You should read the following discussion and analysis in conjunction with our consolidated financial statements as of and for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, including the notes thereto, as set forth in the Accountant's Report in Appendix I to this document. You should read the entire Accountant's Report in Appendix I to this document and not rely merely on the information contained in this section. The Accountant's Report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the sections headed "Risk Factors" and "Forward-looking Statements" in this document.

OVERVIEW

Founded in 1994, we have been dedicated to the research, development, manufacture and commercialization of interventional medical devices primarily targeting structural heart diseases, with a track record spanning over two decades. We are a leading interventional medical device provider in China for CHD, a major field of application for structural heart diseases, in terms of market share in China's CHD occluder products market in 2021, with a broad portfolio of marketed and pipeline products, according to the F&S Report. We are the largest manufacturer of CHD occluder products and the related procedural accessories in China, with a market share of 38.0% in terms of revenue recognized for the sales in China in 2021, according to the same source. Our PFO occluder products and LAA occluder products target cardioembolic stroke and related symptoms, another major field of application for structural heart diseases. We have also cultivated the most comprehensive product portfolio of heart valve product candidates in China, with 21 major product candidates as of the Latest Practicable Date, to access the enormous market potential treating valvular diseases, the largest field of application for structural heart diseases which remains generally untapped in China, according to the F&S Report.

We generate revenue primarily from the sale of interventional medical devices and associated procedural accessories. Our business grew rapidly during the Track Record Period. Our revenue increased by 27.3% from RMB116.5 million in 2019 to RMB148.2 million in 2020, and further increased by 50.1% to RMB222.6 million in 2021. Our revenue increased by 12.5% from RMB111.0 million in the six months ended June 30, 2021 to RMB124.8 million in the six months ended June 30, 2022. Our net profit increased by 32.5% from RMB51.9 million in 2019 to RMB68.8 million in 2020. Our net profit decreased by 14.6% to RMB58.7 million in 2021. Our net profit decreased by 41.9% from RMB41.8 million in the six months ended June 30, 2021 to RMB24.3 million in the six months ended June 30, 2022. Our net profit margin was 44.6%, 46.4%, 26.4%, 37.6% and 19.4% in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors affecting our results of operations and financial condition include the following.

Growth and Competitive Landscape of Our Industry

Our financial performance and future growth depend on the overall growth of and our competitiveness in the interventional medical device market targeting structural heart diseases. According to the F&S Report, the interventional medical device market targeting structural heart diseases in China is still at the emerging stage of development. With the increasing prevalence and awareness of structural heart diseases and the growing acceptance of interventional medical solutions, China's interventional medical device market targeting structural heart diseases is expected to experience continuous growth, according to the same source. Moreover, favorable government policies and rapid technological innovation in the industry are also expected to drive the growth in the market demand. According to the F&S Report, the market size of China's interventional medical device market targeting structural heart diseases in terms of revenue is expected to increase from RMB2.0 billion in 2021 to RMB10.4 billion in 2025 at a CAGR of 51.0%.

As of the Latest Practicable Date, we were the only provider in China with a product portfolio covering all of the major fields of application for structural heart diseases. We were the largest manufacturer of CHD occluder products and the related procedural accessories in China, with a market share of 38.0% in terms of revenue recognized for the sales in China in 2021, among the five major manufacturers with the total market share of 95.3%, according to the F&S Report. For cardioembolic stroke occluder products, both the PFO and the LAA occluder therapies are still in emerging stage with their first adoption in China in 2014, much later than drug treatment, and we are among the few early-movers in the markets. As of the Latest Practicable Date, there were only four players in China's PFO occluder products market, including those with product candidates in the clinical trial stage, and only seven major players with commercialized products in China's LAA occluder products market, according to the F&S Report. We also have the most comprehensive product portfolio of heart valve product candidates in China, with 21 major product candidates as of the Latest Practicable Date, according to the same source. There were only a few players in the interventional medical device market targeting valvular diseases in China with commercialized products.

While we believe we retain significant leadership and early-mover advantages in the relevant markets, we face competition from multi-national and domestic companies on the basis of numerous factors, including among others, product safety and efficacy, timing and scope of regulatory approvals, availability and cost of supply, marketing and sales capabilities, reimbursement coverage, product price, and patent position. We believe that, leveraging our leading position and comprehensive product portfolio, we are well-positioned to compete effectively and capitalize on the growth opportunities in the markets in which we operate, and we expect our business and financial performance to continue to improve in the future. Meanwhile, in order to achieve a larger market share, we must devote more managerial, financial and other resources to anticipate and respond to potential changes in market conditions and industry trends both in China and globally in a timely manner.

Development and Commercialization of Our Product Candidates

Our business and results of operations depend on our ability to successfully develop and commercialize our product candidates. We have been actively developing new products and upgrading existing products to support a more extensive portfolio of interventional medical devices, which we believe will diversify our revenue source and enable us to maintain sustainable growth. In 2022, we obtained the NMPA approval for our biodegradable VSD occluder in February 2022 and the NMPA approval for our interventional delivery system for biodegradable occluders in May 2022. From 2023 to 2024, we plan to launch 14 new products, including our biodegradable ASD occluder product candidate, biodegradable PFO occluder product candidate, TAVR system, and TMVr-A system, which are in various pre-launch stages. In addition, we have several product candidates currently at the product design and development stage, including artificial heart valve with polymer leaflets for transcatheter implantation and TTVRS. We aim to advance these product candidates to the clinical trial and registration stage rapidly to retain early-mover advantages among competitors. See "Business — Overview — Product Portfolio." In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our research and development expenses were RMB25.8 million, RMB39.0 million, RMB41.4 million, RMB16.4 million and RMB19.6 million, respectively, representing 22.2%, 26.3%, 18.6%, 14.8% and 15.7% of our revenue for the same periods, respectively. We expect to continue to make significant investments in research and development to keep pace with the ever-changing market demands and the evolving technological landscape.

Our results of operations also depend on our ability to successfully commercialize our product candidates upon registration, which in turn depends upon the degree of market acceptance each of such product candidates achieves, particularly among hospitals and physicians. As of June 30, 2022, we had established a nationwide network of 288 distributors covering 878 hospitals. We are selective in engaging distributors and have generally developed longstanding and stable business relationships with our major distributors. We plan to leverage our accumulated experience and established sales channels in marketing our existing products to guide our future commercialization efforts.

Our Ability to Maintain Favorable Product Pricing

Our pricing directly affects our revenue and profitability. We consider various factors when pricing our products, such as bargaining power and preferences of hospitals, prices of similar products offered by our competitors, and our cost of sales and expenses. In addition, China's healthcare regulatory framework has undergone significant changes in recent years, such as those concerning public tender process, medical insurance reimbursement, centralized procurement regime and two-invoice system , which may also affect our pricing and our results of operations.

We generally sell our products at uniform ex-factory prices to our distributors in China. For our products sold overseas through the Retained Lepu Medical Group during the Track Record Period, the Retained Lepu Medical Group determined prices through commercial negotiations with sub-distributors based on a number of factors, primarily including the specific market conditions of each overseas market, product specifications, the scale and potential of overseas customers, their purchase amounts and the pricing of multinational competitors in the same market. With its long-standing experience and reputation in the overseas market and established sales network, the Retained Lepu Medical Group had been actively assisting us in the overseas sales since 2012. As a result, prior to 2020, for our products for onsale to overseas markets, we sold such products to the Retained Lepu Medical Group at prices calculated by adding a prevailing margin to our cost of production. As we had gradually built up our own brand recognition and sales capabilities, by the beginning of 2020, the contribution from the Retained Lepu Medical Group to the overseas distribution of our products had been reduced to such an extent that its involvement and functions became similar to our distributors in China. We and the Retained Lepu Medical Group have agreed to adjust the pricing model for our sales to the Retained Lepu Medical Group accordingly so that the consideration paid by the Retained Lepu Medical Group since the beginning of 2020 has been calculated based on an agreed discount, at prevailing market rates, to the price paid by the overseas sub-distributors, which has resulted in a substantial increase in our selling prices to the Retained Lepu Medical Group. The gross profit margin that we generated from our sales to the Retained Lepu Medical Group in 2020 was at the comparable rate with that generated from the sales to our other distributors that are independent third parties. Furthermore, we have gradually established direct business relationships with overseas distributors since 2021 and now sell our products to such distributors directly at prevailing market rates. See "Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Sale of Products Framework Agreement."

For our direct sales, we participate in public tender processes to secure the right to sell our products to hospitals. We determine the bidding prices by considering our costs and expenses and the prices of similar products in the past. If our products win the bids, such products would be qualified for future procurement by the hospitals, and our bidding prices would become the public prices of our products, which generally determine the maximum retail prices that we may offer to the hospitals in direct sales. See "Business — Sales, Distribution and Marketing — Pricing."

Our Ability to Expand Our Sales Network

We generate the majority of our revenue from sales to distributors. As of June 30, 2022, for our domestic markets in China, we had 288 distributors covering all provinces, municipalities and autonomous regions in China. In addition, we historically sold our products to overseas distributors through the Retained Lepu Medical Group, and we had established direct business relationship with most of the overseas distributors by June 2021. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from sales to distributors was RMB106.8 million, RMB137.3 million, RMB209.0 million, RMB105.2 million and RMB121.0 million, respectively, representing 91.8%, 92.6%, 93.9%, 94.8% and 97.0% of our revenue for the same periods, respectively. Our ability to effectively maintain and expand our distribution network is critical to our business and financial performance. Going forward, we intend to further enhance our extensive distribution network by providing more technical training sessions to our distributors and assess their performance more frequently. Furthermore, we also plan to accelerate our penetration into global markets. See "Business — Growth Strategies — Expand our global footprint by increasing product development and commercialization and broadening overseas sales channels."

To a lesser extent, we also sell products directly to hospitals. In 2019, 2020, 2021 and the six months ended June 30, 2022, we sold our products directly to 10, 12, nine and five hospitals, respectively, and recognized revenue of RMB9.6 million, RMB11.0 million, RMB13.6 million and RMB3.8 million, respectively, representing 8.2%, 7.4%, 6.1% and 3.0% of our revenue for the same periods, respectively. Our ability to improve brand recognition and promote product sales through our academic promotion, training and marketing activities will also impact our future performance. We plan to enlarge our sales and marketing team to support our market penetration strategy. As we continue to grow our business, we believe we are able to recoup our investments and maintain relatively stable profit margins.

Our Ability to Increase Operational Efficiency

Our ability to effectively control our cost of sales and expenses while achieving expected business growth is critical to our profitability. Our cost of sales consisted primarily of raw materials and consumables costs, employee benefit expense and depreciation and amortization costs. Our cost of sales was RMB13.6 million, RMB15.1 million, RMB25.0 million, RMB11.9 million and RMB15.3 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 11.7%, 10.2%, 11.2%, 10.7% and 12.3% of our revenue for the same periods, respectively. The prices of raw materials are determined principally by market forces. Any fluctuation in raw materials and consumables costs from current levels would impact our cost of sales and our profit margin. We have implemented a number of measures with respect to our raw material procurement process in order to mitigate the impact of shortage of and rising prices for principal raw materials, including monitoring inventory levels based on manufacturing forecast and maintaining a list of backup suppliers.

In addition, our business and results of operations are significantly affected by our operating expense structure, which primarily comprised research and development expenses, distribution expenses, and general and administrative expenses during the Track Record Period. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we incurred research and development expenses of RMB25.8 million, RMB39.0 million, RMB41.4 million, RMB16.4 million and RMB19.6 million, respectively, accounting for 22.2%, 26.3%, 18.6%, 14.8% and 15.7% of our revenue in the same periods, respectively. We expect that our research and development expenses will continue to contribute to a large proportion of our total operating expenses for the foreseeable future as we continue the clinical development of our product candidates and move product candidates currently at earlier stage into more advanced clinical trials. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we incurred distribution expenses of RMB21.8 million, RMB23.1 million, RMB43.1 million, RMB17.4 million and RMB16.6 million, respectively, accounting for 18.7%, 15.6%, 19.4%, 15.7% and 13.3% of our revenue in the same periods, respectively. As we expect to ramp up sales of our recently launched products and receive registration approvals for more product candidates, we will further increase our sales and marketing activities and expand our sales and marketing team, and our distribution expenses will increase accordingly. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we incurred general and administrative expenses of RMB9.0 million, RMB8.4 million, RMB59.9 million, RMB24.5 million and RMB16.4 million, respectively, accounting for 7.7%, 5.7%, 26.9%, 22.0% and 13.1% of our revenue in the same periods, respectively. We expect to continue to increase our general and administrative expenses in the future to support our business expansion.

The decrease in the percentage of revenue for research and development expenses in 2021 was primarily because we began to capitalize the expenses associated with certain product candidates as they had fulfilled the prerequisites for clinical trials in the second half of 2020 or 2021 and therefore met the criteria for capitalization. As a percentage of revenue, our distribution expenses and general and administrative expenses decreased from 2019 to 2020, primarily reflected greater economies of scale as we continued to grow our business and the impact from the COVID-19 outbreak in 2020. The increase in the percentage of revenue for distribution expenses in 2021 was primarily due to (1) our increased sales and traveling activities driven by the effective containment of the COVID-19 outbreak in China and the new products launched in mid-2020 and 2021, and (2) our enlarged sales and marketing team as we continued to launch new products. The significant increase in the percentage of revenue for general and administrative expenses in 2021 was primarily due to the one-off [**REDACTED**] expenses of RMB32.7 million.

We expect our cost and expense structure to evolve as we continue to expand our business operation and develop and launch new products. Going forward, we will continue to endeavor to improve operating efficiency and achieve economies of scale to enhance our profit margin.

Regulatory Environment in China and Overseas

The medical device market in China is highly regulated. The implementation and enforcement of government policies and regulations in China generally have a significant impact on the supply, design, manufacture, price and sale of medical devices in China, which also increase the cost of compliance with such policies and regulations for medical device companies in China. Specifically, medical devices must be filed or registered with the NMPA or its local branches at the provincial or prefectural city level before they can be manufactured or commercialized in China, and such filing or registration must be renewed periodically. Any change in laws, regulations or policies in relation to such filing or registration could affect our ability and plans to launch new products and renew registration for products. For details, see "Regulatory Overview — PRC Laws and Regulations Relating to Medical Devices." In recent years, our revenue and profitability have benefited from policies in China to support the development and innovation of medical devices, especially domestically developed and manufactured medical devices, such as "Made in China (2025)," "Healthy China 2030," "13th Five-Year National Science and Technology Innovation Planning" and "13th Five-Year Special Plan for Medical Device Technology Innovations."

The regulatory framework for the medical device industry in China is continuously evolving. In recent years, the healthcare regulatory framework in China has undergone significant changes, including the centralized procurement regime and the two-invoice system, which may affect our financial condition and results of operations. The PRC government has adopted a centralized procurement regime in an effort to regulate prices of certain types of medical devices with huge consumption through group procurement at the provincial level, which may exert downward pressure on the pricing of medical devices that are included under such regime. During the Track Record Period and up to the Latest Practicable Date, none of our medical devices was included under the said centralized procurement regime in China. However, we may face downward pricing pressure if our products are included in the centralized procurement regime or additional products of ours are included in the medical insurance reimbursement list, even if such inclusions are expected to increase the sales volume of our products. See "Business — Sales, Distribution and Marketing — Pricing." In addition, in April 2016, the PRC government announced a pilot program in certain provinces in China to implement the two-invoice system, which generally limits the network of distributors to a single layer of distributors for sale of medical devices from manufacturers to hospitals to control medical device prices. See "Regulatory Overview — PRC Laws and Regulations Relating to Medical Devices — Two-Invoice System." For our domestic markets in China, we require our distributors not to sell our products to sub-distributors. The two-invoice system has little impact on the public prices of our products, which are determined through the public tender processes organized by the procurement platforms. Therefore, the two-invoice system did not have any material effect on our financial condition and results of operations during the Track Record Period. See "Business — Sales, Distribution and Marketing."

However, as the implementation of the centralized procurement regime and the two-invoice system is still at an early stage, and the relevant interpretations and enforcement continue to evolve, the actual effect of the centralized procurement regime and the two-invoice system on our future results of operations remains uncertain.

Furthermore, regulatory authorities outside of China also have requirements for approval of medical devices for commercial sale with which we must comply prior to marketing in those areas. Regulatory requirements can vary widely from country to country, and the foreign regulatory approval process can be lengthy, costly and unpredictable.

Impact from COVID-19 and Other Pandemics

Our business and results of operations depend on our ability to effectively deal with outbreak of health pandemics, natural disasters and other extraordinary events. For example, since the outbreak of COVID-19 throughout China and other countries and regions, a number of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or "stay-at-home" orders, widespread business closures, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. As a result, the medical device industries have been negatively impacted, which in turn adversely affected our business, results of operations and financial condition. For example, we experienced a slight decrease in sales volume of our products in 2020 as compared to that in 2019, primarily due to the reduced demand among hospitals for medical devices along with the decrease of operations unrelated to COVID-19, as most of the hospitals devoted their resources primarily to dealing with COVID-19 in the first half of 2020.

The Chinese government gradually lifted the domestic travel restrictions and other quarantine measures, and economic activities began to recover and return to normal nationwide since the second quarter of 2020. We are closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential impact on our business, results of operations and financial condition. We cannot predict whether or when the impact from

COVID-19 will be eradicated, and our business operations could also be adversely affected by other public health threats or pandemics. See "— COVID-19 Outbreak and Effects on Our Business" for the impact of COVID-19 outbreak on our business and "Risk Factors — Risks Relating to Our Business and Industry — Risks Relating to Our Operations — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 outbreak" for the associated risks and challenges.

BASIS OF PRESENTATION

Pursuant to the Reorganization, as more fully explained in "History, Reorganization and Corporate Structure — Our Corporate Development," our Company became the holding company of the companies now comprising our Group on January 29, 2021, The companies now comprising our Group were under the common control of Lepu Medical before and after the Reorganization. Accordingly, our financial statements for the Track Record Period have been presented on a consolidated basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our company for the Track Record Period include the results and cash flows of all companies now comprising our Company from the earliest date presented. The consolidated statements of financial position of our Company as of December 31, 2019, 2020 and 2021 and June 30, 2022 have been prepared to present the assets and liabilities of the subsidiaries now comprising our Company using the existing book values from Lepu Medical's perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

Our consolidated financial information has been prepared in accordance with all applicable IFRSs issued by International Accounting Standards Board ("IASB"). The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through other comprehensive income, which were carried at fair value. The historical financial information has been prepared on a going concern basis.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial statements. Our significant accounting policies and estimates, which are important for understanding our results of operations and financial condition, are set forth in Note 2 to the Accountant's Report in Appendix I to this document. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions. We believe the significant accounting policies of "property, plant and equipment," "impairment of non-financial assets," "investments and other financial assets," "inventories," "trade receivables," "current and deferred income tax," "redemption liabilities" and "revenue recognition" as set forth in details in Note 2.7, Note 2.11, Note 2.12, Note 2.14, Note 2.15, Note 2.19, Note 2.23 and Note 2.24 to the Accountant's Report in Appendix I to this document, are critical and involve the most significant estimates and judgment used in the preparation of our financial statements.

Revenue Recognition

Revenue is recognized as and when our Group's obligations under the terms of a contract are satisfied, which occurs when control of the promised products or services is transferred to customers. Revenue is measured as the amount of consideration the Group expects to receive in exchange for transferring products or services to a customer.

Inventories

Raw materials and stores, work in progress, and finished goods are stated at the lower of cost and net realizable value. Costs are assigned to individual items of inventory based on weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade Receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within one year and, therefore, all classified as current.

Trade receivables are recognized initially at the unconditional amount of consideration unless they contain significant financing components when they are recognized at fair value. The Group holds the trade receivables intending to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

•	Buildings	25-40 years
•	Machinery	5-10 years
•	Vehicles	3-12 years
•	Electronic equipment	3 years
•	Others	3-10 years

Investments and other financial assets

Classification

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss); and

- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, the classification will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

We reclassify debt investments when and only when our business model for managing those assets changes.

Recognition and derecognition

Regular-way purchases and sales of financial assets are recognized on trade date, the date on which we commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and benefits of ownership.

Measurement

At initial recognition, we measure 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income and gains – net together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income will be reclassified from equity to profit or loss and recognized in other income and gains – net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and gains – net and impairment expenses are presented as a separate line item in the consolidated statement of profit or loss and other comprehensive income.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other income and gains – net in the period in which it arises.

Equity instruments

We subsequently measure all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in other income and gains – net in the consolidated statement of profit or loss and other comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

Impairment

We assess on a forward-looking basis the expected credit loss associated with our debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. See Notes 3.1(b) and 23 to the Accountant's Report in Appendix I to this document for further details.

Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less cost of disposal costs, and value in use. For the purposes of assessing impairments, assets are grouped at the lowest levels. There are separately identifiable cash inflows largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries where the Group operates and generates taxable income.

Management periodically evaluates positions taken in tax returns concerning situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred income tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences, and, probably, the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset. The entity has a legally enforceable right to offset and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

Current and deferred income tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Redemption liabilities

A contract that contains an obligation to purchase our equity instruments for cash or other financial assets gives rise to a financial liability for the present value of the redemption amount, even if such obligation to purchase is conditional on the counter party exercising a right to redeem. We undertake such redemption obligations as certain preferred rights granted to investors in the financing process. The related redemption liabilities are recognized as financial liabilities initially at the present value of the redemption amount and reclassified from equity. Subsequently, the redemption liabilities are measured at amortized cost with interest charged in finance costs.

We de-recognize the redemption liabilities when, and only when, the obligations are discharged, cancelled or have expired. When the preferred rights are waived by investors, the carrying amount of the redemption liability is reclassified back to equity.

Deemed distributions and deemed contributions

Shanghai Shape Memory Alloy disposed of its entire equity interest in Ningbo Bingkun to Lepu Medical at a consideration of RMB1,098,000,000 in December 2020. Part of the disposal consideration of RMB658,800,000 was received by Shanghai Shape Memory Alloy in December 2020 and the remaining consideration of RMB439,200,000 was received by our Company in January 2021. The cash receipts of the disposal consideration have been accounted for as deemed contributions from Lepu Medical.

As part of the Reorganization, Shanghai Shape Memory Alloy has acquired the interventional heart valve business from Lepu Medical at an aggregate consideration of approximately RMB72,167,000, which was treated as a deemed distribution to the shareholders of our Group. The net assets and financial results attributable to the interventional heart valve business have been included in our historical financial information based on the basis of presentation. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, the cash as injected by Lepu Medical for the development of the interventional heart valve business of RMB19,604,000, RMB33,546,000, RMB6,879,000, RMB6,879,000 and nil, respectively, have been accounted for as deemed contributions from Lepu Medical.

See Note 27(a) to the Accountant's Report in Appendix I to this document for details.

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary of our consolidated statements of profit or loss for the periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Revenue	116,451	100.0	148,247	100.0	222,583	100.0	110,968	100.0	124,804	100.0
Cost of sales	(13,619)	(11.7)	(15,134)	(10.2)	(25,038)	(11.2)	(11,884)	(10.7)	(15,322)	(12.3)
Gross profit	102,832	88.3	133,113	89.8	197,545	88.8	99,084	89.3	109,482	87.7
Distribution expenses	(21,760)	(18.7)	(23,146)	(15.6)	(43,072)	(19.4)	(17,383)	(15.7)	(16,626)	(13.3)
General and administrative expenses	(8,981)	(7.7)	(8,383)	(5.7)	(59,874)	(26.9)	(24,457)	(22.0)	(16,402)	(13.1)
Research and development expenses	(25,830)	(22.2)	(38,957)	(26.3)	(41,387)	(18.6)	(16,446)	(14.8)	(19,637)	(15.7)
Net (provision for)/reversal of impairment losses on financial assets	(1,788)	(1.5)	672	0.5	533	0.2	464	0.4	(4,169)	(3.3)
Other income and gains – net	15,746	13.5	13,238	8.9	22,642	10.2	4,401	4.0	(18,289)	(14.7)

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Operating profit	60,219	51.7	76,537	51.6	76,387	34.3	45,663	41.1	34,359	27.5
Finance income	151	0.1	149	0.1	1,185	0.5	221	0.2	1,645	1.3
Finance costs	(24)	(0.0)	(7)	(0.0)	(11,545)	(5.2)	(914)	(0.8)	(10,698)	(8.6)
Finance income/(costs) – net	127	0.1	142	0.1	(10,360)	(4.7)	(693)	(0.6)	(9,053)	(7.3)
Profit before income tax	60,346	51.8	76,679	51.7	66,027	29.7	44,970	40.5	25,306	20.3
Income tax expense	(8,437)	(7.2)	(7,907)	(5.3)	(7,330)	(3.3)	(3,203)	(2.9)	(1,051)	(0.8)
Profit for the year/period	51,909	44.6	68,772	46.4	58,697	26.4	41,767	37.6	24,255	19.4

Revenue

During the Track Record Period, we generated revenue primarily from the sales of medical devices through distributors and direct sales.

Major Product

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our revenue was RMB116.5 million, RMB148.2 million, RMB222.6 million, RMB111.0 million and RMB124.8 million, respectively. The following table sets forth a breakdown of our revenue by major product for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
CHD occluder products	86,716	74.5	106,609	71.9	132,473	59.5	64,123	57.8	90,699	72.7
ASD occluder products	56,058	48.1	69,677	47.0	99,809	44.8	47,791	43.1	71,270	57.1
VSD occluder products	19,322	16.6	22,076	14.9	19,771	8.9	9,958	9.0	10,287	8.2
PDA occluder products	11,336	9.8	14,856	10.0	12,893	5.8	6,374	5.7	9,142	7.3

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Occluder related procedural accessories	28,912	24.8	32,004	21.6	41,568	18.7	18,385	16.6	27,060	21.7
Interventional delivery systems	17,036	14.6	18,418	12.4	25,296	11.4	11,161	10.1	18,216	14.6
Snares	11,876	10.2	13,586	9.2	16,272	7.3	7,224	6.5	8,844	7.1
PFO and LAA occluder products	474	0.4	9,524	6.4	48,457	21.8	28,424	25.6	6,980	5.6
PFO occluder products	474	0.4	1,201	0.8	4,307	1.9	1,175	1.1	3,215	2.6
LAA occluder products	–	–	8,323	5.6	44,150	19.8	27,249	24.6	3,765	3.0
Other products	349	0.3	110	0.1	85	0.0	36	0.0	66	0.1
Total	116,451	100.0	148,247	100.0	222,583	100.0	110,968	100.0	124,804	100.0

CHD Occluder Products

During the Track Record Period, a majority of our revenue was generated from sales of CHD occluder products. Revenue generated from sales of CHD occluder products increased from RMB86.7 million in 2019 to RMB132.5 million in 2021 and from RMB64.1 million in the six months ended June 30, 2021 to RMB90.7 million in the six months ended June 30, 2022, as we continued to grow our business. As a percentage of revenue, sales of CHD occluder products decreased from 74.5% in 2019 to 59.5% in 2021, consistent with the diversification of our product offerings. The percentage increased from 57.8% in the six months ended June 30, 2021 to 72.7% in the six months ended June 30, 2022, primarily due to the increased sales volume of our oxide-coated occluder products as they received broad market acceptance, including primarily MemoCarna® ASD Occluder III, MemoCarna® PDA Occluder III and MemoCarna® VSD Occluder III.

Among our CHD occluder products, revenue generated from sales of ASD occluder products increased from RMB56.1 million in 2019 to RMB99.8 million in 2021 and from RMB47.8 million in the six months ended June 30, 2021 to RMB71.3 million in the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from sales of ASD occluder products accounted for 48.1%, 47.0%, 44.8%, 43.1% and 57.1% of our revenue in the same periods, respectively. The percentage of revenue of ASD occluder products increased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily attributable to revenue generated from MemoCarna® ASD Occluder III, which increased from RMB13.1 million in the six months ended June 30, 2021 to RMB34.6 million in the six months ended June 30, 2022. Revenue generated from sales of VSD occluder products increased from RMB19.3 million in 2019 to RMB19.8 million in 2021 and from RMB10.0 million in the six months ended June 30, 2021 to RMB10.3 million in the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from sales of VSD occluder products accounted for 16.6%, 14.9%, 8.9%, 9.0% and 8.2% of our revenue in the same periods, respectively. Revenue generated from sales of PDA occluder products increased from RMB6.4 million in the six months ended June 30, 2021 to RMB9.1 million in the six months ended June 30, 2022, representing 5.7% and 7.3% of our revenue in the same periods, respectively. The percentage of revenue of PDA occluder products increased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to the launch of MemoCarna® PDA Occluder III in May 2021, which started to generate revenue in the second half of 2021.

Occluder Related Procedural Accessories

Revenue generated from sales of occluder related procedural accessories was RMB28.9 million, RMB32.0 million, RMB41.6 million, RMB18.4 million and RMB27.1 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 24.8%, 21.6%, 18.7%, 16.6% and 21.7% of our revenue in the same periods, respectively. Our occluder related procedural accessories primarily include delivery systems and snares mainly related to CHD occluder products. Interventional delivery system is the largest source of our revenue generated from sales of occluder related procedural accessories. We also intend to gradually introduced other occluder related procedural accessories and heart valve related procedural accessories.

PFO and LAA Occluder Products

Revenue generated from sales of PFO and LAA occluder products was RMB0.5 million, RMB9.5 million, RMB48.5 million, RMB28.4 million and RMB7.0 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing 0.4%, 6.4%, 21.8%, 25.6% and 5.6% of our revenue in the same periods, respectively. We launched LAA occluder products in June 2020 to quickly seize the market opportunity, which started to generate revenue in the second half of 2020. Revenue generated from sales of LAA occluder products decreased from RMB27.2 million in the six months ended June 30, 2021 to RMB3.8 million in the six months ended June 30, 2022, representing 24.6% and 3.0% of our revenue in the same periods, respectively. The decrease in the first half of 2022 was primarily due to our limited technical training and surgical assistance capabilities amid the regional resurgence of COVID-19 in Shanghai, which were critical for the implantation of LAA occluder products and therefore the related sales.

Other Products

During the Track Record Period, we generated a small portion of our revenue from sales of other products, primarily including vascular plug and products with relatively low applicability or importance. Revenue generated from sales of other products was RMB0.3 million, RMB0.1 million, RMB85,000, RMB36,000 and RMB66,000 in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, accounting for 0.3%, 0.1%, 0.0%, 0.0% and 0.1% of our revenue in the same periods, respectively.

Sales Channel

During the Track Record Period, we primarily sold our products to our distributors, and to a lesser extent, directly to hospitals. The following table sets forth our revenue by sales channel for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Sales to distributors	106,848	91.8	137,259	92.6	209,008	93.9	105,235	94.8	121,020	97.0
– Sales to the Retained Lepu Medical Group	10,212	8.8	31,039	20.9	15,952	7.2	11,471	10.3	2,560	2.1
– Sales to other distributors	96,636	83.0	106,220	71.7	193,055	86.7	93,764	84.5	118,460	94.9
– For domestic market	96,636	83.0	106,220	71.7	181,000	81.3	92,683	83.5	99,816	80.0
– For overseas markets	–	–	–	–	12,055	5.4	1,081	1.0	18,644	14.9
Direct sales to hospitals	9,603	8.2	10,988	7.4	13,576	6.1	5,733	5.2	3,785	3.0
Total	116,451	100.0	148,247	100.0	222,583	100.0	110,968	100.0	124,804	100.0

Our revenue generated from direct sales to hospitals increased from RMB9.6 million in 2019 to RMB13.6 million in 2021, while decreased from RMB5.7 million in the six months ended June 30, 2021 to RMB3.8 million in the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from direct sales to hospitals accounted for 8.2%, 7.4%, 6.1%, 5.2% and 3.0% of our revenue in the same periods, respectively. Revenue generated from sales to distributors increased from RMB106.8 million in 2019 to RMB209.0 million in 2021, and from RMB105.2 million in the six months ended June 30, 2021 to RMB121.0 million in the six months ended June 30, 2022. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from sales to distributors accounted for 91.8%, 92.6%, 93.9%, 94.8% and 97.0% of our revenue in the same periods, respectively. Among the revenue generated from sales to distributors, revenue generated from sales to the Retained Lepu Medical Group was RMB10.2 million, RMB31.0 million, RMB16.0 million, RMB11.5 million and RMB2.6 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The significant increase in 2020 was primarily due to the increase in pricing per unit for our products sold overseas through the Retained Lepu Medical Group. See "Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Sale of Products Framework Agreement." The decrease in the revenue generated from sales to the Retained Lepu Medical Group in 2021 and the six months ended June 30, 2022 was primarily as a result of the intensified impact of the COVID-19 outbreak in overseas markets, in addition to the termination of cooperation with the Retained Lepu Medical Group for overseas distribution.

Cost of Sales

Our cost of sales consisted primarily of raw materials and consumables costs for manufacturing, employee benefit expense for our manufacturing staff and amortization of intangible assets. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our cost of sales was RMB13.6 million, RMB15.1 million, RMB25.0 million, RMB11.9 million and RMB15.3 million, respectively, representing 11.7%, 10.2%, 11.2%, 10.7% and 12.3% of our revenue for the same periods, respectively. The following table sets forth a breakdown of our cost of sales by nature for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Raw materials and consumables	5,620	41.3	5,852	38.7	10,300	41.1	5,764	48.5	5,719	37.3
Employee benefit expense	4,716	34.6	4,793	31.7	7,224	28.9	3,061	25.8	4,667	30.5
Amortization of intangible assets	239	1.8	1,500	9.9	4,168	16.6	1,360	11.4	3,344	21.8
Transportation costs	868	6.4	784	5.2	1,112	4.4	474	4.0	487	3.2
Depreciation of property, plant and equipment	805	5.9	803	5.3	839	3.4	405	3.4	782	5.1
Utilities and office expenses	436	3.2	412	2.7	659	2.6	265	2.2	236	1.5
Others[1]	935	6.8	990	6.5	736	3.0	555	4.7	87	0.6
Total	13,619	100.0	15,134	100.0	25,038	100.0	11,884	100.0	15,322	100.0

(1) Others primarily include testing fees for production environment and fees for sterilization.

Raw materials and consumables costs represent nitinol products and sheathes and other metal and plastic components used during the manufacturing process. From 2019 to 2021, the increase in raw materials and consumables costs was primarily due to increase in our sales of products and high raw materials and consumables costs in our newly launched products. Our employee benefit expense as a percentage of our total cost of sales decreased from 2019 to 2021, primarily due to greater economies of scale as we continued to grow our business. Our employee benefit expense increased from RMB4.8 million to RMB7.2 million from 2020 to 2021, and from RMB3.1 million in the six months ended June 30, 2021 to RMB4.7 million in the six months ended June 30, 2022, primarily due to increased manpower investment in our manufacturing process as a result of the more complicated manufacturing procedures required for our MemoCarna® ASD Occluder III and MemoLefort® LAA Occluder I launched in mid-2020, as well as MemoCarna® PDA Occluder III launched in May 2021 and MemoCarna® VSD Occluder III launched in July 2021. Amortization of intangible assets increased significantly during the Track Record Period, which was primarily because the patents and medical device registration certificates of our certain products commenced amortization as such products obtained their respective NMPA approvals. Transportation costs decreased from 2019 to 2020 primarily due to bulk purchases and fewer lots of product deliveries in 2020 amid the COVID-19 outbreak. Depreciation of property, plant and equipment increased in 2021 and the six months ended June 30, 2022, primarily because we purchased additional equipment for our manufacturing activities. Utilities and office expenses decreased from 2019 to 2020, primarily due to our cost control measures and a decrease in the usage of office appliances in the first half of 2020 during the COVID-19 outbreak.

The following table sets forth a breakdown of our cost of sales by product type for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
CHD occluder products	5,333	39.2	4,857	32.1	7,364	29.4	3,229	27.2	5,430	35.4
Occluder related procedural accessories	8,049	59.1	7,797	51.5	9,788	39.1	4,153	34.9	8,641	56.4
PFO and LAA occluder products	201	1.5	2,454	16.2	7,822	31.2	4,490	37.8	1,209	7.9
Other products	36	0.3	26	0.2	64	0.3	12	0.1	42	0.3
Total cost of sales	13,619	100.0	15,134	100.0	25,038	100.0	11,884	100.0	15,322	100.0

The decrease in the percentage of cost of sales of CHD occluder products and occluder related procedural accessories and the increase in the percentage of cost of sales of PFO and LAA occluder products from 2019 to 2021 generally reflected (1) the diversification of our product offerings, particularly the ramp-up in the sales of LAA occluder products, and (2) the decrease in the sales of our CHD occluder products amid the COVID-19 outbreak. The increase in the percentage of cost of sales of CHD occluder products and occluder related procedural accessories and the decrease in the percentage of cost of sales of PFO and LAA occluder products in the six months ended June 30, 2022 generally reflected the changes in related sales volumes.

Gross Profit and Gross Profit Margin

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our gross profit was RMB102.8 million, RMB133.1 million, RMB197.5 million, RMB99.1 million and RMB109.5 million, respectively, representing relatively stable gross profit margin at 88.3%, 89.8%, 88.8%, 89.3% and 87.7%, respectively, for the same periods. The gross profit margin for CHD occluder products is generally higher than occluder related procedural accessories and other products, primarily due to the higher pricing for our CHD occluder products as a result of more sophisticated manufacturing process used in CHD occluder products. Moreover, the gross profit margin for CHD occluder products is higher than that of PFO and LAA occluder products, primarily due to greater economies of scale for CHD occluder products as a result of the larger production volumes and more streamlined and standardized manufacturing processes.

The following table sets forth a breakdown of our gross profit and gross profit margin by product type for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin
	(RMB in thousands, except for percentages)									
							(Unaudited)			
CHD occluder products	81,383	93.9	101,752	95.4	125,109	94.4	60,894	95.0	85,269	94.0
Occluder related procedural accessories	20,863	72.2	24,207	75.6	31,780	76.5	14,232	77.4	18,419	68.1
PFO and LAA occluder products	273	57.6	7,070	74.2	40,635	83.9	23,934	84.2	5,771	82.7
Other products	313	89.7	84	76.4	21	25.8	24	66.7	24	36.1
Total	102,832	88.3	133,113	89.8	197,545	88.8	99,084	89.3	109,482	87.7

The following table sets forth our gross profit margin by sales channels for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin	Amount	Gross profit margin
	(RMB in thousands, except for percentages)						*(Unaudited)*			
Sales to distributors	93,606	87.6	122,489	89.2	184,642	88.3	93,557	88.9	105,962	87.6
– Sales to the Retained Lepu Medical Group	6,573	64.4	28,362	91.4	14,219	89.1	10,372	90.4	2,242	87.6
– Sales to other distributors	87,033	90.1	94,127	88.6	170,422	88.3	83,185	88.7	103,720	87.6
– For domestic market	87,033	90.1	94,127	88.6	159,723	88.2	82,211	88.7	87,680	87.8
– For overseas markets	–	–	–	–	10,699	88.8	974	90.1	16,039	86.0
Direct sales to hospitals	9,226	96.1	10,624	96.7	12,904	95.1	5,527	96.4	3,520	93.0
Total	102,832	88.3	133,113	89.8	197,545	88.8	99,084	89.3	109,482	87.7

Our gross profit margin for sales to independent third party distributors and direct sales to hospitals remained relatively stable during the Track Record Period. Our gross profit margin for sales to the Retained Lepu Medical Group increased significantly in 2020, primarily due to the increase in pricing per unit for our products sold overseas through the Retained Lepu Medical Group. See "— Revenue — Sales Channel" and "Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Sale of Products Framework Agreement."

In 2020, our gross profit margin for sales to the Retained Lepu Medical Group was 91.4%, higher than that for sales to other distributors at 88.6%, primarily because revenue generated from sales of CHD occluder products, with higher gross profit margin of 95.4% compared to that for other product types, accounted for 81.1% of the revenue generated from sales to the Retained Lepu Medical Group, while for only 67.8% of the revenue generated from sales to other distributors, in the same year. In addition, our gross profit margin in 2020 for sales to other distributors was to some extent negatively affected due to the launch of our LAA occluder product in June 2020, which was distributed solely in domestic market through independent third party distributors and had relatively lower gross profit margin compared to that for CHD occluder products, primarily due to the greater economies of scale as a result of the larger production volumes and more streamlined and standardized manufacturing processes for CHD occluder products. However, it did not have a similar effect on the gross profit margin for overseas markets, which constituted the majority part for our sales to the Retained Lepu Medical Group. Therefore, the gross profit margin for sales to our other distributors, which was solely in connection with domestic distribution, was relatively lower for 2020 compared with that for sales to the Retained Lepu Medical Group, which was mainly for further distribution in overseas markets.

Distribution Expenses

Our distribution expenses consisted primarily of employee benefit expense for our sales and marketing staff, marketing and consulting fees, travel expenses, and taxes and surcharges fees. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our distribution expenses were RMB21.8 million, RMB23.1 million, RMB43.1 million, RMB17.4 million and RMB16.6 million, respectively, representing 18.7%, 15.6%, 19.4%, 15.7% and 13.3% of our revenue for the same periods, respectively. The decrease in the percentage of revenue for distribution expenses from 2019 to 2020 primarily reflected greater economies of scale as we continued to grow our business and a decrease in sales and traveling activities during the COVID-19 outbreak in 2020. The increase in 2021 was primarily due to (1) our increased sales and traveling activities driven by the effective containment of the COVID-19 outbreak in China and the new products launched in mid-2020 and 2021, and (2) our enlarged sales and marketing team as we continued to launch new products. The decrease in the six months ended June 30, 2022 as compared to the same period in 2021 was primarily due to the decreased travel expenses and marketing and consulting fees amid the regional resurgence of COVID-19 in Shanghai, partially offset by an increase in employee benefit expense as a result of our enlarged sales and marketing team to accommodate our expanding product pipeline and business scale.

The following table sets forth a breakdown of our distribution expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Employee benefit expense	6,254	28.7	7,867	34.0	18,699	43.4	6,664	38.3	9,208	55.4
Marketing and consulting fees	8,282	38.1	9,204	39.8	14,370	33.4	5,238	30.1	4,500	27.1
Travel expenses	4,561	21.0	3,326	14.4	5,590	13.0	2,702	15.5	1,151	6.9
Taxes and surcharges fees	2,412	11.1	2,427	10.5	3,744	8.7	2,406	13.8	1,693	10.2
Others[(1)]	251	1.1	322	1.3	669	1.5	373	2.1	74	0.4
Total	21,760	100.0	23,146	100.0	43,072	100.0	17,383	100.0	16,626	100.0

(1) Others primarily include utilities and office expenses and depreciation.

Marketing and consulting fees represent promotion fees and consulting services fees, as part of our sales and marketing efforts in expanding our business. Consulting services fees primarily represent consultation and market research service fees. See "Business — Sales, Distribution and Marketing — Marketing Model." Marketing and consulting fees increased from 2019 to 2021, which primarily reflected our academic promotion activities and market fairs for our newly launched LAA occluder products in 2020, and the increased sales activities driven by the effective containment of the COVID-19 outbreak in China and the new products launched in mid-2020 and 2021. Marketing and consulting fees decreased from the six months ended June 30, 2021 to the six months ended June 30, 2022, primarily due to our decreased sales and traveling activities amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022.

General and Administrative Expenses

Our general and administrative expenses consisted primarily of employee benefit expense for our administrative staff, depreciation and amortization, office, travel and miscellaneous expenses and [**REDACTED**] expenses. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our general and administrative expenses were RMB9.0 million, RMB8.4 million, RMB59.9 million, RMB24.5 million and RMB16.4 million, respectively, representing 7.7%, 5.7%, 26.9%, 22.0% and 13.1% of our revenue for the same periods, respectively. The decrease in the percentage of revenue for general and administrative expenses from 2019 to 2020 primarily reflected greater economies of scale as we continued to grow our business and the impact of the COVID-19 outbreak in 2020. The significant increase in the percentage of revenue for general and administrative expenses from 2020 to 2021 was primarily due to the one-off [**REDACTED**] expenses of RMB32.7 million in connection with the [**REDACTED**]. The decrease in the six months ended June 30, 2022 as compared to the same period in 2021 was primarily due to a decrease in [**REDACTED**] expenses, partially offset by an increase in employee benefit expenses primarily in relation to share-based compensation to motivate our management team.

The following table sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)						*(Unaudited)*			
Employee benefit expense	4,237	47.2	3,889	46.4	17,141	28.6	4,523	18.5	9,045	55.2
Depreciation and amortization	3,039	33.8	2,879	34.3	2,728	4.6	1,325	5.4	1,182	7.2
Office, travel and miscellaneous expenses	1,031	11.5	1,133	13.5	2,359	3.9	607	2.5	508	3.1
[**REDACTED**] expenses	–	–	–	–	32,690	54.6	17,219	70.4	5,124	31.2
Others[(1)]	674	7.5	482	5.8	4,956	8.3	783	3.2	543	3.3
Total	8,981	100.0	8,383	100.0	59,874	100.0	24,457	100.0	16,402	100.0

(1) Others primarily include recruitment fees, insurance fees, consulting fees and courier fees.

Research and Development Expenses

Our research and development expenses consisted primarily of employee benefit expense for our research and development staff, testing and animal studies fees, raw materials and consumables expenses, depreciation, and utilities and office expenses. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our research and development expenses were RMB25.8 million, RMB39.0 million, RMB41.4 million, RMB16.4 million and RMB19.6 million, respectively, representing 22.2%, 26.3%, 18.6%, 14.8% and 15.7% of our revenue for the same periods, respectively. As a percentage of revenue, research and development expenses increased from 2019 to 2020, as we continued to invest in research and development activities at various stages, including product design, animal study, type inspection and pre-clinical trial. The decrease in the percentage of revenue in 2021 was primarily because we began to capitalize the research and development expenses associated with certain product candidates, including primarily a certain portion of the employee benefit expense and raw materials and consumables expenses relating to the development of MemoSorb® PFO Occluder II, TAVR system, balloon dilatation catheter for aortic valve, MemoSorb® ASD Occluder IV, TMVr-A system, TMVCRS and IASD I, as they had fulfilled the prerequisites for clinical trials in the second half of 2020 or 2021 and therefore met the criteria for capitalization. The increase in the percentage of revenue in the six months ended June 30, 2022 as compared to the same period in 2021 was primarily because we continued to invest in R&D activities and incurred share-based compensation to motivate our R&D personnel. See "— Discussion of Major Balance Sheet Items — Intangible Assets" and Note 18 to the Accountant's Report in Appendix I to this document.

The following table sets forth a breakdown of our research and development expenses for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(RMB in thousands, except for percentages)									
							(Unaudited)			
Employee benefit expense	16,053	62.1	15,813	40.6	15,482	37.4	4,525	27.5	8,228	41.9
Testing and animal studies fees	2,606	10.1	11,739	30.1	11,254	27.2	5,535	33.7	2,807	14.3
Raw materials and consumables	4,129	16.0	6,834	17.6	9,536	23.0	4,817	29.3	5,704	29.0
Depreciation	1,235	4.8	2,222	5.7	2,020	4.9	814	4.9	1,443	7.3
Utilities and office expenses	618	2.4	907	2.3	368	0.9	19	0.1	247	1.3
Others[1]	1,189	4.6	1,442	3.7	2,727	6.6	736	4.5	1,208	6.2
Total	25,830	100.0	38,957	100.0	41,387	100.0	16,446	100.0	19,637	100.0

(1) Others primarily include travel expenses and training expenses.

Net provision for/(reversal of) impairment losses on financial assets

Our net provision for impairment losses on financial assets primarily represented impairment loss provision for the period from trade receivable and other receivables. Our net reversal of impairment losses on financial assets primarily represented reversal of such impairment losses. In 2019, our net provision for impairment losses on financial assets was RMB1.8 million, representing 1.5% of our revenue for the same period. In 2020 and 2021, we recorded net reversal of impairment losses on financial assets of RMB0.7 million and RMB0.5 million, respectively, representing 0.5% and 0.2% of our revenue for the same periods, respectively. In the six months ended June 30, 2021 and 2022, we recorded net reversal of impairment losses on financial assets of RMB0.5 million and net provision for impairment losses on financial assets of RMB4.2 million, respectively, representing 0.4% and 3.3% of our revenue for the same periods, respectively. Net provision for loss allowance on trade receivables increased in the six months ended June 30, 2022 as compared to the same period in 2021, primarily because of the increase in our trade receivables as of June 30, 2022, primarily due to an increase in the trade receivables due from our third-party customers as a result of (1) the extended payment cycle caused by the regional resurgence of COVID-19 in Shanghai in the first half of 2022, (2) the relatively loosened credit policy to some of our trusted customers to boost our recovery following the containment of COVID-19, and (3) the increased scale of our business. See "– Discussion on Major Balance Sheet Items – Trade Receivables."

The following table sets forth a breakdown of our net provision for/(reversal of) impairment losses on financial assets for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
	(RMB in thousands)				
Net provision for/(reversal of) loss allowance on:					
– trade receivables	1,622	(1,152)	939	1,040	3,621
– other receivables	166	480	(1,472)	(1,504)	548
Total	1,788	(672)	(533)	(464)	4,169

Other Income and Gains/(Losses) – Net

Our other income and gains/(losses) – net consisted primarily of government grants, gains on disposal of investment properties, and rental income from investment properties. Our other income and gains – net was RMB15.7 million, RMB13.2 million, RMB22.6 million and RMB4.4 million in 2019, 2020, 2021 and the six months ended June 30, 2021, respectively, and our other losses – net was RMB18.3 million in the six months ended June 30, 2022, representing 13.5%, 8.9%, 10.2%, 4.0% and 14.7% of our revenue for the same periods, respectively.

The following table sets forth a breakdown of our other income and gains/(losses) – net for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
	(RMB in thousands)				
				(Unaudited)	
Government grants	8,998	5,630	7,743	4,476	2,574
Commission income from related party[(1)]	–	–	–	–	734
Rental income from investment properties	3,027	2,454	2,564	1,253	215
Investment income on wealth management products	–	–	6,669	–	4,809
Others[(2)]	1,234	249	414	378	40
Total other income – net	13,259	8,333	17,390	6,107	8,372
Gains on disposal of investment properties	2,436	5,111	–	–	–
Fair value gains on financial assets at fair value through profit or loss	–	–	–	–	4
Net loss on disposal of financial assets at fair value through other comprehensive income	–	(139)	–	–	–
Net loss on disposal or write-off of property, plant and equipment	(9)	(19)	(1)	(1)	(1)
Net foreign exchange gains/(losses)	–	–	5,192	(1,766)	(26,864)
Others	60	(48)	61	61	200
Total other gain/(loss) – net	2,487	4,905	5,252	(1,706)	(26,661)
Total	15,746	13,238	22,642	4,401	(18,289)

(1) Represents the commission income in relation to the distribution of COVID-19 antigen reagents to the local government, where we acted as an agent following the instructions from a subsidiary of Lepu Medical, amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022. See Note 21(a) to the Accountant's Report included in Appendix I to this document for details.

(2) Represents primarily (i) the income generated through certain advisory services unrelated to our principal business operations in connection with the distribution of surgical dressing products for an independent third party, which was terminated in the second half of 2019, and (ii) the income generated through certain testing services.

Investment and treasury management policies

We believe making appropriate investments in short-term investment products will optimize our cash position and potential return, which would generate income without interfering with our business operation or capital expenditures. Our investment decisions with respect to financial products are made on a case-by-case basis and after due and careful consideration of a number of factors, including the overall economic developments in China, the market conditions, the anticipated investment conditions, the investment cost, the duration of the investment and the expected benefit and potential loss of the investment.

Our senior management and the finance department are mainly responsible for making, implementing and supervising our investment decisions. We have established a set of internal control measures which allow us to achieve reasonable returns on our investment while mitigating our exposure to high investment risks. We implemented during the Track Record Period, and will continue to implement, the following investment and treasury policies;

- the purpose of our investment in wealth management products is to preserve the time value of our cash reserves and to fund our business;
- we only invest in wealth management products when we have surplus cash that is not required for our short-term working capital purposes;
- our senior management is responsible for the overall planning and approval of our investment in wealth management products;
- our finance department is responsible for the purchase and management of our wealth management products and evaluates their respective terms including, among others, liquidity, risk and expected return before submitting them to our chief financial officer, with the authorization by our Board of Directors, for final decision;
- we mainly make investments in short-term wealth management products issued by reputable commercial banks with low risk, high liquidity and reasonable returns, and diversify our investment portfolio to minimize risk exposure; and
- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing bank.

Our Board of Directors is responsible and has the general power to supervise the operations of our business, including our investment decisions and activities. For the professional qualifications and experiences of the members of our Board of Directors, see the section headed "Directors, Supervisors and Senior Management" in this document. We may continue to purchase wealth management products that meet the above criteria as part of our treasury management where we believe it is prudent to do so after the [**REDACTED**], subject to the compliance requirement under Chapter 14 of the Listing Rules.

Finance Income/(Costs) – Net

Our finance income – net was RMB0.1 million and RMB0.1 million in 2019 and 2020. We had finance costs – net of RMB10.4 million, RMB0.7 million and RMB9.1 million in 2021 and the six months ended June 30, 2021 and 2022, which primarily represented interest expense on redemption liabilities.

Income Tax Expense

We incurred income tax expense of RMB8.4 million, RMB7.9 million, RMB7.3 million, RMB3.2 million and RMB1.1 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively, representing an effective tax rate of 14.0%, 10.3%, 11.1%, 7.1% and 4.2%, respectively, for the same periods. The effective tax rate decreased from 14.0% for 2019 to 10.3% for 2020, primarily due to the application of certain Super Deduction (as defined below) for our research and development expenses related to the research and development for our valvular product candidates in 2020. The effective tax rate increased from 10.3% for 2020 to 11.1% for 2021, primarily due to an increase in the tax effect of expenses not deductible for tax purpose, including share-based payment expenses and interest expense on redemption liabilities. The effective tax rate decreased from 7.1% for the six months ended June 30, 2021 to 4.2% for the six months ended June 30, 2022, primarily due to our deductible tax losses, which was primarily in relation to the net foreign exchange losses incurred by our Company. See Note 12 and Note 20 to the Accountant's Report in Appendix I to this document.

One of our PRC operating subsidiaries, Shanghai Shape Memory Alloy, was qualified as a High and New Technology Enterprise (高新技術企業) in 2017 and subsequently extended its High and New Technology Enterprise certificate in 2020 for a period of three years to 2023. As a High and New Technology Enterprise, Shanghai Shape Memory Alloy enjoys a lower EIT rate of 15% instead of the standard EIT rate of 25% in China.

In addition, according to relevant laws and regulations promulgated by the State Council, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The SAT announced in September 2018 that enterprises engaging in research and development activities shall be entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020, which was further extended to December 31, 2023. From 2021 onwards, the Super Deduction ratio has increased to 200%. We have made our best estimate for the Super Deduction to be claimed in ascertaining assessable profits. For the risks relating to preferential tax treatments, see "Risk Factors — Risks Relating to Our Business and Industry — Risks Relating to Our Operations — The discontinuation of any of the preferential tax treatments currently available to us could reduce our profitability."

Profit for the Year/Period

As a result of the foregoing, our net profit was RMB51.9 million, RMB68.8 million, RMB58.7 million, RMB41.8 million and RMB24.3 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

Our revenue increased by 12.5% from RMB111.0 million in the six months ended June 30, 2021 to RMB124.8 million in the six months ended June 30, 2022, for the following reasons.

- *CHD occluder products*. Our revenue generated from CHD occluder products increased by 41.4% from RMB64.1 million in the six months ended June 30, 2021 to RMB90.7 million in the six months ended June 30, 2022, primarily due to the increased sales volume of our oxide-coated occluder products as they received broad market acceptance, including primarily MemoCarna® ASD Occluder III, MemoCarna® PDA Occluder III and MemoCarna® VSD Occluder III.

- *Occluder related procedural accessories*. Our revenue generated from occluder related procedural accessories increased by 47.2% from RMB18.4 million in the six months ended June 30, 2021 to RMB27.1 million in the six months ended June 30, 2022, primarily due to an increase in the sales volume of our occluder related procedural accessories, especially our integrated intervention delivery system II, along with the increased sales of our oxide-coated occluder products.

- *PFO and LAA occluder products*. Our revenue generated from PFO and LAA occluder products decreased by 75.4% from RMB28.4 million in the six months ended June 30, 2021 to RMB7.0 million in the six months ended June 30, 2022, primarily due to our limited technical training and surgical assistance capabilities amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, which were critical for the implantation of LAA occluder products and therefore the related sales.

Cost of sales

Our cost of sales increased by 28.9% from RMB11.9 million in the six months ended June 30, 2021 to RMB15.3 million in the six months ended June 30, 2022, primarily due to (1) an increase of RMB2.0 million in amortization of intangible assets due to the commencement of amortization on the patents and medical device registration certificates of our certain products as they obtained their respective NMPA approvals in mid-2021 and 2022, and (2) an increase of RMB1.6 million in employee benefit expense as a result of increased manpower investment in our manufacturing process because of the more complicated manufacturing procedures required for our new products launched in mid-2021.

- *CHD occluder products*. Our cost of sales incurred for CHD occluder products increased by 68.2% from RMB3.2 million in the six months ended June 30, 2021 to RMB5.4 million in the six months ended June 30, 2022, primarily due to the increased employee benefit expense and raw materials and consumables costs primarily in relation to the increased sales of our MemoCarna® ASD Occluder III.

- *Occluder related procedural accessories*. Our cost of sales incurred for occluder related procedural accessories increased significantly from RMB4.2 million in the six months ended June 30, 2021 to RMB8.6 million in the six months ended June 30, 2022, primarily due to the increased employee benefit expense in relation to the increased sales of our integrated intervention delivery system II.

- *PFO and LAA occluder products*. Our cost of sales incurred for PFO and LAA occluder products decreased by 73.1% from RMB4.5 million in the six months ended June 30, 2021 to RMB1.2 million in the six months ended June 30, 2022, generally consistent with the decrease in the sales volume of our PFO and LAA occluder products.

Gross profit and gross profit margin

Our gross profit increased by 10.5% from RMB99.1 million in the six months ended June 30, 2021 to RMB109.5 million in the six months ended June 30, 2022. Our gross profit margin decreased by 1.6 percentage points from 89.3% in the six months ended June 30, 2021 to 87.7% in the six months ended June 30, 2022.

- *CHD occluder products*. Our gross profit margin for CHD occluder products decreased by 1.0 percentage points from 95.0% in the six months ended June 30, 2021 to 94.0% in the six months ended June 30, 2022, primarily due to increased manpower investment in our manufacturing process as a result of the more complicated manufacturing procedures required by our oxide-coated occluder products including primarily MemoCarna® ASD Occluder III, the sales volume of which increased in the first half of 2022, MemoCarna® PDA Occluder III launched in May 2021 and MemoCarna® VSD Occluder III launched in July 2021.

- *Occluder related procedural accessories*. Our gross profit margin for occluder related procedural accessories decreased by 9.3 percentage points from 77.4% in the six months ended June 30, 2021 to 68.1% in the six months ended June 30, 2022, primarily due to the increased sales of our integrated intervention delivery system II, which requires more complicated manufacturing procedures.

- *PFO and LAA occluder products*. Our gross profit margin for PFO and LAA occluder products decreased by 1.5 percentage points from 84.2% in the six months ended June 30, 2021 to 82.7% in the six months ended June 30, 2022, primarily due to an increase in the raw materials and consumables costs relating to our LAA occluder products caused by the regional resurgence of COVID-19 in China and overseas.

Distribution expenses

Our distribution expenses decreased by 4.4% from RMB17.4 million in the six months ended June 30, 2021 to RMB16.6 million in the six months ended June 30, 2022, primarily due to (1) a decrease of RMB1.6 million in travel expenses and a decrease of RMB0.7 million in marketing and consulting fees as a result of decreased sales and marketing activities amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, and (2) a decrease of RMB0.7 million in taxes and surcharges fees, partially offset by an increase in employee benefit expense of RMB2.5 million as a result of our enlarged sales and marketing team to accommodate our expanding product pipeline and business scale.

General and administrative expenses

Our general and administrative expenses decreased by 32.9% from RMB24.5 million in the six months ended June 30, 2021 to RMB16.4 million in the six months ended June 30, 2022, primarily due to a decrease in [**REDACTED**] expenses of RMB12.1 million, partially offset by an increase in employee benefit expenses of RMB4.5 million primarily in relation to share-based compensation to motivate our management team.

Research and development expenses

Our research and development expenses increased by 19.4% from RMB16.4 million in the six months ended June 30, 2021 to RMB19.6 million in the six months ended June 30, 2022, primarily due to an increase in employee benefit expenses of RMB3.7 million primarily in relation to share-based compensation to motivate our R&D personnel, an increase in raw materials and consumables costs of RMB0.9 million and an increase in depreciation costs of RMB0.6 million primarily in relation to the establishment and continued development of our Beijing branch since March 2021 along with the injection of the interventional heart valve business, partially offset by a decrease in testing and animal studies fees of RMB2.7 million as there were less R&D projects in type inspection or animal studies in the six months ended June 30, 2022 as compared to the same period in 2021.

Net (reversal of)/provision for impairment losses on financial assets

We had net provision for impairment losses on financial assets of RMB4.2 million in the six months ended June 30, 2022, compared to the net reversal of impairment losses on financial assets of RMB0.5 million in the six months ended June 30, 2021, primarily due to an increase in provision for impairment losses on trade receivables primarily as a result of delayed collection caused by the regional resurgence of COVID-19 in Shanghai in the first half of 2022.

Other income and gains/(losses) – net

We had other losses – net of RMB18.3 million in the six months ended June 30, 2022, compared to other income and gains – net of RMB4.4 million in the six months ended June 30, 2021, primarily due to an increase in net foreign exchange losses of RMB25.1 million primarily in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations.

Finance income/(costs) – net

Our finance costs – net increased significantly from RMB0.7 million in the six months ended June 30, 2021 to RMB9.1 million in the six months ended June 30, 2022, primarily due to an increase in interest expense on redemption liabilities of RMB9.7 million, which commenced provision since the initial recognition of redemption liabilities in May 2021.

Income tax expense

Our income tax expense decreased by 67.2% from RMB3.2 million in the six months ended June 30, 2021 to RMB1.1 million in the six months ended June 30, 2022, primarily due to a decrease in tax calculated at the statutory tax rate as a result of decreased profit before income tax, partially offset by an increase in the tax effect of expenses not deductible for tax purpose, including primarily interest expense on redemption liabilities and share-based payment expenses. Our effective tax rate decreased from 7.1% for the six months ended June 30, 2021 to 4.2% for the six months ended June 30, 2022, primarily due to our deductible tax losses, which was primarily in relation to the net foreign exchange losses incurred by our Company.

Profit for the period

As a result of the foregoing, our profit for the period decreased by 41.9% from RMB41.8 million in the six months ended June 30, 2021 to RMB24.3 million in the six months ended June 30, 2022.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 50.1% from RMB148.2 million in 2020 to RMB222.6 million in 2021, for the following reasons.

- *CHD occluder products*. Our revenue generated from CHD occluder products increased by 24.3% from RMB106.6 million in 2020 to RMB132.5 million in 2021, primarily due to the launch of our MemoCarna® ASD Occluder III in May 2020, which started to generate revenue in the second half of 2020. Revenue generated from MemoCarna® ASD Occluder III increased from RMB3.4 million in 2020 to RMB32.1 million in 2021, accounting for 2.3% and 14.4% of the total revenue in the same periods, respectively.

- *Occluder related procedural accessories*. Our revenue generated from occluder related procedural accessories increased by 29.9% from RMB32.0 million in 2020 to RMB41.6 million in 2021, primarily due to an increase in the sales volume of our occluder related procedural accessories as a result of the increased sales of our integrated intervention delivery system II along with the increased sales of our MemoCarna® ASD Occluder III launched in May 2020.

- *PFO and LAA occluder products*. Our revenue generated from PFO and LAA occluder products increased significantly from RMB9.5 million in 2020 to RMB48.5 million in 2021, primarily due to the launch of our LAA occluder product in June 2020, which started to generate revenue in the second half of 2020. Revenue generated from MemoLefort® LAA Occluder I increased from RMB8.3 million in 2020 to RMB44.2 million in 2021, accounting for 5.6% and 19.8% of the total revenue in the same periods, respectively.

Cost of sales

Our cost of sales increased by 65.4% from RMB15.1 million in 2020 to RMB25.0 million in 2021, primarily due to (1) an increase of RMB4.4 million in raw materials and consumables costs, in line with our business growth and the expansion of our production lines, (2) an increase of RMB2.7 million in amortization of intangible assets due to the commencement of amortization on the patents and medical device registration certificates of our certain products as they obtained their respective NMPA approvals in mid-2020 and 2021, and (3) an increase of RMB2.4 million in employee benefit expense as a result of increased manpower investment in our manufacturing process because of the more complicated manufacturing procedures required for our new products launched in mid-2020 and 2021.

- *CHD occluder products*. Our cost of sales incurred for CHD occluder products increased by 51.6% from RMB4.9 million in 2020 to RMB7.4 million in 2021, primarily due to the increased raw materials and consumables costs and employee benefit expense in relation to our MemoCarna® ASD Occluder III launched in May 2020.

- *Occluder related procedural accessories*. Our cost of sales incurred for occluder related procedural accessories increased by 25.5% from RMB7.8 million in 2020 to RMB9.8 million in 2021, generally consistent with the increase in the sales volume of our occluder related procedural accessories in 2021.

- *PFO and LAA occluder products*. Our cost of sales incurred for PFO and LAA occluder products increased significantly from RMB2.5 million in 2020 to RMB7.8 million in 2021, primarily due to the increased raw materials and consumables costs and employee benefit expense in relation to our LAA occluder product launched in June 2020.

Gross profit and gross profit margin

Our gross profit increased by 48.4% from RMB133.1 million in 2020 to RMB197.5 million in 2021. Our gross profit margin remained relatively stable at 89.8% and 88.8% in 2020 and 2021, respectively.

- *CHD occluder products*. Our gross profit margin for CHD occluder products decreased by 1.0 percentage points from 95.4% in 2020 to 94.4% in 2021, primarily due to the increase in raw materials and consumables costs and employee benefit expense in relation to our MemoCarna® ASD Occluder III launched in May 2020.

- *Occluder related procedural accessories*. Our gross profit margin for occluder related procedural accessories increased by 0.9 percentage points from 75.6% in 2020 to 76.5% in 2021, primarily due to the greater economies of scale in manufacturing occluder related procedural accessories as a result of the large production volumes and streamlined and standardized manufacturing processes.

- *PFO and LAA occluder products*. Our gross profit margin for PFO and LAA occluder products increased by 9.7 percentage points from 74.2% in 2020 to 83.9% in 2021, primarily due to the greater economies of scale in manufacturing LAA occluder product as a result of the large production volumes and streamlined and standardized manufacturing processes.

Distribution expenses

Our distribution expenses increased by 86.1% from RMB23.1 million in 2020 to RMB43.1 million in 2021, primarily due to (1) an increase of RMB10.8 million in employee benefit expense as a result of our enlarged sales and marketing team as we continuously roll out new products, and (2) an increase of RMB5.2 million in marketing and consulting fees and an increase of RMB2.3 million in travel expenses as a result of increased sales and traveling activities driven by the effective containment of the COVID-19 outbreak in China and the new products launched in mid-2020 and 2021.

General and administrative expenses

Our general and administrative expenses increased significantly from RMB8.4 million in 2020 to RMB59.9 million in 2021, primarily due to (1) [**REDACTED**] expenses of RMB32.7 million as incurred in connection with the [**REDACTED**], and (2) an increase of RMB13.3 million in employee benefit expense primarily in relation to share-based compensation to motivate our employees.

Research and development expenses

Our research and development expenses increased by 6.2% from RMB39.0 million in 2020 to RMB41.4 million in 2021, primarily due to an increase of RMB2.7 million in raw materials and consumables for the research and development activities as well as pre-clinical trial activities of our product candidates.

Net (provision for)/reversal of impairment losses on financial assets

Our net reversal of impairment losses on financial assets remained relatively stable at RMB0.7 million and RMB0.5 million in 2020 and 2021, respectively.

Other income and gains – net

Our other income and gains – net increased by 71.0% from RMB13.2 million in 2020 to RMB22.6 million in 2021, primarily due to (1) investment income on wealth management products of RMB6.7 million, and (2) net foreign exchange gains of RMB5.2 million from retranslation of U.S. dollar-denominated bank balances and redemption liabilities, partially offset by the impact of the non-recurring gains on disposal of investment properties of RMB5.1 million as recognized in 2020.

Finance income/(costs) – net

We had finance costs – net of RMB10.4 million in 2021, compared to finance income – net of RMB0.1 million in 2020, primarily due to interest expense on redemption liabilities of RMB11.3 million since the initial recognition of redemption liabilities in 2021, partially offset by an increase in bank interest income of RMB1.0 million.

Income tax expense

Our income tax expense decreased by 7.3% from RMB7.9 million in 2020 to RMB7.3 million in 2021, primarily due to the increases in Super Deduction and tax effect of preferential tax rate and a decrease in tax calculated at the statutory tax rate as a result of decreased profit before income tax, partially offset by an increase in the tax effect of expenses not deductible for tax purpose, including share-based payment expenses and interest expense on redemption liabilities. Accordingly, our effective tax rate increased from 10.3% in 2020 to 11.1% in 2021.

Profit for the period

As a result of the foregoing, our net profit was RMB68.8 million and RMB58.7 million in 2020 and 2021, respectively.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue

Our revenue increased by 27.3% from RMB116.5 million in 2019 to RMB148.2 million in 2020 primarily for the following reasons.

- *CHD occluder products*. Our revenue generated from CHD occluder products increased by 22.9% from RMB86.7 million in 2019 to RMB106.6 million in 2020, primarily due to the increase in pricing per unit for our CHD occluder products sold overseas through the Retained Lepu Medical Group, partially offset by the slight decrease in sales volume of our CHD occluder products in 2020, as a result of the lower demand among hospitals for medical devices driven by a decrease of operations unrelated to COVID-19, as most of the hospitals devoted their resources primarily to dealing with COVID-19 in the first half of 2020. See "Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Sale of Products Framework Agreement."

- *Occluder related procedural accessories*. Our revenue generated from occluder related procedural accessories increased by 10.7% from RMB28.9 million in 2019 to RMB32.0 million in 2020, primarily due to the increase in pricing per unit for our occluder related procedural accessories, partially offset by the slight decrease in sales volume of our occluder related procedural accessories in 2020, generally consistent with the slight decrease in the sales volume of our CHD occluder products in 2020.

- *PFO and LAA occluder products*. Our revenue generated from PFO and LAA occluder products increased significantly from RMB0.5 million in 2019 to RMB9.5 million in 2020, primarily due to the launch of our LAA occluder products in June 2020.

Cost of sales

Our cost of sales increased by 11.1% from RMB13.6 million in 2019 to RMB15.1 million in 2020, primarily due to (1) an increase of RMB1.3 million in amortization of intangible assets for the expenses related to our newly obtained registration certificates for our products which commenced amortization in 2020, (2) an increase of RMB0.2 million in our raw materials and consumables costs, in line with our business growth and the expansion of our production lines, partially offset by a decrease of RMB0.1 million in transportation costs primarily due to bulk purchases and fewer lots of product deliveries as a result of the travel restrictions imposed during the COVID-19 outbreak in 2020.

- *CHD occluder products*. Our cost of sales incurred for CHD occluder products decreased by 8.9% from RMB5.3 million in 2019 to RMB4.9 million in 2020, generally consistent with the slight decrease in sales volume of our CHD occluder products in 2020 amid the COVID-19 outbreak.

- *Occluder related procedural accessories*. Our cost of sales incurred for occluder related procedural accessories decreased slightly from RMB8.0 million in 2019 to RMB7.8 million in 2020, generally consistent with the slight decrease in the sales volume of our CHD occluder products in 2020.

- *PFO and LAA occluder products*. Our cost of sales incurred for PFO and LAA occluder products increased significantly from RMB0.2 million in 2019 to RMB2.5 million in 2020, as we incurred cost related to raw materials and consumables used in relation to the launch of our LAA occluder products in June 2020.

Gross profit and gross profit margin

Our gross profit increased by 29.4% from RMB102.8 million in 2019 to RMB133.1 million in 2020. Our gross profit margin increased by 1.5 percentage points from 88.3% in 2019 to 89.8% in 2020.

- *CHD occluder products*. Our gross profit margin for CHD occluder products increased by 1.5 percentage points from 93.9% in 2019 to 95.4% in 2020, primarily due to the increase in pricing per unit for our CHD occluder products sold overseas through the Retained Lepu Medical Group in 2020.

- *Occluder related procedural accessories*. Our gross profit margin for occluder related procedural accessories increased by 3.4 percentage points from 72.2% in 2019 to 75.6% in 2020, primarily due to the increase in pricing per unit for our occluder related procedural accessories sold overseas through the Retained Lepu Medical Group in 2020.

- *PFO and LAA occluder products*. Our gross profit margin for PFO and LAA occluder products increased by 16.7 percentage points from 57.6% in 2019 to 74.2% in 2020, primarily due to (1) the launch of our LAA occluder products, which have relatively higher gross profit margin, and to a lesser extent, (2) the increase in pricing per unit for our PFO occluder products sold overseas through the Retained Lepu Medical Group in 2020.

Distribution expenses

Our distribution expenses increased by 6.4% from RMB21.8 million in 2019 to RMB23.1 million in 2020, primarily due to (1) an increase of RMB1.6 million in employee benefit expense, as a result of the increase in headcount for our sales and marketing staff driven by our enhanced sales and marketing activities, and (2) an increase of RMB0.9 million in marketing and consulting fees primarily for promotion, consultation and market research services, which primarily reflected our academic promotion activities and market fairs for our newly launched LAA occluder products, partially offset by (3) a decrease of RMB1.2 million in travel expenses from the impact of the COVID-19 outbreak.

General and administrative expenses

Our general and administrative expenses decreased by 6.7% from RMB9.0 million in 2019 to RMB8.4 million in 2020, primarily due to (1) a decrease of RMB0.3 million in employee benefit expense as a result of the decrease in corporate events and activities during the COVID-19 outbreak, and (2) a decrease of RMB0.2 million in depreciation and amortization as we disposed of certain owned properties in 2020.

Research and development expenses

Our research and development expenses increased by 50.8% from RMB25.8 million in 2019 to RMB39.0 million in 2020, primarily due to (1) an increase of RMB9.1 million in testing and animal studies fees for our valvular product candidates and occluder product candidates, as we increased pre-clinical trial activities for our product candidates in 2020, and (2) an increase of RMB2.7 million in raw materials and consumables expenses for our valvular product candidates and occluder product candidates, as we consumed more raw materials for the research and development for our product candidates in 2020.

Net (provision for)/reversal of impairment losses on financial assets

We had net reversal of impairment losses on financial assets of RMB0.7 million in 2020, compared to net provision for impairment losses on financial assets of RMB1.8 million in 2019, primarily due to a decrease of impairment loss provision from trade receivables.

Other income and gains – net

Our other income and gains – net decreased by 15.9% from RMB15.7 million in 2019 to RMB13.2 million in 2020, primarily due to (1) a decrease of RMB3.4 million in government grants primarily as we received certain one-off government grants in 2019, (2) a decrease of RMB0.6 million in rental income from investment properties as we disposed of certain owned properties in 2020, partially offset by an increase of RMB2.7 million in gains on such disposal.

Finance income – net

Our finance income – net remained relatively stable at RMB0.1 million in 2019 and 2020, respectively.

Income tax expense

Our income tax expense decreased by 6.3% from RMB8.4 million in 2019 to RMB7.9 million in 2020, primarily due to the application of certain Super Deduction for our research and development expenses related to the research and development for our valvular product candidates in 2020. Accordingly, our effective tax rate decreased from 14.0% in 2019 to 10.3% in 2020.

Profit for the year

As a result of the foregoing, our profit for the year increased by 32.5% from RMB51.9 million in 2019 to RMB68.8 million in 2020.

DISCUSSION OF MAJOR BALANCE SHEET ITEMS

The following table sets forth a summary of our consolidated balance sheet as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
NON-CURRENT ASSETS				
Property, plant and equipment	68,459	67,196	76,261	82,446
Right-of-use assets	454	216	6,763	5,841
Investment properties	42,673	40,623	39,553	39,102
Goodwill	48,282	48,282	48,282	48,282
Intangible assets	54,259	65,959	136,557	161,649
Financial assets at fair value through other comprehensive income	849	–	–	–
Deferred income tax assets	7,009	3,472	8,571	16,077
Prepayments	632	1,000	11,187	12,304
Total non-current assets	222,617	226,748	327,174	365,701
CURRENT ASSETS				
Inventories	11,052	23,319	33,402	40,269
Trade receivables	45,331	38,317	23,869	32,883
Prepayments and other receivables	13,442	20,182	21,765	51,807
Prepaid income tax	–	5,152	–	–
Financial assets at fair value through profit or loss	–	–	–	1,004
Bank deposit with initial term of over three months	–	–	–	70,000
Cash and cash equivalents	16,119	18,792	713,480	664,534
Total current assets	85,944	105,762	792,516	860,497
TOTAL ASSETS	308,561	332,510	1,119,690	1,226,198

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
NON-CURRENT LIABILITIES				
Lease liabilities	–	–	4,044	4,294
Deferred income	2,148	1,315	482	152
Total non-current liabilities	2,148	1,315	4,526	4,446
CURRENT LIABILITIES				
Redemption liabilities	–	–	679,986	720,861
Trade and other payables	57,286	62,137	26,300	54,427
Contract liabilities	12,206	15,343	14,783	14,426
Current income tax liabilities	4,683	–	6,761	12,797
Lease liabilities	369	116	2,143	1,994
Total current liabilities	74,544	77,596	729,973	804,505
TOTAL LIABILITIES	76,692	78,911	734,499	808,951
EQUITY				
Equity attributable to owners of the Company				
Share capital	–	–	324,295	324,295
Treasury stock	–	–	(671,507)	(671,507)
Other reserves	(98,745)	(146,766)	593,341	601,142
Retained earnings	330,614	400,365	139,062	163,317
TOTAL EQUITY	231,869	253,599	385,191	417,247
TOTAL EQUITY AND LIABILITIES	308,561	332,510	1,119,690	1,226,198

Property, Plant and Equipment

Our property, plant and equipment consisted primarily of buildings, machinery, vehicles and electronic equipment. We had property, plant and equipment of RMB68.5 million, RMB67.2 million, RMB76.3 million and RMB82.4 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our property, plant and equipment increased from RMB68.5 million as of December 31, 2019 to RMB82.4 million as of June 30, 2022, primarily because we purchased additional equipment for our research and development and manufacturing activities.

Right-of-use Assets

During the Track Record Period, we recognized right-of-use assets for leases of warehouses and staff dormitories. We had right-of-use assets of RMB0.5 million, RMB0.2 million, RMB6.8 million and RMB5.8 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our right-of-use assets increased significantly from RMB0.2 million as of December 31, 2020 to RMB6.8 million as of December 31, 2021, primarily because we newly leased properties in March 2021 for interventional heart valve business, which was injected into Shanghai Shape Memory Alloy in January 2021. Our right-of-use assets decreased to RMB5.8 million as of June 30, 2022, primarily due to the depreciation of our leased properties. See "Business — Our Products — Heart Valve Product Candidates — Entrusted Products."

Investment Properties

Our investment properties consist of buildings owned by us for rental yields. The net book value of our investment owned properties decreased from RMB42.7 million as of December 31, 2019 to RMB40.6 million as of December 31, 2020, primarily as we disposed of certain of our properties in 2020. The net book value of our investment owned properties remained relatively stable at RMB39.6 million and RMB39.1 million as of December 31, 2021 and June 30, 2022. See "Appendix III — Property Valuation Report" to this document for more information.

Reconciliation with the Property Evaluation Report

A reconciliation of our buildings under property, plant and equipment and our investment properties as of July 31, 2022 in the property valuation report and such properties in our financial statements as of June 30, 2022, as required under Rule 5.07 of the Listing Rules, is set out below.

	RMB in thousands
Carrying amount of the properties as of June 30, 2022	94,571
Net decrease during the one-month period ended July 31, 2022	(222)
Valuation surplus	14,451
Valuation of properties as of July 31, 2022 in the property valuation report	108,800

Goodwill

Our goodwill remained at RMB48.3 million, as of December 31, 2019, 2020 and 2021 and June 30, 2022, primarily due to the acquisition of Shanghai Shape Memory Alloy, our wholly-owned subsidiary, by Lepu Medical, one of our Controlling Shareholders, in 2008. Impairment assessments for goodwill and intangible assets not subject to amortization are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. We have conducted impairment assessment on our goodwill and intangible assets not subject to amortization as of December 31, 2019, and an independent qualified valuer was appointed to assist our management to conduct impairment assessment on our goodwill and intangible assets not subject to amortization as of December 31, 2020 and 2021.

For the purpose of impairment testing, goodwill acquired in a business combination or intangible assets not subject to amortization are allocated to each of the CGU. Determining whether goodwill or intangible assets not subject to amortization is impaired requires us to estimate the recoverable amount of the CGU to which we have allocated goodwill or intangible assets not subject to amortization. This recoverable amount calculation requires us to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to calculate the present value.

For goodwill and intangible assets not subject to amortization which are attributable to the CGU of occluder business, the key assumptions and parameters used for value-in-use calculation are as follows.

	Gross profit margin	Growth rate of revenue	Terminal growth rate	Pre-tax discount rate
As of December 31, 2019	88.68% – 91.15%	1.00% – 5.00%	1.00%	14.86%
As of December 31, 2020	88.39% – 90.59%	1.00% – 5.00%	1.00%	14.75%
As of December 31, 2021	85.93% – 88.35%	1.00% – 4.00%	0.00%	15.73%

The growth rate for the first five years and budgeted gross profit margin were determined by our management based on past performance and its expectation for market and product development. The terminal growth rate used does not exceed the industry growth forecast for the market in which our Group operates. The discount rate used is pre-tax and reflects market assessments of the time value and the specific risks relating to the industry.

The result of the impairment testing reveals that the estimated recoverable amount of the CGU of occluder business far exceeded its carrying amount with sufficient headroom amounted to of approximately RMB196.4 million, RMB240.2 million and RMB484.3 million as of December 31, 2019, 2020 and 2021, respectively.

We perform the sensitivity analysis based on the assumptions that budgeted gross profit margin, growth rate of revenue, terminal growth rate or the pre-tax discount rate used in the value-in-use calculation for the CGU of occluder business have been changed, with all other variables held constant, and the headroom would be changed as below.

	As of December 31,		
	2019	2020	2021
	Headroom Amount	Headroom Amount	Headroom Amount
	(RMB in thousands)		
Gross profit margin decreases by 10%	98,386	137,504	398,664
Growth rate of revenue decreases by 1%	168,761	201,099	465,126
Terminal growth rate decreases by 1%	191,711	235,160	455,062
Pre-tax discount rate increases by 1%	191,490	234,553	436,852

Our Directors have not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amount of goodwill or intangible assets not subject to amortization attributable to the CGU of occluder business to exceed their recoverable amount. Accordingly, our Directors have concluded that no provision for impairment is required to be recognized as of the respective balance sheet dates.

As there were no indicators for impairment of the CGU of occluder business as of June 30, 2022, our management have not updated any of the impairment calculations since December 31, 2021 and our Directors have concluded that no provision for impairment of the CGU of occluder business is required to be recognized as of June 30, 2022.

Prior to December 31, 2020, all the capitalized development costs are attributable to the CGU of occluder business. For the year ended December 31, 2021, part of the eligible development costs attributable to the CGU of heart valve business of RMB41.5 million were capitalized.

Development costs which are attributable to the CGU of heart valve business are not available for use and are tested for impairment on an annual basis on December 31 for each year, or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with International Accounting Standard 36 "Impairment of Assets." The recoverable amount is determined based on fair value less cost of disposal.

We involved an independent qualified valuer to perform impairment assessment to assess the fair value less cost of disposal of the development costs which were attributable to the CGU of heart valve business as of December 31, 2021 by using the discounted cash flow approach. For the discounted cash flows, the estimated revenue was based on our management's expected timing of the product candidates' commercialization, production volume and sales volume. Management estimated the product candidates' sales volume based on market conditions and the status of technology development. Management then adjusted the estimated revenue to profit contributed from the development costs which are attributable to the CGU of heart valve business by considering a percentage of costs and operating expenses to the revenue ("cost component ratio"), which was determined by reference to the current operating margin levels of comparable companies, with adjustments made based on management's industry experience as well as the research and development plans. Finally, management estimated the discount rate based on the uncertain success rate of commercialization for the applicable product candidates.

Considering the development stage and expected market conditions, our management currently expects that the first year of commercialization for related heart valve product candidates will be 2025. Based on the related heart valve product candidates' life cycle and industry practice, our management expected that the estimated useful life of related heart valve products is at least 10 years. The cash flow projections for the first five years from 2026 to 2030 are based on financial budgets prepared by our management based on market conditions. The cash flow projections for the subsequent years from 2031 to 2035 are extrapolated based on the forecasts using a steady growth rate of revenue of 2%, which does not exceed the long term industry growth forecast for the market in which we operate. The key assumptions used in the fair value less cost of disposal calculation for the CGU of heart valve business are as follows:

		Growth rate of revenue			
	Gross profit margin	2026-2030	2031-2035	Cost component ratio	Post-tax discount rate
As of December 31, 2021	70% – 85%	24.4% – 188.4%	2%	54.3% – 68.3%	17.90%

Based on the result of impairment assessment, the recoverable amount of the CGU of the heart valve business is estimated to exceed its carrying amount as of December 31, 2021 by approximately RMB21.3 million.

The recoverable amount of the CGU of the heart valve business would equal its carrying amount, if each of the key assumptions were to change as follows, with all other variables held constant. Our management believes that the key assumptions would not be likely to change as follows.

	As of December 31, 2021
Gross profit margin	–12.54%
Growth rate of revenue	–7.68%
Cost component ratio	+8.4%
Post-tax discount rate	+3.57%

Our Directors have not identified that a reasonably possible change in any of the key assumptions that could cause the carrying amount of CGU of our heart valve business to exceed its recoverable amount. Our Directors have concluded that no provision for impairment of the CGU of the heart valve business is required to be recognized as of December 31, 2021.

As there were no indicators for impairment of the CGU of heart valve business as of June 30, 2022, our management have not updated any of the impairment calculations since December 31, 2021 and our Directors have concluded that no provision for impairment of the CGU of heart valve business is required to be recognized as of June 30, 2022.

See "Risk Factors — Risks Relating to Our Business and Industries — Risks Relating to Our Operations — Impairment of goodwill may materially and adversely affect our results of operations" and Note 2.10, Note 17 and Note 18 to the Accountant's Report in Appendix I to this document.

Intangible Assets

Our intangible assets consist primarily of development costs in connection with our clinical trial activities and other contemporaneous research and development efforts, patents and licenses, and software we purchased from third parties for book-keeping purpose. The carrying amount of our intangible assets increased from RMB54.3 million as of December 31, 2019 to RMB66.0 million as of December 31, 2020, generally in line with our continued investment in development activities. Our intangible assets further increased to RMB136.6 million as of December 31, 2021, primarily due to (1) the capitalization of a portion of the expenses incurred for the development of certain product candidates, including MemoSorb® PFO Occluder II, TAVR system, balloon dilatation catheter for aortic valve. MemoSorb® ASD Occluder IV, TMVr-A system, TMVCRS and IASD I, as they had fulfilled the prerequisites for clinical trials and therefore met the criteria for capitalization, and (2) the recognition of MemoCarna® PDA Occluder III and MemoCarna® VSD Occluder III as intangible assets as they had obtained the NMPA approvals in 2021. Our intangible assets further increased to RMB161.6 million as of June 30, 2022, primarily attributable to the recognition of fully-biodegradable MemoSorb® VSD Occluder IV and interventional delivery system for biodegradable occluders as intangible assets, as they had obtained the NMPA approvals in the six months ended June 30, 2022. Intangible assets not available for use are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. See "— Goodwill" and Notes 2.9 and 18 to the Accountant's Report in Appendix I to this document.

Financial Assets at Fair Value through Other Comprehensive Income

Our financial assets at fair value through other comprehensive income, or FVOCI, primarily represents our equity investment in an enterprise where we held 10% equity interest. We had financial assets at fair value through other comprehensive income of RMB0.8 million, nil, nil and nil as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively, as we disposed of our equity interest in such enterprise by the end of 2020.

In relation to the valuation of the level 3 financial assets at FVOCI during the Track Record Period, our Directors adopted the following procedures, where they (1) reviewed the terms of all relevant agreements of equity investment; (2) obtained all material documents and information from the investment investee enterprise which were true, accurate and complete and were likely to affect the valuation to ensure that the valuation took into account all relevant matters; and (3) reviewed the valuation results prepared by the valuation team in our finance department. Based on the above procedures, our Directors are of the view that the valuation analysis of our Group's level 3 financial instruments is fair and reasonable, and our Group's financial statements are properly prepared. Moreover, the balances of FVOCI and fair value change of FVOCI are not material for 2019, and our Directors have not identified that a reasonable change in any of the inputs that could cause the significant change of fair value. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the level 3 instruments. See Note 3.3 to the Accountant's Report in Appendix I to this document.

Details of the fair value measurement of the FVOCI, particularly the fair value hierarchy, the valuation techniques and key inputs, the valuation processes, including those for level 3 measurements, are disclosed in Note 3.3 to the Accountant's Report in Appendix I to this document. The Reporting Accountant has carried out audit procedures in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on our historical financial information for the Track Record Period as a whole is set out in Appendix I to the document.

In relation to the valuation of the level 3 financial assets at FVOCI, the Sole Sponsor has conducted relevant due diligence work, including (1) the review of relevant notes in the Accountant's Report in Appendix I to this document, (2) the interview with the chief financial officer of our Company on the valuation methodology of the level 3 financial assets, and (3) the discussion with the Reporting Accountant in respect of the audit work and procedures they have conducted in this regard. Having considered the work done by the Directors and Reporting Accountant and the relevant due diligence work conducted as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation analysis performed by the Company of the Group's financial assets at FVOCI categorized within level 3 of fair value measurements.

Deferred Income Tax Assets

Our deferred income tax assets relate to deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts to the extent that the utilization of such differences and losses against future taxable profits is probable. Our deferred income tax assets are primarily attributable to our research and development expenses, contractual liabilities, allowances for receivables and tax losses. We had deferred income tax assets of RMB7.0 million, RMB3.5 million, RMB8.6 million and RMB16.1 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The increase from December 31, 2020 to December 31, 2021 was primarily due to our deductible tax losses, which was primarily in relation to the [**REDACTED**] expenses incurred by our Company. See Note 20 to the Accountant's Report in Appendix I to this document. The increase from December 31, 2021 to June 30, 2022 was primarily due to our deductible tax losses, which was primarily in relation to the net foreign exchange losses incurred by our Company.

Prepayments and Other Receivables

Our prepayments and other receivables consisted primarily of prepayment to third parties and related parties and other receivables due from third parties and related parties. Prepayments and other receivables with a collection period over one year based on the contract terms are classified as non-current assets and, otherwise, are classified as current assets. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had prepayments and other receivables of RMB14.1 million, RMB21.2 million, RMB33.0 million and RMB64.1 million, respectively. The following table sets forth the details of our prepayment and other receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Other receivables				
Receivables due from related parties	6,788	8,034	–	–
Payment of expense on behalf of an investee company	1,800	1,800	–	–
Proceeds receivables from disposal of an investment property	–	1,351	–	–
Deposits	776	676	1,348	1,634
Staff advance	176	285	397	633
Receivables from sales on behalf of a related party	–	–	–	17,098

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Others	221	195	259	295
Less: provision for impairment of other receivables	(1,180)	(1,660)	(188)	(736)
Total other receivables – net	8,581	10,681	1,816	18,924
Prepayments				
Prepayment to related parties	–	303	58	1,234
Prepayment for purchases of property, plant and equipment	632	1,000	11,187	12,304
Prepayment for raw materials	1,828	5,266	9,948	20,235
[**REDACTED**] expenses prepaid or to be capitalized	–	–	3,474	3,540
Prepayment for products testing and clinical trial fee	2,871	3,021	3,547	5,405
Value-added tax recoverable	–	–	1,705	912
Prepayment for consulting service fees	138	691	522	357
Others	24	220	695	1,200
Total prepayments	5,493	10,501	31,136	45,187
Total prepayments and other receivables	14,074	21,182	32,952	64,111
Less: non-current portion	(632)	(1,000)	(11,187)	(12,304)
Current portion	13,442	20,182	21,765	51,807

Prepayments and other receivables increased from RMB14.1 million as of December 31, 2019 to RMB21.2 million as of December 31, 2020, primarily due to (1) an increase of RMB3.4 million of prepayment for raw materials to third parties to support our increased research and development activities and business growth, and (2) an increase of RMB1.4 million of proceeds receivables from disposal of an investment property related to receivables for disposed properties in 2020. Prepayments and other receivables increased from RMB21.2 million as of December 31, 2020 to RMB33.0 million as of December 31, 2021, primarily due to (1) an increase of RMB10.2 million of prepayment for purchases of property, plant and equipment and an increase of RMB4.7 million of prepayment for raw materials to third parties to support our increased research and development activities and business growth, (2) an increase of RMB3.5 million of [**REDACTED**] expenses prepaid or to be capitalized in connection with the [**REDACTED**], (3) an increase in value-added tax recoverable of RMB1.7

million, and (4) a decrease of RMB1.5 million of provision for impairment of other receivables in line with the decrease in other receivables due from related parties, partially offset by (1) a decrease of RMB8.0 million of other receivables due from related parties as a result of our enhanced collection efforts, and (2) a decrease of RMB1.8 million of payment of expense on behalf of an investee as the amount was settled. Prepayments and other receivables increased from RMB33.0 million as of December 31, 2021 to RMB64.1 million as of June 30, 2022, primarily due to (1) receivables from sales on behalf of a related party of RMB17.1 million in relation to the purchase of COVID-19 antigen reagents by the local government from us amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, where we provided distribution services (as an agent) following the instructions from a subsidiary of Lepu Medical, which were terminated in June 2022, and (2) an increase in prepayment for raw materials of RMB10.3 million to support our resumed manufacturing activities following the containment of COVID-19. See Note 21(a) to the Accountant's Report included in Appendix I to this document for details. As of July 31, 2022, 94.3% or RMB1.2 million of our prepayments and other receivables due from related parties outstanding as of June 30, 2022 had been settled.

Inventories

Our inventories consisted of raw materials, work-in-progress, and finished goods. Under our inventory control policy, we regularly monitor and analyze our historical procurement, production and sales statistics and adjust our inventories to meet customer demand in a timely manner without causing inventory accumulation. The following table sets forth the details of our inventories as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Raw materials	4,962	13,688	11,266	15,319
Work-in-progress	1,794	4,440	8,734	11,427
Finished goods	4,296	5,191	13,402	13,523
Total	11,052	23,319	33,402	40,269

The following table sets forth the number of our inventory turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	2020	2021	2022
Inventory turnover days[1]	277	414	413	435

(1) The inventory turnover days are calculated by dividing the arithmetic mean of the opening and ending balance of inventories in that period by cost of sales for the corresponding period and then multiplying by the number of days in that period.

Our inventories increased from RMB11.1 million as of December 31, 2019 to RMB23.3 million as of December 31, 2020, and our inventory turnover days increased from 277 days in 2019 to 414 days in 2020, primarily because (1) we purchased raw materials to develop our product candidates, including primarily our heart valve product candidates, the amount of which was not reflected in our cost of sales as such product candidates had not yet started to generate revenue; (2) we strategically purchased surplus inventory of raw materials as part of our provisional strategies amid the COVID-19 outbreak; and (3) we purchased additional raw materials for our LAA occluder products, launched in June 2020, in anticipation of robust market demand. See "Business — Inventory" and "Business — Raw Materials and Suppliers — Raw Materials." Our inventories increased from RMB23.3 million as of December 31, 2020 to RMB33.4 million as of December 31, 2021, primarily because (1) we strategically purchased surplus inventory of raw materials as part of our provisional strategies amid the COVID-19 outbreak, and (2) we purchased raw materials for our fully biodegradable VSD occluder product, which obtained the NMPA approval in February 2022, in anticipation of robust market demand. Our inventory turnover days remained relatively stable at 413 days in 2021. Our inventories increased from RMB33.4 million as of December 31, 2021 to RMB40.3 million as of June 30, 2022, and our inventory turnover days increased from 413 days in 2021 to 435 days in the six months ended June 30, 2022, primarily due to (1) delayed consumption of raw materials as our manufacturing and sales activities were temporarily interrupted amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, and (2) our purchase of raw materials to support our resumed manufacturing activities following the containment of COVID-19.

As of July 31, 2022, 36.6% or RMB14.7 million of our inventories as of June 30, 2022 had been subsequently consumed for research and development as well as production or transformed to finished goods and sold.

Our Directors are of the view that there is no recoverability issue for our inventories for the reasons that (1) a substantial portion of the inventories as of June 30, 2022 were aged less than one year, (2) we strategically purchased raw materials as part of our provisional strategies amid the COVID-19 outbreak, which primarily consisted of metal tubes not subject to expiration, and purchased raw materials with an view to stock up for sales of our fully biodegradable VSD occluder product, which obtained the NMPA approval in February 2022, and we do not consider there to be any material difficulty in the utilization of our inventories as of June 30, 2022, (3) our products are generally subject to a shelf life of three years, and the finished goods aged over one year are not perishable or fragile products and can maintain saleable value, and (4) based on the estimated selling prices and gross profit margins of our products, the net realizable value of the inventories is higher than the book value. As a result, we did not make any provisions for our inventories during the Track Record Period.

Trade Receivables

Our trade receivables consisted of amounts due from our third-party customers or our related-party customers. We had trade receivables of RMB45.3 million, RMB38.3 million, RMB23.9 million and RMB32.9 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The following table sets forth the details of our trade receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
From third parties	34,882	35,588	31,887	43,086
From related parties	18,950	10,078	270	1,706
Less: allowance for impairment	(8,501)	(7,349)	(8,288)	(11,909)
Total	45,331	38,317	23,869	32,883

The following table sets forth our trade receivables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade receivables turnover days[(1)]	144	122	64	56

(1) The trade receivables turnover days are calculated by dividing the arithmetic mean of the opening and ending balance of gross trade receivables in that period by revenue for the corresponding period and then multiplying by the number of days in that period.

Our trade receivables decreased from RMB45.3 million as of December 31, 2019 to RMB38.3 million as of December 31, 2020, and further to RMB23.9 million as of December 31, 2021, as we enhanced our collection efforts primarily over our related parties. Our trade receivables then increased to RMB32.9 million as of June 30, 2022, primarily due to an increase in the trade receivables due from our third-party customers as a result of (1) the extended payment cycle caused by the regional resurgence of COVID-19 in Shanghai in the first half of 2022, (2) the relatively loosened credit policy to some of our trusted customers to boost our recovery following the containment of COVID-19, and (3) the increased scale of our business. Our trade receivables turnover days decreased from 144 days in 2019 to 122 days in 2020, to 64 days in 2021 and further to 56 days as of June 30, 2022, as we enhanced our collection efforts. As of July 31, 2022, 20.2% or RMB9.1 million of our gross trade receivables as of June 30, 2022 had been settled. As of July 31, 2022, 27.4% or RMB0.5 million of our trade receivables from related parties outstanding as of June 30, 2022 had been settled.

The following table sets forth our turnover days of trade receivables from related parties for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Turnover days of trade receivables from related parties[(1)]	470	171	118	70

(1) Calculated by dividing the arithmetic mean of the opening and ending balance of gross trade receivables from related parties in that period by revenue generated from related parties for the corresponding period and then multiplying by the number of days in that period.

Our turnover days of trade receivables from related parties were generally longer than our trade receivables turnover days, primarily because we did not collect payments from our related parties as frequently as we did from third parties, as we considered that the default risk of our related parties was low and as a result, it took a longer time for related party customers to settle their trade receivables. Our turnover days of trade receivables from related parties decreased from 470 days in 2019 to 70 days in the six months ended June 30, 2022, as we enhanced our collection efforts.

We generally do not grant a credit period to hospitals. However, hospitals typically have a relatively long payment cycle, usually ranging from six to nine months. We consider various factors, such as reputation, creditworthiness, length of business relationship and past payment records, in managing our trade receivables due from hospitals.

We generally do not grant a credit period to our distributors. Under limited circumstances, we may grant distributors who have a good track record, long-term business relationship and significant transaction volume with us a credit period.

We recorded substantial trade receivables balances during the Track Record Period primarily because (1) we granted credit periods for certain distributors with whom we had a long-term business relationship and significant transaction volume, (2) we recorded substantial trade receivables balances from related parties as a result of the relatively flexible settlement arrangements between us and our related parties which were previously intra-group transactions prior to the Reorganization, and (3) hospitals typically have relatively long payment cycles.

We perform an impairment analysis at the end of each reporting period using a provision matrix to measure expected credit losses for our trade receivables and assess our credit risk exposure. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded allowance for impairment of RMB8.5 million, RMB7.3 million, RMB8.3 million and RMB11.9 million, respectively, along with our business expansion. We determine the expected credit losses on trade receivables by using a provision matrix analysis, based on shared credit risk characteristics by reference to repayment histories for customers. We estimate the provision rates using the historical observed default rates of the debtors taking into consideration forward-looking information that is reasonably and supportably available without undue costs or effort. At the end of each reporting period, we reassessed and updated the historical loss rates after considering the forward-looking information then available to our Directors. In this regard, our Directors consider that our credit risk is significantly reduced. See Note 3 and Note 19 to the Accountant's Report in Appendix I to this document.

We have formulated a credit management policy and will continue to follow the steps and measures stipulated in our credit management policy to manage our trade receivables. Our senior management regularly reviews our trade receivables balance and overdue balance, and we follow up with customers with past due trade receivables. As required under our credit management policy, our accounting personnel will direct sales and marketing staff to deliver collection notices to customers whose bills have been overdue for less than 30 days. For customers whose bills have been overdue for 30 days to 90 days, our accounting personnel will escalate the matter to our vice president, and both our sales and marketing staff and our vice president will deliver collection notices to our customers. For customers whose bills have been overdue for more than 90 days, our accounting personnel will escalate the matter to our president to confirm whether we should cease further transactions with such customers. For customers who refuse to pay the bills despite numerous notices, we may consider initiating lawsuits. See "Risk Factors — Risks Relating to Our Business and Industry — Risks Relating to Commercialization and Distribution — We are exposed to credit risk in relation to our trade and other receivables."

The following table sets forth an aging analysis of our trade receivables based on the invoice dates as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Within one year	36,613	35,265	25,332	32,811
One year to two years	12,886	6,483	1,992	6,916
Over two years	4,333	3,918	4,833	5,065
Total	53,832	45,666	32,157	44,792

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had trade receivables aged over one year of RMB17.2 million, RMB10.4 million, RMB6.8 million and RMB12.0 million, respectively. However, we did not have significant losses which exceeded the loss rate applied during the Track Record Period, except for the trade receivables we specifically identified as credit impaired. Having considered that (1) the trade receivables balances were mainly due from customers with ongoing business relationship with our Group, (2) there were no on-going disputes with such customers, (3) these customers had been making continuous subsequent repayment to our Group and their historical repayment pattern was generally consistent during the Track Record Period, and (4) we have continuously carried out stringent credit management policy and increased effort in credit control, evidenced by the decrease in trade receivables turnover days since 2019, our Directors are of the view that there is no recoverability issue for our trade receivables, including for the balances aged more than one year as of June 30, 2022, and, accordingly, we have made sufficient provision. Having considered the work done by the Directors and the Reporting Accountant and the relevant due diligence work performed, nothing material has come to the Sole Sponsor's attention that indicates that the provision made on the Group's trade receivables by the Company during the Track Record Period is not sufficient.

Prepaid Income Tax

Our prepaid income tax consisted primarily of the surplus tax amount at the end of the relevant taxable year. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had prepaid income tax of nil, RMB5.2 million, nil and nil, respectively. The significant increase in our prepaid income tax from December 31, 2019 to December 31, 2020 was primarily due to the payment of the prepaid income tax deferred from 2019 together with the prepaid income tax of 2020.

Cash and Cash Equivalents

Our cash and cash equivalents consisted primarily of cash on hand and deposits held at call with banks. As of December 31, 2019 and 2020, all of our cash and cash equivalents were dominated in RMB. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents of RMB16.1 million, RMB18.8 million, RMB713.5 million and RMB664.5 million, respectively. The increase in our cash and cash equivalents from December 31, 2019 to December 31, 2020 was primarily due to the increase in operating cash flow as a result of our business growth. The significant increase in our cash and cash equivalents from December 31, 2020 to December 31, 2021 was primarily due to the capital contribution by the [**REDACTED**] of RMB609.7 million, cash received for the disposal of Ningbo Bingkun of RMB439.2 million and capital contribution by Ningbo Jiacheng and Ningbo Jiadu of RMB51.3 million, partially offset by dividend paid to Lepu Medical of RMB320.0 million, deemed distribution of RMB72.2 million in connection with the injection of interventional heart valve business, and settlements of payable to related parties of RMB45.9 million. Our cash and cash equivalents decreased to RMB664.5 million as of June 30, 2022, primarily due to placement of bank deposit with initial term of over three months of RMB70.0 million.

Deferred Income

Our deferred income represents government grants we received from PRC governments to support the expansion of our production lines. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had deferred income of RMB2.1 million, RMB1.3 million, RMB0.5 million and RMB0.2 million, respectively. The gradual decrease was primarily due to the amortization of the government grants related to assets over the expected useful life of the relevant assets.

Redemption Liabilities

Our redemption liabilities relate to financial instruments with preferred rights held by [**REDACTED**]. Pursuant to the [**REDACTED**] Shareholders Agreement dated May 28, 2021, the [**REDACTED**] might be granted certain preferred rights, including, among others, liquidation preference, only if and when we failed to consummate the [**REDACTED**] prior to December 31, 2022 or other triggering events. The liquidation preference constituted our obligations to repurchase our own equity instruments and was therefore recognized as redemption liabilities. We recognized such financial instruments with potential preferred rights as financial liabilities as all triggering events for the grant of the key preferred rights to the

[**REDACTED**] or their effectiveness are out of our control. As of December 31, 2021 and June 30, 2022, we had redemption liabilities of RMB680.0 million and RMB720.9 million, respectively. The increase was primarily due to interest expense on redemption liabilities and foreign exchange losses in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations. See Note 30 to the Accountant's Report included in Appendix I to this document for details. No preferred right has been granted to the [**REDACTED**] yet. See "History, Reorganization and Corporate Structure — [**REDACTED**]."

Trade and Other Payables

Our trade and other payables consisted primarily of trade payables to related parties and third parties, employee benefit payables, other taxes payables, and other payables to related and third parties. We had trade and other payables of RMB57.3 million, RMB62.1 million, RMB26.3 million and RMB54.4 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our suppliers typically grant us a credit period from one to four months.

The following table sets forth the details of our trade and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	(RMB in thousands)			
Trade payables	4,464	4,420	6,680	5,683
– to related parties	1,243	2,019	–	147
– to third parties	3,221	2,401	6,680	5,536
Other payables to related parties	42,866	45,754	–	25,629
Employee benefits payable	4,379	6,988	7,139	6,172
Other taxes payables	4,014	3,526	5,167	8,183
Deposits received from customers	651	608	326	271
Accrual of [**REDACTED**] expenses	–	–	5,535	7,045
Payables for equipment acquisition	–	–	430	95
Others	912	841	1,023	1,349
Total	57,286	62,137	26,300	54,427

The following table sets forth our trade payables turnover days for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2019	**2020**	**2021**	**2022**
Trade payables turnover days[(1)]	93	107	80	73

(1) The trade payables turnover days are calculated by dividing the arithmetic mean of the opening and ending balance of trade payables in that period by cost of sales for the corresponding period and then multiplying by the number of days in that period.

Our trade payables increased from RMB4.5 million as of December 31, 2019 and RMB4.4 million as of December 31, 2020 to RMB6.7 million as of December 31, 2021, generally in line with our business growth. Our trade payables turnover days increased from 93 days in 2019 to 107 days in 2020, primarily because the increase in average trade payables outpaced the increase in our cost of sales. Our trade payables turnover days decreased to 80 days in 2021, primarily because the increase in average trade payables was outpaced by the increase in our cost of sales as we enhanced our settlement efforts. Our trade payables decreased to RMB5.7 million as of June 30, 2022 and trade payables turnover days decreased to 73 days in the six months ended June 30, 2022, as we enhanced our settlement efforts. As of July 31, 2022, 11.2% or RMB0.6 million of our trade payables as of June 30, 2022 had been settled. As of July 31, 2022, we had fully settled our trade payables to related parties outstanding as of June 30, 2022.

Our other payables to related parties primarily represented (1) the payment of surgical dressing products to an overseas independent third party that Lepu Medical made on behalf of us, which was related to our distribution services provided for such overseas independent third party in relation to the surgical dressing products, as at that time we did not have the qualifications to engage in import and export business, (2) the contributions of salaries, social insurance and housing provident fund Lepu Medical made on behalf of us for our employees located in Beijing, as we did not have a subsidiary or branch in Beijing to make local contributions of salaries, social insurance and housing provident fund for certain of our employees based in Beijing, (3) the payment of rental in relation to properties newly leased from Lepu Medical in March 2021 for our interventional heart valve business, and (4) the payment to a subsidiary of Lepu Medical in relation to the distribution of COVID-19 antigen reagents to the local government, where we acted as an agent following the instructions from such subsidiary of Lepu Medical, amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022. See Note 21(a) to the Accountant's Report included in Appendix I to this document for details. We terminated such distribution arrangement in June 2022. In 2019, 2020, 2021 and the six months ended June 30, 2022, the total amount of payments involved for the surgical dressing products that Lepu Medical made on behalf of us was RMB9.0 million, nil, nil and nil, respectively. In the same periods, the contributions of salaries, social insurance and housing provident fund for our employees located in Beijing that Lepu Medical made on behalf of us was RMB3.8 million, RMB3.5 million, RMB0.1 million and nil, respectively. During the Track Record Period, we had properly recognized the relevant expenses in our consolidated financial statements. In May 2019, we terminated the surgical dressing products distribution services and the related indirect payment arrangement with Lepu Medical, because such business was unrelated to our principal business operations. In April 2021, we terminated the arrangement with Lepu Medical regarding the contributions of salaries, social insurance and housing provident fund for our employees located in Beijing, as we established our Beijing branch in March 2021 to directly make payments for salaries, social insurance and housing provident fund for our employees located in Beijing. Our other payables to related parties increased from RMB42.9 million as of December 31, 2019 to RMB45.8 million as of December 31, 2020, primarily due to the accumulated other payables to related parties that we had not settled. Our other payables to related parties decreased from RMB45.8 million as of December 31, 2020 to nil as of December 31, 2021, primarily due to our enhanced settlement efforts. Our other payables to related parties increased to RMB25.6 million as of June 30, 2022, primarily in relation to the distribution of COVID-19 antigen reagents to the local government, where we acted as an agent following the instructions from a subsidiary of Lepu Medical, amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022. See "— Trade Receivables" and Note 21(a) to the Accountant's Report included in Appendix I to this document for details. As of July 31, 2022, none of our other payables to related parties outstanding as of June 30, 2022 had been settled, which we expect to fully settle prior to the [**REDACTED**].

The following table sets forth an aging analysis of our trade payables based on the invoice dates as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	(RMB in thousands)			
Within one year	4,132	3,179	6,533	5,536
One year to two years	186	1,002	–	–
Over two years	146	239	147	147
Total	4,464	4,420	6,680	5,683

Contract Liabilities

Our contract liabilities consisted primarily of customers' rights to claim for additional units, volume rebates to customers, and nonrefundable prepayment from customers. According to the F&S Report, in line with industry practice, our customers generally have the right to claim of additional units that are discarded during the process of implantation, primarily as a result of limited surgical equipment and surgical skills of the surgeons administering our products, which is unrelated to the quality and functionality of our product, upon our confirmation based on the evidence, such as photographs and product serial number, provided by the customers. We also offer a volume rebate to our distributors who outperformed the pre-determined sales levels. The considerations for products that are used as settlement for our unsatisfied performance obligations with respect to the aforementioned claims for additional units and volume rebates have been deferred and accounted for as our contract liabilities. See Note 32 to the Accountant's Report in Appendix I to this document. Our contract liabilities increased from RMB12.2 million as of December 31, 2019 to RMB15.3 million as of December 31, 2020, generally consistent with our increased sales volumes. Our contract liabilities remained relatively stable at RMB14.8 million as of December 31, 2021 and RMB14.4 million as of June 30, 2022. Our contract liabilities as of December 31, 2019 and 2020 had been fully recognized as our revenue in 2020 and 2021, respectively. As of July 31, 2022, 43.1% or RMB6.2 million of our contract liabilities as of June 30, 2022 had been recognized as our revenue.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund the daily operations of our business. During the Track Record Period, we financed our capital expenditures and working capital requirements principally with cash generated from our operations and financing activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, [**REDACTED**] from the [**REDACTED**] and other funds raised from the capital markets from time to time. Any significant decrease in the demand or market prices of our interventional medical devices targeting structural heart diseases, or a significant decrease in the availability of bank loans or other financing may adversely impact our liquidity. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had cash and cash equivalents of RMB16.1 million, RMB18.8 million, RMB713.5 million and RMB664.5 million, respectively.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
			(RMB in thousands)		
				(Unaudited)	
Net cash flows generated from operating activities	54,475	59,097	105,278	61,753	52,665
Net cash flows used in investing activities	(13,074)	(8,463)	(85,171)	(31,951)	(102,765)
Net cash flows (used in)/ generated from financing activities	(41,864)	(47,961)	672,226	673,275	(2,228)
Net increase/(decrease) in cash and cash equivalents	(463)	2,673	692,333	703,077	(52,328)
Cash and cash equivalents at beginning of the year/period	16,582	16,119	18,792	18,792	713,480
Exchange gains on cash and cash equivalents	–	–	2,355	2,912	3,382
Cash and cash equivalents at end of the year/period	16,119	18,792	713,480	724,781	664,534

Net cash flows generated from operating activities

Net cash generated from operating activities was RMB52.7 million in the six months ended June 30, 2022, primarily due to profit before tax of RMB25.3 million plus interest received of RMB1.6 million and minus income tax paid of RMB2.5 million, as adjusted for (1) certain non-cash or non-operating items, primarily including net foreign exchange losses of RMB26.9 million primarily in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations, finance costs of RMB9.1 million, share-based compensation expenses of RMB7.1 million and depreciation and amortization of RMB6.8 million, (2) changes in the working capital that positively affected the cash flow from operating activities, primarily including an increase in trade and other payables of RMB26.8 million primarily in relation to the distribution of COVID-19 antigen reagents to the local government, where we acted as an agent following the instructions from a subsidiary of Lepu Medical, amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase in prepayments and other receivables of RMB27.7 million primarily due to (i) receivables from sales on behalf of a related party in relation to the

COVID-19 antigen reagents as discussed above, and (ii) an increase in prepayment for raw materials to support our resumed manufacturing activities following the containment of COVID-19, an increase in trade receivables of RMB12.5 million as a result of (i) the extended payment cycle caused by the regional resurgence of COVID-19 in Shanghai in the first half of 2022, (ii) the relatively loosened credit policy to some of our trusted customers to boost our recovery following the containment of COVID-19, and (iii) the increased scale of our business, and an increase in inventories of RMB6.9 million primarily due to (i) delayed consumption of raw materials as our manufacturing and sales activities were temporarily interrupted amid the regional resurgence of COVID-19 in Shanghai, and (ii) our purchase of raw materials to support our resumed manufacturing activities following the containment of COVID-19.

Net cash generated from operating activities was RMB105.3 million in 2021, primarily due to profit before tax of RMB66.0 million plus interest received of RMB1.2 million and minus income tax paid of RMB0.5 million, as adjusted for (1) certain non-cash or non-operating items, primarily including share-based compensation expenses of RMB17.8 million, finance costs of RMB10.4 million, and depreciation and amortization of RMB9.8 million related to office furniture and equipment, (2) changes in working capital that positively affected the cash flow from operating activities, primarily including a decrease in trade receivables of RMB13.5 million, as we enhanced our collection efforts, and an increase in trade and other payables of RMB9.9 million driven by our business growth, partially offset by changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase in inventories of RMB10.1 million, primarily because (i) we strategically purchased surplus inventory of raw materials amid the COVID-19 outbreak, and (ii) we purchased raw materials for our fully biodegradable VSD occluder product, which obtained the NMPA approval in February 2022, in anticipation of robust market demand.

Net cash generated from operating activities was RMB59.1 million in 2020, primarily due to profit before tax of RMB76.7 million plus interest received of RMB0.1 million and minus income tax paid of RMB14.1 million, as adjusted for (1) certain non-cash and non-operating items, primarily including depreciation and amortization of RMB6.1 million related to office furniture and equipment, and net gains on disposal of investment properties of RMB5.1 million, primarily reflected the disposal of certain of our properties in 2020, (2) changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB12.3 million in inventories, primarily as (i) we strategically purchased surplus inventory of raw materials as part of our provisional strategies amid the COVID-19 outbreak, and (ii) we purchased additional raw materials for our newly launched LAA occluder product in anticipation of robust market demand, and an increase of RMB7.0 million in prepayments and other receivables, primarily due to an increase of prepayment of raw materials to third parties to support our increased research and development activities and business growth, partially offset by changes in working capital that positively affected the cash flow from operating activities, primarily including a decrease of RMB8.2 million in trade receivables, as we enhanced our collection efforts, an increase of RMB4.9 million in trade and other payables, driven by our business growth, and an increase of RMB3.1 million in contract liabilities, primarily driven by our increased sales volumes.

Net cash generated from operating activities was RMB54.5 million in 2019, primarily due to profit before tax of RMB60.3 million plus interest received of RMB0.2 million and minus income tax paid of RMB6.5 million, as adjusted for (1) certain non-cash and non-operating items, primarily including depreciation and amortization of RMB4.7 million related to office furniture and equipment, (2) changes in working capital that negatively affected the cash flow from operating activities, primarily including an increase of RMB15.9 million in trade receivables, along with our business growth, and an increase of RMB5.2 million in prepayments and other receivables, primarily due to the increases in (i) other receivables from related parties as a result of the increase in the accumulated rental receivables from related parties, and (ii) prepayment to third parties, which represented the increased prepayment of testing and animal studies fees and materials, generally in line with our business growth, partially offset by changes in working capital that positively affected the cash flow from operating activities, primarily including an increase of RMB19.6 million in trade and other payables, primarily as a result of the accumulated other payables to related parties that we had not settled as of December 31, 2019.

Net cash flows used in investing activities

Net cash used in investing activities was RMB102.8 million in the six months ended June 30, 2022, primarily due to (1) placement of bank deposit with initial term of over three months of RMB70.0 million, (2) payment of internal development costs capitalized as intangible assets of RMB26.6 million, and (3) purchases of property, plant and equipment of RMB9.5 million.

Net cash used in investing activities was RMB85.2 million in 2021, primarily due to (1) payment of internal development costs capitalized as intangible assets of RMB69.4 million, and (2) purchases of property, plant and equipment of RMB22.5 million.

Net cash used in investing activities was RMB8.5 million in 2020, primarily due to (1) payment of internal development costs capitalized as intangible assets of RMB12.1 million, (2) purchases of property, plant and equipment of RMB2.5 million, and (3) purchases of intangible assets of RMB1.0 million, partially offset by (1) proceeds from sale of investment properties of RMB6.1 million, and (2) proceeds from sale of financial assets at fair value through other comprehensive income of RMB1.0 million.

Net cash used in investing activities was RMB13.1 million in 2019, primarily due to (1) payment of internal development costs capitalized as intangible assets of RMB11.8 million, (2) purchases of property, plant and equipment of RMB3.3 million, and (3) purchases of intangible assets of RMB0.9 million, partially offset by proceeds from sale of investment properties of RMB3.0 million.

Net cash flows (used in)/generated from financing activities

Net cash used in financing activities was RMB2.2 million in the six months ended June 30, 2022, primarily due to payment for [**REDACTED**] expenses of RMB1.9 million.

Net cash generated from financing activities was RMB672.2 million in 2021, primarily due to (1) capital contribution by the [**REDACTED**] of RMB609.7 million, (2) deemed contribution of RMB446.1 million primarily in relation to disposal of Ningbo Bingkun, and (3) capital contribution from Ningbo Jiacheng and Ningbo Jiadu of RMB51.3 million, partially offset by (1) dividends paid to Lepu Medical of RMB320.0 million, (2) deemed distribution of RMB72.2 million in connection with the injection of interventional heart valve business, and (3) settlements to related parties of RMB45.9 million.

Net cash used in financing activities was RMB48.0 million in 2020, primarily due to deemed distribution of RMB777.6 million in relation to our Reorganization, partially offset by deemed contribution of RMB730.2 million in relation to our Reorganization.

Net cash used in financing activities was RMB41.9 million in 2019, primarily due to deemed distribution of RMB61.0 million in relation to our Reorganization, partially offset by deemed contribution of RMB19.6 million in relation to our Reorganization.

Current Assets and Current Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of July 31,
	2019	**2020**	**2021**	**2022**	**2022**
	(RMB in thousands)				
					(Unaudited)
CURRENT ASSETS					
Inventories	11,052	23,319	33,402	40,269	43,572
Trade receivables	45,331	38,317	23,869	32,883	24,383
Prepayments and other receivables	13,442	20,182	21,765	51,807	56,125
Prepaid income tax	–	5,152	–	–	–
Financial assets at fair value through profit or loss	–	–	–	1,004	11,019
Bank deposit with initial term of over three months	–	–	–	70,000	70,000
Cash and cash equivalents	16,119	18,792	713,480	664,534	667,287
Total current assets	85,944	105,762	792,516	860,497	872,386

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
					(Unaudited)
CURRENT LIABILITIES					
Redemption liabilities	–	–	679,986	720,861	725,676
Trade and other payables	57,286	62,137	26,300	54,427	58,489
Contract liabilities	12,206	15,343	14,783	14,426	15,577
Current income tax liabilities	4,683	–	6,761	12,797	12,815
Lease liabilities	369	116	2,143	1,994	1,873
Total current liabilities	74,544	77,596	729,973	804,505	814,430
NET CURRENT ASSETS	11,400	28,166	62,543	55,992	58,956

We had net current assets of RMB11.4 million, RMB28.2 million, RMB62.5 million, RMB56.0 million and RMB59.0 million as of December 31, 2019, 2020 and 2021, June 30, 2022 and July 31, 2022, respectively. Our net current assets position as of each of these dates was mainly attributable to our inventories, prepayments and other receivables, trade receivables, bank deposit with initial term of over three months and cash and cash equivalents, partially offset by our redemption liabilities, trade and other payables, contract liabilities, current income tax liabilities and lease liabilities. Our net current assets increased from RMB11.4 million as of December 31, 2019 to RMB28.2 million as of December 31, 2020, primarily due to the increase in inventories, generally consistent with our business growth. Our net current assets increased from RMB28.2 million as of December 31, 2020 to RMB62.5 million as of December 31, 2021, primarily due to (1) an increase in cash and cash equivalents of RMB694.7 million mainly as a result of the capital contribution by [**REDACTED**] and the cash received for the disposal of Ningbo Bingkun, partially offset by the dividend paid to Lepu Medical, and (2) a decrease in trade and other payables of RMB35.8 million as a result of our enhanced efforts in settling related party amounts, partially offset by redemption liabilities of RMB680.0 million in connection with the financial instruments with preferred rights held by the [**REDACTED**], which were reclassified from non-current liabilities to current liabilities as they were due and payable within one year as of December 31, 2021 pursuant to the [**REDACTED**] Shareholders Agreement. The preferred rights granted to the [**REDACTED**] will lapse upon the completion of the [**REDACTED**] and, accordingly, the redemption liabilities will be reclassified as equity upon completion of the [**REDACTED**]. Our net current assets decreased to RMB56.0 million as of June 30, 2022, primarily due to an increase in redemption liabilities of RMB40.9 million as a result of interest expense on redemption liabilities and foreign exchange losses in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations. Our net current assets remained relatively stable at RMB59.0 million as of July 31, 2022.

Working Capital

Our primary use of cash is to fund the daily operations of our business. During the Track Record Period, we financed our capital expenditures and working capital requirements primarily through cash generated from our operations and financing activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, [**REDACTED**] from the [**REDACTED**] and other funds raised from the capital markets from time to time. As of June 30, 2022, we had cash and cash equivalents of RMB664.5 million.

Taking into account the financial resources available to us, including cash flow from operating activities and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

We intend to continue to finance our working capital with cash generated from our operations, [**REDACTED**] from the [**REDACTED**] and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations.

CAPITAL COMMITMENTS

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had capital commitments of nil, nil, RMB10.8 million and RMB6.5 million, respectively, primarily in connection with purchase of fixed assets. See Note 34 to the Accountant's Report included in Appendix I to this document for details.

INDEBTEDNESS

Borrowings

As of July 31, 2022, being the latest practicable date for the purpose of this indebtedness statement, we had no outstanding balance of borrowings or unutilized banking facilities.

Lease Liabilities

The following table sets forth the breakdown of our lease liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
					(Unaudited)
Lease liabilities					
Non-current portion	–	–	4,044	4,294	4,438
Current portion	369	116	2,143	1,994	1,873
Total	369	116	6,187	6,288	6,311

Redemption Liabilities

The following table sets forth our redemption liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of July 31,
	2019	2020	2021	2022	2022
	(RMB in thousands)				
					(Unaudited)
Redemption liabilities	–	–	679,986	720,861	725,676

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liability, guarantee or any litigation or claim of material importance, pending or threatened against us or any member of our Group that is likely to have a material and adverse effect on our business, financial condition and result of operations.

Saved as disclosed above, as of July 31, 2022, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities. Our Directors confirm that there had not been any material adverse change in our indebtedness since July 31, 2022 and up to the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

[**REDACTED**] EXPENSES

We expect to incur a total of approximately RMB[**REDACTED**] million of [**REDACTED**] expenses in connection with the [**REDACTED**], representing approximately [**REDACTED**]% of the gross [**REDACTED**] from the [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised), comprising [**REDACTED**] related expenses of approximately RMB[**REDACTED**] million and non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**] million. Among the estimated [**REDACTED**] expenses, approximately RMB[**REDACTED**] million is directly attributable to the issuance of H Shares to the public and is expected to be capitalized and deducted from our Group's equity upon the completion of the [**REDACTED**], and approximately RMB[**REDACTED**] million has been or is expected to be reflected in our consolidated statements of profit or loss, of which approximately RMB[**REDACTED**] million of the [**REDACTED**] expenses in relation to the service already performed has been reflected in our consolidated statements of profit or loss of 2021 and the six months ended June 30, 2022, and the remaining amount of approximately RMB[**REDACTED**] million is expected to be reflected in our consolidated statements of profit or loss of the six months ended December 31, 2022. The [**REDACTED**] expenses above are our best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate. Our Directors would like to emphasize that the expenses in relation to the [**REDACTED**] are a current estimate for reference only and the amounts to be recognized in the equity and the statement of results of operation of our Group are subject to adjustment due to changes in estimates and assumptions.

In view of the above, prospective [**REDACTED**] should note that the financial results of our Group for 2022 will be adversely affected by the non-recurring [**REDACTED**] expenses in relation to the [**REDACTED**].

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time during our ordinary course of business and on terms comparable to the terms of transactions with other entities that are not related parties. During the Track Record Period, we entered into a number of related party transactions, primarily including (1) sales of medical devices to related parties, (2) purchases of raw materials from related parties, (3) rental income from related parties, and (4) commission income from related parties. All the trade receivables, trade payables and prepayments balances with our related parties during the Track Record Period are trade in nature. Other receivables due from related parties and other payables due to related parties are non-trade in nature. As of July 31, 2022, we had fully settled the non-trade balances with related parties outstanding as of June 30, 2022. We expect to continue to receive rental income and incur rental payment from time to time pursuant to the lease agreements entered into with our related parties after [**REDACTED**]. See Note 35 to the Accountant's Report included in Appendix I to this document for details.

Our Directors are of the view that our related party transactions during the Track Record Period were conducted in the ordinary course of business at arm's length with reference to normal commercial terms, and would not distort our track record results or make our historical results not reflective of our future performance.

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2019	2020	2021	2022
Profitability ratios				
Gross profit margin(1)	88.3%	89.8%	88.8%	87.7%
Net profit margin(2)	44.6%	46.4%	26.4%	19.4%
Return on equity(3)	22.9%	28.3%	18.4%	12.1%(7)
Return on total assets(4)	17.8%	21.5%	8.1%	4.1%(7)
Liquidity ratios				
Current ratio(5)	1.2	1.4	1.1	1.1
Quick ratio(6)	1.0	1.1	1.0	1.0

(1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100.0%.

(2) The calculation of net profit margin is based on profit for the period divided by revenue for the respective period and multiplied by 100.0%.

(3) The calculation of return on equity is based on profit for the period divided by average total equity attributable to equity holders of our Company as of the beginning and end of the period and multiplied by 100.0%.

(4) The calculation of return on total assets is based on profit for the period divided by average total assets as of the beginning and end of the period and multiplied by 100.0%.

(5) The calculation of current ratio is based on current assets divided by current liabilities as of period end.

(6) The calculation of quick ratio is based on current assets less inventories divided by current liabilities as of period end.

(7) These figures have been provided on an annualized basis solely for the purpose of being comparable to prior years, and may not be indicative of actual results.

Analysis of Key Financial Ratios

Gross Profit Margin and Net Profit Margin

See "— Period to Period Comparison of Results of Operations" for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on Equity and Return on Total Assets

Our return on equity increased from 22.9% for 2019 to 28.3% for 2020, primarily due to the increase in our net profit. Our return on equity decreased from 28.3% for 2020 to 18.4% for 2021, primarily due to an increase in our equity, including primarily the increase in share capital along with the business and capital injection of Shanghai Shape Memory Alloy from Lepu Medical and the increase in other reserves along with the share premium arisen from the share issuance to the [**REDACTED**]. Our return on equity decreased to 12.1% in the six months ended June 30, 2022, primarily due to the decrease in net profit, which in turn was mainly attributable to net foreign exchange losses primarily in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations. See Note 26 and Note 27 to the Accountant's Report in Appendix I to this document for details.

Our return on total assets increased from 17.8% for 2019 to 21.5% for 2020, primarily due to the increase in our net profit. Our return on total assets decreased from 21.5% for 2020 to 8.1% for 2021, primarily due to an increase in our cash and cash equivalents as a result of the capital contribution by the [**REDACTED**] and cash received for the disposal of Ningbo Bingkun, partially offset by dividend paid to Lepu Medical. Our return on total assets decreased to 4.1% in the six months ended June 30, 2022, primarily due to the decrease in net profit, which in turn was mainly attributable to net foreign exchange losses primarily in relation to the retranslation of redemption liabilities resulted from exchange rate fluctuations. See Note 10 and Note 25 to the Accountant's Report in Appendix I to this document for details.

Current Ratio and Quick Ratio

Our current ratio remained relatively stable at 1.2, 1.4, 1.1 and 1.1 as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

Our quick ratio remained relatively stable at 1.0, 1.1, 1.0 and 1.0 as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal financial instruments include trade receivables, other receivables, bank deposit with initial term of over three months, cash and cash equivalents, financial assets at fair value through other comprehensive income, trade and other payables, and lease liabilities. We have various other financial assets and liabilities such as trade receivables, trade payables and other payables. We are exposed to various financial risks including foreign exchange risk, credit risk and liquidity risk. Our overall risk management focuses on the unpredictability of financial markets to minimize potential adverse effects on our financial performance. Our senior management is responsible for our risk management.

Our Directors reviewed and agreed policies for managing each of these risks as summarized below. For details of our financial risk management, see Note 3 to the Accountant's Report in Appendix I to this document.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not our functional currency. Our functional currency is RMB.

We expose ourselves to foreign exchange risk because certain of our trade payables, financial instruments with preferred rights at amortized cost and cash and cash equivalents are dominated in foreign currencies. We will mitigate such a risk by constantly reviewing the economic situation and foreign exchange risk, and applying hedging measures when necessary. See Note 3.1(a) to the Accountant's Report in Appendix I to this document for details.

Credit Risk

Our maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, bank deposit with initial term of over three months, trade receivables, and other receivables. We do not expect there is significant credit risk associate with our cash and cash equivalents and bank deposit with initial term of over three months because we deposit them in state-owned banks and other reputable commercial banks.

Our trade receivables and other receivables are subject to expected credit loss model. See Note 3.1(b) to the Accountant's Report in Appendix I to this document for details on impairment of financial assets.

Liquidity Risk

In order to manage liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our senior management to finance our operations and mitigate the effects of fluctuations in cash flows. See Note 3.1(c) to the Accountant's Report in Appendix I to this document for details.

DIVIDEND POLICY

During the Track Record Period and up to the Latest Practicable Date, we paid dividend of RMB320.0 million to Lepu Medical in January 2021. After completion of the [**REDACTED**], our Shareholders will be entitled to receive dividends we declare. Our Company currently does not have a dividend policy. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, our development pipeline, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the relevant laws. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Dividends declared in the past may not be indicative of our future dividend policy. Our Directors have the absolute discretion to recommend any dividend. We cannot assure you that our Company will be able to declare dividends of any amount each year or in any year. See "Financial Information — Dividend Policy" for further details.

DISTRIBUTABLE RESERVES

As of June 30, 2022, we had distributable reserves of RMB163.3 million.

COVID-19 OUTBREAK AND EFFECTS ON OUR BUSINESS

A novel strain of coronavirus, later named COVID-19, has severely impacted China and many other countries and regions. The PRC government has had imposed quarantine measures across the country since late January 2020. Local governments have also imposed temporary restrictions or bans on traveling to contain the spread of the COVID-19. On January 30, 2020, the world health organization declared the outbreak of COVID-19 a public health emergency of international concern (PHEIC). On March 11, 2020, amid the escalating situation, the world health organization further characterized COVID-19 as a pandemic. With measures taken by the PRC government, there has been a significant decrease in the number of existing confirmed COVID-19 cases in China since mid-February 2020. The Chinese government gradually lifted domestic travel restrictions and other quarantine measures, and economic activities began to recover and return to normal nationwide during the second quarter of 2020. The resurgence of COVID-19 across various cities in China, including the recent outbreak in Shanghai in the first half of 2022, did not have any material adverse effect on us as a result of the effective government measures to contain the spread and our contingency plans to minimize its negative impact. Our Directors have carried out a holistic review of the impact of the COVID-19 on our operations and confirmed that as of the Latest Practicable Date, COVID-19 did not bring permanent interruption to our operations based on the following grounds:

Impact on Our Business

Since the outbreak of COVID-19, a series of precautionary and control measures have been implemented worldwide to contain the virus. Government efforts to contain the spread of COVID-19, including city lockdowns or "stay-at-home" orders, widespread business closures, restrictions on travel and emergency quarantines, have caused significant and unprecedented disruptions to the global economy and normal business operations across sectors and countries. In addition, these mandated quarantine measures, such as workplace closures and restrictions on traveling, had adversely affected the demand and supply of medical devices during the COVID-19 outbreak. As a result, the medical device industries in China and overseas have been negatively impacted, which in turn adversely affected our business, results of operations and financial condition. For example, we experienced a slight decrease in sales volume of our products in 2020 as compared to that in 2019, primarily due to (1) the reduced demand among hospitals in China for medical devices driven by the decrease of operations unrelated to COVID-19, as most of the hospitals devoted their resources primarily to dealing with COVID-19 in the first half of 2020; and (2) the reduced scale of international trade amid COVID-19. Specifically, we have experienced certain negative impact on the distribution of our products in overseas markets, primarily reflected in (1) the reduced demand among hospitals in certain overseas market, primarily including Brazil and India, where hospitals devoted their resources primarily to dealing with COVID-19, and (2) the delay in logistics and the increase in logistics expenses resulting from less frequent flights amid the temporary government-mandated travel restrictions or bans to contain the spread of the COVID-19. In addition, we experienced a decrease in revenue generated from products sold overseas in 2021 as a result of the intensified impact of the COVID-19 outbreak in overseas markets. We also incurred increased distribution expenses in 2021 as compared to those in 2020, primarily due to our increased sales activities driven by the effective containment of the COVID-19 outbreak in China. In the six months ended June 30, 2022, we experienced a decrease in revenue generated from sales of LAA occluder products as a result of our limited technical training and surgical assistance capabilities amid the regional resurgence of COVID-19 in Shanghai in the first half of 2022, which were critical for the implantation of LAA occluder products and therefore the related sales. In addition, our trade receivables increased from December 31, 2021 to June 30, 2022, primarily due to (1) the extended payment cycle caused by the regional resurgence of COVID-19, (2) the relatively loosened credit policy to some of our trusted customers to boost our recovery following the containment of COVID-19, and (3) the increased scale of our business.

We expect that our business will not be severely disrupted in the long run for the following reasons. Firstly, COVID-19 has been largely contained in China, where we conduct most of our business. The Chinese government gradually lifted domestic travel restrictions and other quarantine measures, and economic activities began to recover and return to normal nationwide. The resurgence of COVID-19 across various cities in China, including the recent outbreak in Shanghai in the first half of 2022, did not have any material adverse effect on us. While the production and shipment of our products and the procurement of raw materials experienced temporary interruptions since April 2022 as a result of government measures to contain the recent outbreak in Shanghai, we managed to get the government approval for operation resumption by the end of April 2022 in accordance with relevant regulations and began to recover and return to normal business operations thereafter. In the six months ended June 30, 2022, our overall revenue continued its steady growth despite the outbreak. Second, the demand of medical devices would bounce back in the long term because the COVID-19 outbreak merely delayed operations in a short term rather than eliminate patients' needs of operations and medical devices.

Impact on Our Operations

Our offices have resumed operation since February 2020 in accordance with the local government policies. During the recent COVID-19 outbreak in certain regions of China, especially in Shanghai where our headquarters and manufacturing facilities are located, we have implemented flexible working hour arrangements such as rotational shifts in response to local government's temporary quarantine and lockdown measures. Moreover, the production and shipment of our products experienced temporary interruptions since April 2022 as a result of government measures to contain the recent outbreak in Shanghai. We managed to get the government approval for operation resumption in Shanghai by the end of April 2022 and began to recover and return to normal business operations thereafter. As of the Latest Practicable Date, we had not experienced any material interruption to our business operations.

We have been granted property tax and land use tax exemptions of approximately RMB0.4 million from January 2022 through June 2022, according to relevant government relief policies during the regional resurgence of COVID-19 in Shanghai in the first half of 2022.

Impact on Our Employees

In response to COVID-19, we have implemented an interim policy requiring our management members and employees to declare their recent travel history. Returnees from recent travels are required to quarantine themselves at home and should only return to office upon receiving further notice from us. As of the Latest Practicable Date, we were not aware of any confirmed case of COVID-19 among our staff.

We did not experience any material employee loss due to the COVID-19 outbreak as of the Latest Practicable Date. We have been permitted to reduce the employer's contribution of social insurance premiums for our employees by approximately RMB1.5 million from February 2020 through December 2020, according to relevant government relief policies during the COVID-19 outbreak.

Impact on Our Supply Chain

Our suppliers include primarily suppliers of raw materials, components of medical devices and machinery and equipment, and institutions that provided testing or clinical trial related services. We have experienced certain negative impact on our business as a result of the impact on the operations of our suppliers by the COVID-19 outbreak, primarily reflected in the delay in logistics for suppliers of raw materials resulting from the temporary restrictions or bans on traveling by local governments to contain the spread of the COVID-19. Specifically, the procurement of raw materials experienced temporary interruptions in April 2022 as a result of government measures to contain the recent outbreak in Shanghai. We managed to get the government approval for operation resumption in Shanghai by the end of April 2022 and began to recover and return to normal business operations thereafter. The procurement of raw materials resumed normal in May 2022 through our online communications with suppliers and engagement of new suppliers. In 2019, 2020, 2021 and the six months ended June 30, 2022, our raw materials turnover days were 286 days, 582 days, 442 days and 421 days, respectively. The increase in 2020 as compared to that of 2019 was primarily because we strategically purchased surplus inventory of raw materials as part of our provisional strategies amid the COVID-19 outbreak. As of the Latest Practicable Date, we were informed that all of our suppliers had resumed operation and we had not experienced any major supply chain disruption.

Our Precautionary Measures

We have adopted several precautionary measures to maintain a hygienic working environment, including purchasing disinfection products, distributing masks and infrared thermometer.

However, we cannot be entirely certain as to when the COVID-19 outbreak will be fully contained and its impact will be eradicated. Any prolonged outbreak may adversely affect our business and financial performance. We are closely monitoring the development of the COVID-19 outbreak and continuously evaluating any potential impact on our business, results of operations and financial condition. See "Risk Factors — Risks Relating to Our Business and Industry — Risks Relating to Our Operations — Our business and operations have been and may continue to be materially and adversely affected by the COVID-19 outbreak."

[**REDACTED**]

[REDACTED]

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, save as otherwise disclosed in this document, there has been no material adverse change in our financial or trading position since June 30, 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since June 30, 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountant's Report in Appendix I to this document.