)	**3,664**	3,480
Recognition of right-of-use assets:			
Mr. Ho **	(v)	**3,927**	–
Mr. Leung **	(v)	**3,792**	–
Mr. Lin **	(v)	**6,743**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2022

32. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Transactions with related parties *(Continued)*

Notes:

(i) The sales to an associate, Alifax SH, were made according to the prices and conditions mutually agreed by the Group and the associate.

(ii) The purchases from an associate, Alifax SH, were made according to the prices and conditions mutually agreed by the Group and the associate.

(iii) The purchases from the Shinva Group were made according to the prices and conditions mutually agreed by the Group and the Shinva Group.

(iv) The service income and service expenses were based on the direct costs incurred.

(v) The rental expense paid was based on the market rate.

(vi) On 1 January 2022, the Group entered into several lease agreements with Mr. Ho, Mr. Lin and Mr. Leung, the shareholders of the Group, in relation to the leasing of an office for a term of three years. Right-of-use assets and lease liabilities of RMB14,462,000 and RMB14,462,000 were recognised on the same date in respect of the lease agreements. No addition of right-of-use asset in relation to leasing from related parties was recognised in 2022.

* Hunan AKJD ceased to be an associate of the Group as the company was disposed during the year ended 31 December 2021.

** The related party transactions are constituting continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

32. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel of the Group:

	2022	2021
	RMB'000	RMB'000
Short term employee benefits	**2,345**	2,732
Performance-related bonuses	**900**	265
Employee share-based compensation benefit under the Award Scheme	**1,643**	5,259
Post-employment benefits	**397**	381
Total compensation paid to key management personnel	**5,285**	8,637

The above compensation of key management personnel excludes the directors' remuneration, details of which are set out in note 8 to the financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

Except for financial assets at fair value through profit or loss disclosed in note 17 to the consolidated financial statements, all financial assets and liabilities of the Group as at 31 December 2022 and 2021 are classified as financial assets and liabilities at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amount and the fair value of the Group's financial instruments, other than those carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	31 December 2022 RMB'000	31 December 2021 RMB'000	**31 December 2022 RMB'000**	31 December 2021 RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**59,378**	79,485	**59,378**	79,485
Financial liabilities				
Interest-bearing bank borrowings	**329,497**	408,809	**316,824**	390,831

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption were used to estimate the fair values:

The fair values of financial assets at fair value through profit or loss are determined based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

Below is a summary of significant unobservable inputs to the valuation of financial instruments as at 31 December 2022 and 2021:

	Valuation technique	**Significant unobservable inputs**
Unlisted funds	Net assets value per share	Net assets of the underlying funds

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments as at 31 December 2022:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss:				
Unlisted funds	–	54,352	5,026	59,378

NOTES TO FINANCIAL STATEMENTS

31 December 2022

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Assets measured at fair value: *(Continued)*

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments as at 31 December 2021:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss:				
Unlisted funds	–	72,646	6,839	79,485

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2021: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables, other receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances. The Group has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on cash and bank balances).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
2022		
RMB	**100**	**(653)**
HK$	**100**	**3,000**
US$	**100**	**4,731**
RMB	**(100)**	**653**
HK$	**(100)**	**(3,000)**
US$	**(100)**	**(4,731)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2021		
RMB	100	1,890
HK$	100	2,379
US$	100	1,780
RMB	(100)	(1,890)
HK$	(100)	(2,379)
US$	(100)	(1,780)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from bank deposits held by operating units in currencies other than the units' functional currencies. Approximately 74.6% (2021: 71.5%) of the Group's cash and cash equivalents were denominated in currencies other than the functional currency of the operating units.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit before tax RMB'000**
2022		
If RMB weakens against HK$	**1**	**3,014**
If RMB strengthens against HK$	**(1)**	**(3,014)**
If RMB weakens against US$	**1**	**4,731**
If RMB strengthens against US$	**(1)**	**(4,731)**

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000
2021		
If RMB weakens against HK$	1	2,429
If RMB strengthens against HK$	(1)	(2,429)
If RMB weakens against US$	1	4,407
If RMB strengthens against US$	(1)	(4,407)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for the financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables*	–	–	–	572,218	572,218
Financial assets included in prepayments and other receivables**					
– Normal	22,898	–	–	–	22,898
Cash and cash equivalents					
– Not yet past due	1,020,626	–	–	–	1,020,626
Pledged deposits	17,901	–	–	–	17,901
	1,061,425	–	–	572,218	1,633,643

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and bills receivables*	8,000	–	–	547,884	555,884
Financial assets included in prepayments and other receivables**					
– Normal	8,758	–	–	–	8,758
Cash and cash equivalents					
– Not yet past due	834,626	–	–	–	834,626
Pledged deposits	124,284	–	–	–	124,284
	975,668	–	–	547,884	1,523,552

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term bank loans and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2022					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Lease liabilities	**–**	**1,788**	**7,212**	**11,629**	**438**	**21,067**
Interest-bearing bank borrowings	**–**	**218,531**	**114,640**	**–**	**–**	**333,171**
Trade and bills payables	**324,054**	**–**	**–**	**–**	**–**	**324,054**
Other payables and accruals	**188,661**	**–**	**–**	**–**	**–**	**188,661**
	512,715	**220,319**	**121,852**	**11,629**	**438**	**866,953**

	2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	1,481	6,866	11,981	–	20,328
Interest-bearing bank borrowings	–	328,593	83,937	–	–	412,530
Trade and bills payables	492,657	–	–	–	–	492,657
Other payables and accruals	166,817	–	–	–	–	166,817
	659,474	330,074	90,803	11,981	–	1,092,332

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at fair value through profit or loss (note 17) as at 31 December 2022 and 2021.

The market equity index for the following stock exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	31 December 2022	**High/low 2022**	31 December 2021	High/low 2021
Hong Kong – Hang Seng Index	**19,781**	**25,051/ 14,597**	23,398	31,183/ 22,665

	Carrying amount RMB'000	**Increase/ (decrease) in price %**	**Increase/ (decrease) in profit before tax RMB'000**
2022			
Private equity investments			
– Financial assets at fair value through profit or loss	**59,378**	**10%** **10%**	**5,938/** **(5,938)**
2021			
Private equity investments			
– Financial assets at fair value through profit or loss	79,485	10% 10%	7,949/ (7,949)

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a gearing ratio, which is total debt divided by total assets. Total debt represented total interest-bearing bank borrowings. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Interest-bearing bank borrowings (note 24)	**329,497**	408,809
Total assets	**4,314,277**	4,367,361
Gearing ratio	**7.6%**	9.4%

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**2,017,314**	1,989,629
Financial assets at fair value through profit or loss	**36,129**	19,441
Total non-current assets	**2,053,443**	2,009,070
CURRENT ASSETS		
Other receivables	**88,650**	246,072
Cash and cash equivalents	**784,935**	675,423
Total current assets	**873,585**	921,495
CURRENT LIABILITIES		
Other payables	**414,269**	140,909
Interest-bearing bank borrowings	**–**	255,083
Total current liabilities	**414,269**	395,992
NET CURRENT ASSETS	**459,316**	525,503
Net assets	**2,512,759**	2,534,573
EQUITY		
Share capital	**4,637**	4,632
Reserves (note)	**2,508,122**	2,529,941
Total equity	**2,512,759**	2,534,573

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

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

	Share premium RMB'000	Merger reserve RMB'000	Shares held for award scheme RMB'000	Share option reserve RMB'000 (Note 29(e))	Award share reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2022	2,415,733	63,907	(98)	38,243	38,555	(28,255)	1,856	2,529,941
Profit for the year	–	–	–	–	–	–	8,466	8,466
Other comprehensive income for the year:								
Exchange differences on translation of the Company's financial statements	–	–	–	–	–	47,283	–	47,283
Total comprehensive income for the year	–	–	–	–	–	47,283	8,466	55,749
Issuance of new shares upon exercise of share option	5,019	–	–	(1,077)	–	–	–	3,942
Vesting of shares under the Award Scheme	–	–	92	–	(92)	–	–	–
Purchase of shares for the Award Scheme	–	–	(1,551)	–	–	–	–	(1,551)
Employee share-based compensation benefits under the Award Scheme	–	–	–	–	11,993	–	–	11,993
Final 2021 dividend	(59,917)	–	–	–	–	–	–	(59,917)
Interim 2022 dividend	(32,035)	–	–	–	–	–	–	(32,035)
At 31 December 2022	2,328,800	63,907	(1,557)	37,166	50,456	19,028	10,322	2,508,122

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note: A summary of the Company's reserves is as follows: *(continued)*

	Share premium RMB'000	Merger reserve RMB'000	Shares held for award scheme RMB'000	Share option reserve RMB'000 (Note 29(e))	Award share reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	2,415,733	63,907	–	38,243	–	(13,145)	1,294	2,506,032
Profit for the year	–	–	–	–	–	–	70,992	70,992
Other comprehensive loss for the year:								
Exchange differences on translation of the Company's financial statements	–	–	–	–	–	(15,110)	–	(15,110)
Total comprehensive income for the year	–	–	–	–	–	(15,110)	70,992	55,882
Issuance of new shares	–	–	(98)	–	–	–	–	(98)
Employee share-based compensation benefits under the Award Scheme	–	–	–	–	38,555	–	–	38,555
Final 2020 dividend	–	–	–	–	–	–	(40,405)	(40,405)
Interim 2021 dividend	–	–	–	–	–	–	(30,025)	(30,025)
At 31 December 2021	2,415,733	63,907	(98)	38,243	38,555	(28,255)	1,856	2,529,941

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2023.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out below.

RESULTS

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**2,748,809**	2,730,670	2,428,210	2,332,740	413,635
PROFIT BEFORE TAX	**283,789**	267,940	231,956	296,940	117,622
Income tax expense	**(88,259)**	(106,190)	(77,338)	(42,121)	(18,114)
PROFIT FOR THE YEAR	**195,530**	161,750	154,618	254,819	99,508
Attributable to:					
Owners of the parent	**209,999**	174,541	158,718	275,001	103,440
Non-controlling interests	**(14,469)**	(12,791)	(4,100)	(20,182)	(3,932)
	195,530	161,750	154,618	254,819	99,508

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**4,314,277**	4,367,361	3,907,096	3,870,260	1,040,040
Total liabilities	**(1,160,813)**	(1,373,949)	(1,047,821)	(1,064,087)	(84,313)
Non-controlling interests	**(78)**	(14,547)	(8,122)	12,493	(7,249)
	3,153,386	2,978,865	2,851,153	2,818,666	948,478

The summary of the consolidated results of the assets, liabilities and non-controlling interests of the Group for the last five years has been extracted from the published audited financial statements and the Group's prospectus.