

**APPENDIX I**

**ACCOUNTANT’S REPORT**

*The following is the text of a report set out on pages I-[●] to I-[●], received from the Company’s reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200, Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

**[DRAFT]**

*[Letterhead of PricewaterhouseCoopers]*

**ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF LEPU SCIENSTECH MEDICAL TECHNOLOGY (SHANGHAI) CO., LTD. AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED**

**Introduction**

We report on the historical financial information of LEPU ScienTech Medical Technology (Shanghai) Co., Ltd. (the “Company”) and its subsidiary (together, the “Group”) set out on pages I-[●] to I-86, which comprises the consolidated balance sheets as at 31 December 2019, 2020 and 2021 and 30 June 2022, the balance sheets of the Company as at 31 December 2021 and 30 June 2022, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-[●] to I-86 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the “Document”) in connection with the [REDACTED] of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors’ responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

---

**APPENDIX I****ACCOUNTANT’S REPORT**

---

**Reporting accountant’s responsibility**

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at 31 December 2021 and 30 June 2022 and the consolidated financial position of the Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the

---

**APPENDIX I**

**ACCOUNTANT’S REPORT**

---

Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the International Auditing and Assurance Standards Board (“IAASB”). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

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

**Adjustments**

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

**Dividends**

We refer to Note 37 to the Historical Financial Information which contains information about the dividends paid by the companies now comprising the Group in respect of the Track Record Period. No dividends have been paid by LEPU ScienTech Medical Technology (Shanghai) Co., Ltd. in respect of the Track Record Period.

**No statutory financial statements for the Company**

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

**[PricewaterhouseCoopers]**  
*Certified Public Accountants*

Hong Kong, [Date]

**I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report. The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand of RMB (RMB’000) except when otherwise indicated.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	116,451	148,247	222,583	110,968	124,804
Cost of sales	7	(13,619)	(15,134)	(25,038)	(11,884)	(15,322)
<b>Gross profit</b>		<b>102,832</b>	<b>133,113</b>	<b>197,545</b>	<b>99,084</b>	<b>109,482</b>
Distribution expenses	7	(21,760)	(23,146)	(43,072)	(17,383)	(16,626)
General and administrative expenses	7	(8,981)	(8,383)	(59,874)	(24,457)	(16,402)
Research and development expenses	7	(25,830)	(38,957)	(41,387)	(16,446)	(19,637)
Net (provision for)/reversal of impairment losses on financial assets	9	(1,788)	672	533	464	(4,169)
Other income and gains/(losses) – net	10	15,746	13,238	22,642	4,401	(18,289)
<b>Operating profit</b>		<b>60,219</b>	<b>76,537</b>	<b>76,387</b>	<b>45,663</b>	<b>34,359</b>
Finance income		151	149	1,185	221	1,645
Finance costs		(24)	(7)	(11,545)	(914)	(10,698)
Finance income/(costs) – net	11	127	142	(10,360)	(693)	(9,053)
<b>Profit before income tax</b>		<b>60,346</b>	<b>76,679</b>	<b>66,027</b>	<b>44,970</b>	<b>25,306</b>
Income tax expense	12	(8,437)	(7,907)	(7,330)	(3,203)	(1,051)
<b>Profit for the year/period</b>		<b>51,909</b>	<b>68,772</b>	<b>58,697</b>	<b>41,767</b>	<b>24,255</b>
<b>Other comprehensive income:</b> Items that will not be reclassified to profit or loss: – Changes in the fair value of equity investment at fair value through other comprehensive income		138	427	–	–	–
<b>Other comprehensive income for the year/period, net of tax</b>		<b>138</b>	<b>427</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income for the year/period</b>		<b>52,047</b>	<b>69,199</b>	<b>58,697</b>	<b>41,767</b>	<b>24,255</b>
<b>Profit attributable to:</b> – Owners of the Company		<b>51,909</b>	<b>68,772</b>	<b>58,697</b>	<b>41,767</b>	<b>24,255</b>
<b>Total comprehensive income attributable to:</b> – Owners of the Company		<b>52,047</b>	<b>69,199</b>	<b>58,697</b>	<b>41,767</b>	<b>24,255</b>
<b>Earnings per share attributable to the owners of the Company (expressed in RMB per share)</b> Basic and diluted earnings per share	13	0.19	0.25	0.19	0.15	0.07

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**CONSOLIDATED BALANCE SHEETS**

	Note	As at 31 December			As at
		2019	2020	2021	30 June
		RMB'000	RMB'000	RMB'000	2022
				RMB'000	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	14	68,459	67,196	76,261	82,446
Right-of-use assets	15	454	216	6,763	5,841
Investment properties	16	42,673	40,623	39,553	39,102
Goodwill	17	48,282	48,282	48,282	48,282
Intangible assets	18	54,259	65,959	136,557	161,649
Financial assets at fair value through other comprehensive income		849	–	–	–
Deferred income tax assets	20	7,009	3,472	8,571	16,077
Prepayments	21	632	1,000	11,187	12,304
<b>Total non-current assets</b>		<b>222,617</b>	<b>226,748</b>	<b>327,174</b>	<b>365,701</b>
<b>Current assets</b>					
Inventories	22	11,052	23,319	33,402	40,269
Trade receivables	23	45,331	38,317	23,869	32,883
Prepayments and other receivables	21	13,442	20,182	21,765	51,807
Prepaid income tax		–	5,152	–	–
Financial assets at fair value through profit or loss	24	–	–	–	1,004
Bank deposit with initial term of over three months	25	–	–	–	70,000
Cash and cash equivalents	25	16,119	18,792	713,480	664,534
<b>Total current assets</b>		<b>85,944</b>	<b>105,762</b>	<b>792,516</b>	<b>860,497</b>
<b>Total assets</b>		<b>308,561</b>	<b>332,510</b>	<b>1,119,690</b>	<b>1,226,198</b>
<b>EQUITY</b>					
<b>Equity attributable to owners of the Company</b>					
Share capital	26	–	–	324,295	324,295
Treasury stock	27	–	–	(671,507)	(671,507)
Other reserves	27	(98,745)	(146,766)	593,341	601,142
Retained earnings		330,614	400,365	139,062	163,317
<b>Total equity</b>		<b>231,869</b>	<b>253,599</b>	<b>385,191</b>	<b>417,247</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<i>Note</i>	<b>As at 31 December</b>			<b>As at</b>
		<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>30 June</b>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<b>2022</b>
				<i>RMB’000</i>	
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Lease liabilities	15	–	–	4,044	4,294
Deferred income	29	2,148	1,315	482	152
<b>Total non-current liabilities</b>		<u>2,148</u>	<u>1,315</u>	<u>4,526</u>	<u>4,446</u>
<b>Current liabilities</b>					
Redemption liabilities	30	–	–	679,986	720,861
Trade and other payables	31	57,286	62,137	26,300	54,427
Contract liabilities	32	12,206	15,343	14,783	14,426
Current income tax liabilities		4,683	–	6,761	12,797
Lease liabilities	15	369	116	2,143	1,994
<b>Total current liabilities</b>		<u>74,544</u>	<u>77,596</u>	<u>729,973</u>	<u>804,505</u>
<b>Total liabilities</b>		<u>76,692</u>	<u>78,911</u>	<u>734,499</u>	<u>808,951</u>
<b>Total equity and liabilities</b>		<u>308,561</u>	<u>332,510</u>	<u>1,119,690</u>	<u>1,226,198</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**BALANCE SHEETS OF THE COMPANY**

		<b>As at 31 December</b>	<b>As at 30 June</b>
	<i>Note</i>	<b>2021</b>	<b>2022</b>
		<i>RMB’000</i>	<i>RMB’000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiary	26(a)	713,776	713,776
Deferred income tax assets	20	5,652	12,200
<b>Total non-current assets</b>		<u>719,428</u>	<u>725,976</u>
<b>Current assets</b>			
Prepayments and other receivables	21	4,566	25,958
Financial assets at fair value through profit or loss	24	–	1,004
Bank deposit with initial term of over three months	25	–	70,000
Cash and cash equivalents	25	694,946	556,491
<b>Total current assets</b>		<u>699,512</u>	<u>653,453</u>
<b>Total assets</b>		<u><u>1,418,940</u></u>	<u><u>1,379,429</u></u>
<b>EQUITY</b>			
Share capital	26	324,295	324,295
Treasury stock	27	(671,507)	(671,507)
Other reserves	27	1,057,714	1,057,714
Accumulated losses		(30,339)	(60,671)
<b>Total equity</b>		<u>680,163</u>	<u>649,831</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Redemption liabilities	30	679,986	720,861
Other payables	31	58,791	8,737
<b>Total current liabilities</b>		<u>738,777</u>	<u>729,598</u>
<b>Total liabilities</b>		<u>738,777</u>	<u>729,598</u>
<b>Total equity and liabilities</b>		<u><u>1,418,940</u></u>	<u><u>1,379,429</u></u>



**APPENDIX I**

**ACCOUNTANT’S REPORT**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<i>Note</i>	<b>Share capital</b>	<b>Treasury stock</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Balance at 1 January 2019</b>		–	–	(57,502)	278,705	221,203
Profit for the year		–	–	–	51,909	51,909
Other comprehensive income:						
– Fair value changes of equity investment at fair value through other comprehensive income		–	–	138	–	138
<b>Total comprehensive income</b>		–	–	138	51,909	52,047
Transactions with owners in their capacity as owners:						
– Deemed distributions	27(a)	–	–	(60,985)	–	(60,985)
– Deemed contributions	27(a)	–	–	19,604	–	19,604
<b>Total transactions with owners in their capacity as owners</b>		–	–	(41,381)	–	(41,381)
<b>Balance at 31 December 2019</b>		–	–	(98,745)	330,614	231,869
<b>Balance at 1 January 2020</b>		–	–	(98,745)	330,614	231,869
Profit for the year		–	–	–	68,772	68,772
Other comprehensive income:						
– Fair value changes of equity investment at fair value through other comprehensive income	27	–	–	427	–	427
– Transfer of gain on disposal of equity investment at fair value through other comprehensive income to retained earnings	27	–	–	(979)	979	–
<b>Total comprehensive income</b>		–	–	(552)	69,751	69,199
Transactions with owners in their capacity as owners:						
– Deemed distributions	27(a)	–	–	(777,645)	–	(777,645)
– Deemed contributions	27(a)	–	–	730,176	–	730,176
<b>Total transactions with owners in their capacity as owners</b>		–	–	(47,469)	–	(47,469)
<b>Balance at 31 December 2020</b>		–	–	(146,766)	400,365	253,599

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<i>Note</i>	<u>Share capital</u>	<u>Treasury stock</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Balance at 1 January 2021</b>		–	–	(146,766)	400,365	253,599
Profit for the year		–	–	–	58,697	58,697
<b>Total comprehensive income</b>		–	–	–	58,697	58,697
Transactions with owners in their capacity as owners:						
– Issuance of shares to Lepu Medical Technology (Beijing) Co., Ltd. (“Lepu Medical”)	26(a)	277,200	–	(277,200)	–	–
– Issuance of shares to Beijing Target Medical Technologies Co., Ltd. (“Target Medical”)	26(a)	2,800	–	4,409	–	7,209
– Issuance of shares to Ningbo Jiacheng Enterprise Management Partnership (Limited Partnership) (“Ningbo Jiacheng”) and Ningbo Jiadu Enterprise Management Partnership (Limited Partnership) (“Ningbo Jiadu”)		14,737	–	36,547	–	51,284
– Issuance of shares to [REDACTED]		29,558	–	580,182	–	609,740
– Deemed distributions	27(a)	–	–	(72,167)	–	(72,167)
– Deemed contributions	27(a)	–	–	446,079	–	446,079
– Recognition of redemption liabilities	30	–	(671,507)	–	–	(671,507)
– Share-based payments – deemed contribution from Lepu Medical	28	–	–	22,257	–	22,257
– Dividends to shareholder	37	–	–	–	(320,000)	(320,000)
<b>Total transactions with owners in their capacity as owners</b>		324,295	(671,507)	740,107	(320,000)	72,895
<b>Balance at 31 December 2021</b>		<u>324,295</u>	<u>(671,507)</u>	<u>593,341</u>	<u>139,062</u>	<u>385,191</u>
<b>Balance at 1 January 2022</b>		324,295	(671,507)	593,341	139,062	385,191
Profit for the period		–	–	–	24,255	24,255
<b>Total comprehensive income</b>		–	–	–	24,255	24,255
Transactions with owners in their capacity as owners:						
– Share-based payments – deemed contribution from Lepu Medical	28	–	–	7,801	–	7,801
<b>Total transactions with owners in their capacity as owners</b>		–	–	7,801	–	7,801
<b>Balance at 30 June 2022</b>		<u>324,295</u>	<u>(671,507)</u>	<u>601,142</u>	<u>163,317</u>	<u>417,247</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<i>Note</i>	<u>Share capital</u>	<u>Treasury stock</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Unaudited</b>						
<b>Balance at 1 January 2021</b>		–	–	(146,766)	400,365	253,599
Profit for the period		–	–	–	41,767	41,767
<b>Total comprehensive income</b>		–	–	–	41,767	41,767
Transactions with owners in their capacity as owners:						
– Issuance of shares to Lepu Medical	27	277,200	–	(277,200)	–	–
– Issuance of shares to Target Medical	27	2,800	–	4,409	–	7,209
– Issuance of shares to Ningbo Jiacheng and Ningbo Jiadu		14,737	–	36,547	–	51,284
– Issuance of shares to [REDACTED]		29,558	–	580,182	–	609,740
– Deemed distributions	27(a)	–	–	(72,167)	–	(72,167)
– Deemed contributions	27(a)	–	–	446,079	–	446,079
– Recognition of redemption liabilities	30	–	(671,507)	–	–	(671,507)
– Share-based payments – deemed contribution from Lepu Medical	28	–	–	3,952	–	3,952
– Dividends to shareholder	37	–	–	–	(320,000)	(320,000)
<b>Total transactions with owners in their capacity as owners</b>		324,295	(671,507)	721,802	(320,000)	54,590
<b>Balance at 30 June 2021</b>		<u>324,295</u>	<u>(671,507)</u>	<u>575,036</u>	<u>122,132</u>	<u>349,956</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Note	Year ended 31 December			Six months ended 30 June	
		2019	2020	2021	2021	2022
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
						(Unaudited)
<b>Cash flows from operating activities</b>						
Cash generated from operations	33(a)	60,836	73,056	104,609	70,996	53,541
Interest received		151	149	1,185	221	1,645
Income tax paid		(6,512)	(14,108)	(516)	(9,464)	(2,521)
<b>Net cash from operating activities</b>		<b>54,475</b>	<b>59,097</b>	<b>105,278</b>	<b>61,753</b>	<b>52,665</b>
<b>Cash flows from investing activities</b>						
Purchases of property, plant and equipment		(3,267)	(2,525)	(22,452)	(6,055)	(9,461)
Purchases of intangible assets		(943)	(1,036)	-	-	(515)
Payments of internal development costs capitalised as intangible assets		(11,817)	(12,104)	(69,388)	(25,896)	(26,598)
Proceeds from sale of property, plant and equipment		-	106	-	-	-
Proceeds from sale of investment properties		2,953	6,056	-	-	-
Proceeds from sale of financial assets at fair value through other comprehensive income		-	1,040	-	-	-
Purchases of wealth management products		-	-	(3,275,000)	-	(2,740,000)
Proceeds from disposal of wealth management products (including investment income)		-	-	3,281,669	-	2,743,809
Placement of bank deposit with initial term of over three months		-	-	-	-	(70,000)
<b>Net cash used in investing activities</b>		<b>(13,074)</b>	<b>(8,463)</b>	<b>(85,171)</b>	<b>(31,951)</b>	<b>(102,765)</b>
<b>Cash flows from financing activities</b>						
Deemed contributions	27(a)	19,604	730,176	446,079	446,079	-
Deemed distributions	27(a)	(60,985)	(777,645)	(72,167)	(72,167)	-
Dividends paid to shareholder	37	-	-	(320,000)	(320,000)	-
Settlements to related parties		-	-	(45,858)	(45,389)	-
Capital contribution from Target Medical	26(a)	-	-	7,209	7,209	-
Capital contribution from Ningbo Jiacheng and Ningbo Jiadu	26(b)	-	-	51,284	51,284	-
Capital contribution from the [REDACTED]	26(c)	-	-	609,740	609,740	-
Payments for [REDACTED] expenses		-	-	(1,683)	(2,815)	(1,886)
Payments for lease liabilities		(483)	(492)	(2,378)	(666)	(342)
<b>Net cash (used in)/from financing activities</b>		<b>(41,864)</b>	<b>(47,961)</b>	<b>672,226</b>	<b>673,275</b>	<b>(2,228)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(463)</b>	<b>2,673</b>	<b>692,333</b>	<b>703,077</b>	<b>(52,328)</b>
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
<b>Cash and cash equivalents at end of the year/period</b>	25	<b>16,119</b>	<b>18,792</b>	<b>713,480</b>	<b>724,781</b>	<b>664,534</b>

## APPENDIX I

## ACCOUNTANT’S REPORT

### II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

#### 1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

##### 1.1 General information

LEPU ScienTech Medical Technology (Shanghai) Co., Ltd. (the “Company”, 樂普心泰醫療科技(上海)股份有限公司) was incorporated as a joint stock limited liability company in the People’s Republic of China (the “PRC” or “China”) on 29 January 2021. The address of its registered office is Room 201, Building 41, No. 258, Xinzhuan Road, Songjiang District, Shanghai, the PRC.

The Company is an investment holding company. The Company and its subsidiary (together referred as to the “Group”) are principally engaged in manufacturing and sales of interventional treatment series occluders for defective congenital heart disease (缺損性先天性心臟病介入治療系列封堵器) and the research and development of biological valve (生物瓣膜) for heart disease (the “[REDACTED] Business”).

Upon incorporation of the Company in January 2021, the Company had a registered capital of RMB280,000,000 and was owned by Lepu Medical Technology (Beijing) Co., Ltd. (樂普(北京)醫療器械股份有限公司) (“Lepu Medical”) and Beijing Target Medical Technologies Co., Ltd. (北京天地和協科技有限公司) (“Target Medical”), as to 99.05% and 0.95%, respectively.

Lepu Medical was incorporated in the PRC on 11 June 1999 whose shares are listed on the Shenzhen Stock Exchange (stock code: 300003) and Target Medical was incorporated in the PRC on 18 November 1999 which is a wholly-owned subsidiary of Lepu Medical.

On 22 February 2021, Ningbo Jiadu Enterprise Management Partnership (Limited Partnership) (“Ningbo Jiadu”) and Ningbo Jiacheng Enterprise Management Partnership (Limited Partnership) (“Ningbo Jiacheng”) (collectively referred to as the “Vehicles”) were incorporated in the PRC under the Company Law of the PRC as vehicles companies to hold the ordinary shares of the Company for the employees under the Employee Share Ownership Plan of 2021 (the “ESOP”). Ningbo Jiadu was designated as ESOP platform of the Group’s employees, and Ningbo Jiacheng was designated as ESOP platform of the Lepu Medical’s employees. As the Group does not have power to govern the relevant activities of the Vehicles nor having the repurchase or settlement obligations to acquire any shares granted under the ESOP, the directors of the Company consider that it is appropriate not to consolidate the Vehicles.

On 28 May 2021, the Company and Vivo Capital Fund IX, L.P (“Vivo Capital Fund IX”), SCC Growth VI Holdco AF, Ltd. (“SCC Growth”), Shanghai Biomedical Industry Equity Investment Fund Partnership (Limited Partnership) (“Shanghai Biomedical”, 上海生物醫藥產業股權投資基金合夥企業(有限合夥)), Huaihua Haozhi Enterprise Management Partnership (Limited Partnership) (“Huaihua Haozhi”, 懷化皓智企業管理合夥企業(有限合夥)) and CDH Supermatrix D Limited (“CDH Supermatrix”) (collectively as the “[REDACTED]”) entered into a capital increase agreement (the “[REDACTED] Shareholders Agreement”), pursuant to which each of the “[REDACTED]” agreed to “[REDACTED]” in the Company by subscription of the increased registered capital of the Company. The cash as injected by the “[REDACTED]” for the subscription of the aforesaid shares of the Company amounted to approximately RMB609,740,000 were fully paid in June 2021.

As of the date of this Historical Financial Information, Lepu Medical, together with its wholly-owned subsidiary, Target Medical, held 86.34% equity interest in the Company (with Lepu Medical and Target Medical directly hold 85.48% and 0.86% equity interests in the Company respectively). Dr. Pu Zhongjie is the actual controller of Lepu Medical. Lepu Medical, Dr. Pu Zhongjie and Target Medical are considered as a group of controlling shareholders of the Company.

In 2021, the Coronavirus Disease 2019 (“COVID-19”) pandemic in China has been effectively contained by the prompt and effective governmental control measures. Benefited from this, the Group’s business volume, financial performance (not considering the impact of non-recurring “[REDACTED]” expenses as incurred) and net cash inflows from its operations are all positively improved in 2021. However, the outbreak of the Omicron and other variants and quarantine measures taken in Shanghai and other cities in the PRC in 2022 had posted impact on the Group’s businesses to certain extent. To cope with the temporary city lock down measures as implemented by the government in the Shanghai city, the Group’s production and sales activities have also been partially suspended from April 2022 and resumed in June 2022. Therefore, the business growth of the Group for the six months ended 30 June 2022 has been temporarily impacted. Considering the uncertainty of the development of COVID-19 pandemic, management of

## APPENDIX I

## ACCOUNTANT’S REPORT

the Company will continue to pay close attention on the development of COVID-19 pandemic and dedicate resources to take any necessary measures on a timely manner to minimise the unfavorable impact on the Group’s businesses and operations in subsequent periods (if any).

### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation as described below, the [REDACTED] Business was carried out by Shanghai Shape Memory Alloy Co., Ltd. (“Shanghai Shape Memory Alloy”), a then wholly-owned subsidiary of Lepu Medical, and the biological valve division within Lepu Medical.

Shanghai Shape Memory Alloy was established in the PRC on 25 February 1994 by Shanghai Shiliupu Material (Group) Company (上海十六鋪物資(集團)公司, “Shiliupu”), an independent third party. Lepu Medical acquired Shanghai Shape Memory Alloy in October 2008 to be its wholly-owned subsidiary and subsequently made additional contribution to Shanghai Shape Memory Alloy.

For the purpose of introduction of domestic and overseas [REDACTED] and preparation for the [REDACTED] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (“HKEx”), the Group underwent a group reorganisation (the “Reorganisation”) to establish the Company as the holding company of the [REDACTED] Business. The Reorganisation mainly involved the following:

- (i) On 24 December 2020, Shanghai Shape Memory Alloy disposed of its entire equity interest in Ningbo Bingkun Medical Devices Co., Ltd. (“Ningbo Bingkun”) to Lepu Medical. Ningbo Bingkun (through its subsidiaries) is principally engaged in the research, development, production and sales of surgical matching device and minimally invasive surgical-related products for use in open surgeries and laparoscopic surgeries which are unrelated to the [REDACTED] Business.
- (ii) On 5 January 2021, Shanghai Shape Memory Alloy acquired the heart valve businesses relating to research and development of biological valve from Lepu Medical. In connection with the above transaction, core research and development scientists and contracts related to biological valve are also transferred to Shanghai Shape Memory Alloy. The transaction was closed on 14 April 2021.

Up to the date of this Historical Financial Information, the key research and development work of certain heart valve products were registered under the name of, and conducted by, Lepu Medical. The Group entered into a framework agreement with Lepu Medical and entrusted Lepu Medical to develop certain heart valve products under the Group’s instruction due to regulatory restrictions and commercial reasons, notwithstanding the fact that Shanghai Shape Memory Alloy became the legal owner of all intellectual properties of the related heart valve businesses.

- (iii) On 29 January 2021, the Company was incorporated as a joint stock limited liability company by Lepu Medical and Target Medical in the PRC, with a registered capital of RMB280 million.
- (iv) On 22 February 2021, Ningbo Jiadu and Ningbo Jiacheng which were established as the shareholding platforms for certain employees of the Group, Lepu Medical and its subsidiaries (excluding the Group). Ningbo Jiadu and Ningbo Jiacheng contributed RMB31,796,000 and RMB19,488,000 to subscribe 9,137,000 and 5,600,000 shares in the Company, respectively in June 2021.
- (v) On 5 March 2021, Lepu Medical injected its entire 100% equity interest in Shanghai Shape Memory Alloy to the Company in exchange for 277,200,000 shares of the Company.

The Group’s cash payments/receipts in connection with Shanghai Shape Memory Alloy’s investment in Ningbo Bingkun, Lepu Medical’s cash injection for the development of the abovementioned heart valve business and also the Group’s payment for the subsequent acquisition of the heart valve business prior to the completion of the Reorganisation have been accounted for as deemed distribution to/contribution from Lepu Medical during the Track Record Period. More details of which have been set out in Note 27(a).

**APPENDIX I**

**ACCOUNTANT’S REPORT**

Upon completion of the Reorganisation and as of the date of this Historical Financial Information, the Company has direct interests in the following subsidiary:

Company name	Country of incorporation	Paid-up capital <i>RMB’000</i>	Attributable equity interest of the Group					Principal activities/ place of operation	Note
			As at 31 December			As at 30 June			
			2019	2020	2021	2022	As at the date of this report		
<b>Directly owned:</b>									
Shanghai Shape Memory Alloy	The PRC	100,000	100%	100%	100%	100%	100%	Manufacturing and sales of interventional treatment series occluders for defective congenital heart disease and the research and development of biological valve for heart disease/The PRC	(1)

- (1) The statutory financial statements for the years ended 31 December 2019 and 2020 were audited by BDO China Shu Lun Pan CPAs and as of the date of the Historical Financial Information, the financial statements for the year ended 31 December 2021 has not yet been audited.
- (2) The English name of the subsidiary referred herein represent the Directors’ best effort at translating the Chinese name of the subsidiary as no English name has been registered.

**1.3 Basis of presentation**

The Historical Financial Information have been prepared by including the historical financial information of the company/division engaged in the [REDACTED] Business and excluding the historical financial information of Ningbo Bingkun, which are under the common control of Lepu Medical immediately before and after the Reorganisation and now comprising the Group as if the current Group structure had been in existence throughout the periods presented, or since the date when the consolidating company/division first came under the control of Lepu Medical, whichever is a shorter period.

The net assets of the consolidating company/division were consolidated using the existing book values from Lepu Medical’s perspective. No amount is recognised in consideration for goodwill or excess of acquirer’s interest in the acquiree’s fair value of identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party’s interest.

As required by the relevant PRC rules and regulations with respect to the Reorganisation and the incorporation of the Company, the equity interest of Shanghai Shape Memory Alloy contributed from Lepu Medical are stated at revaluation cost by reference to a valuation report.

Inter-company transactions, balances and unrealised gains/losses on transactions between the Company and its subsidiary are eliminated on consolidation.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

#### 2.1 Basis of preparation

##### (i) *Compliance with International Financial Reporting Standards (“IFRSs”)*

The Historical Financial Information of the Company has been prepared in accordance with all applicable IFRSs issued by International Accounting Standards Board (“IASB”).

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on or after 1 January 2022, are consistently applied to the Group throughout the Track Record Period.

The preparation of the financial information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information, are disclosed in Note 4.

##### (ii) *Historical cost convention*

The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value (either through other comprehensive income (“OCI”) or through profit or loss), which were carried at fair value.

##### (iii) *New or amended standards issued but not yet adopted*

The following new or amended standards have been published (which may be applicable to the Group) but not mandatory for the reporting periods ended 30 June 2022 and have not been early adopted by the Group:

		<u>Effective date</u>
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred tax relate to assets and liabilities arising from a single transaction	1 January 2023

Management of the Company has assessed and concluded that the abovementioned new or amended standards did not have any significant impact on the amounts recognised in prior years and are not expected to significantly affect the current or future periods.



## APPENDIX I

## ACCOUNTANT’S REPORT

### 2.2 Principles of consolidation

Subsidiaries are all entities (including controlled entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries (if applicable) are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and balance sheet respectively.

### 2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations (excluding those involving the entities under common control), regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises (if applicable):

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; or
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company.

### 2.6 Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Historical Financial Information are presented in RMB, which is the Company’s functional and presentation currency and also the functional currency of the subsidiary.

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within “Other income and gains/(losses) – net”.

### 2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment (if any). 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 recognised 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 derecognised 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 costs, net of their residual values, over their estimated useful lives as follows:

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

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (Note 2.11).

## APPENDIX I

## ACCOUNTANT’S REPORT

Gains and losses on disposals are determined by comparing proceeds with carrying amount are recognised in profit or loss and presented as “Other income and gains/(losses) – net” in the consolidated statement of profit or loss and other comprehensive income.

### 2.8 Investment properties

Investment properties comprise buildings, held for long-term rental yields or for capital appreciation or both and not occupied by the Group, and is measured initially at its cost, including related transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties, which are stated at historical costs less accumulated depreciation and accumulated impairment losses (if any). Depreciation of investment properties is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 30-40 years.

An investment property’s carrying amount is written down immediately to its recoverable amount if the investment property’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit and loss.

### 2.9 Intangible assets

#### (i) Patents and licences

Patents and licences acquired in a business combination are recognised at fair value at the acquisition date. Patents and licences which have finite useful lives are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 3-10 years (representing the remaining lives of the registered patent period and licenses period as approved by administrative authorities or the period after considering the expected administrative extension of the related licenses) from the point at which the asset is ready for use.

#### (ii) Purchased software

Purchased software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 10 years. Costs associated with maintaining computer software programs are recognised as expense as incurred.

#### (iii) Research and development

Research and development cost comprise all costs that are directly attributable to research and development activities (relating to the design and testing of new or improved high end medical instruments) or that can be allocated on a reasonable basis to such activities. Research and development costs are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the medical instruments so that it will be available for use or sale;
- management intends to complete the medical instruments and use or sell it;
- there is an ability to use or sell the medical instruments;
- it can be demonstrated how the medical instruments will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the medical instruments are available; and
- the expenditure attributable to the medical instruments during its development phase can be reliably measured.

Other development expenditures that do not meet these criteria are charged to expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 2.10 Goodwill

Goodwill is measured as described in Note 2.3. Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses (if any). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

### 2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or not available for use are not subject to amortisation 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 recognised 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 costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are 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.

### 2.12 Investments and other financial assets

#### (i) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity’s 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 OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### (ii) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## APPENDIX I

## ACCOUNTANT’S REPORT

### (iii) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

#### *Debt instruments*

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised 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 amortised 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 recognised directly in profit or loss and presented in “Other income and gains/(losses) – net” together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss and other comprehensive income.
- **FVOCI:** 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 FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). 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/(losses) – net” and impairment expenses are presented as separate line item in the consolidated statement of profit or loss and other comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within “Other income and gains/(losses) – net” in the period in which it arises.

#### *Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in OCI, 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 recognised in profit or loss as other income when the Group’s right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in “Other income and gains/(losses) – 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 FVOCI are not reported separately from other changes in fair value.

### (iv) *Impairment*

The Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Notes 3.1(b) and 23 for further details.

---

## APPENDIX I

## ACCOUNTANT’S REPORT

---

### 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets where the Group currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

### 2.14 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. 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 realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.15 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 recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 23 for further information about the Group’s accounting for trade receivables and Note 3.1(b) for a description of the Group’s impairment policies.

### 2.16 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction, net of tax, from the proceeds.

Treasury stock is recorded to reflect the carrying amount of the redemption liabilities when it is initially reclassified from equity, and will be reversed when the redemption liabilities are derecognised upon when the Group’s obligations in connection with those redemption liabilities are discharged, cancelled or have expired which will then be reclassified back to equity (Note 2.23).

### 2.18 Trade and other payables

Trade and other payables mainly represent the obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## APPENDIX I

## ACCOUNTANT'S REPORT

### 2.19 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 income tax assets and liabilities attributable to temporary differences and to 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 with respect to 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 arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised 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 realised or the deferred income tax liability is settled.

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

Deferred income tax liabilities and assets are not recognised 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 it is probable that 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 income tax assets and liabilities and where the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

### 2.20 Employee benefits

#### (a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

#### (b) *Pension, housing funds, medical insurances and other social insurances obligations*

Employees of the Group are covered by various government-sponsored defined-contribution pension plans in the PRC under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 2.21 Share-based payments

The fair value of awarded shares granted to employees under the ESOP less amount paid by employees is recognised as an employee benefits expense over the relevant service period, being the vesting period of the shares, and the credit is recognised in equity in the share-based payment reserves. The fair value of the shares is measured at the grant date. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserves. Where shares are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such shares are reversed effective at the date of the forfeiture.

### 2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.23 Redemption liabilities

A contract that contains an obligation to purchase the Company’s equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount, even if the Company’s obligations to purchase is conditional on the counterparty exercising a right to redeem. The Company undertakes such redemption obligations as certain preferred rights are granted to investors in the Company’s financing process. The related redemption liabilities are recognised as financial liabilities initially at fair value (representing the present value of the estimated redemption amount) and reclassified from equity. Subsequently, the redemption liabilities are measured at amortized cost with interest charged in finance costs.

The Group derecognises the redemption liabilities when, and only when, the Group’s obligations are discharged, cancelled or have expired. When the preferred rights are waived by investors, the carrying amount of redemption liability is reclassified back to equity.

### 2.24 Revenue recognition

Revenue is recognised as and when the 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 (the “transaction price”).

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with using the same approach as for trade receivables. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. There is normally no significant cost to obtain contract.



## APPENDIX I

## ACCOUNTANT'S REPORT

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The following is a description of the accounting policy for the principal revenue stream of the Group.

*(a) Sale of goods*

Sales are recognised when control of the products has transferred, being when the products are delivered to the customers or consumed by hospitals for direct sales to hospitals, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been transferred to the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold to major customers with retrospective volume rebates based on aggregate sales over a 12-month period. In addition, the Group has also contracted with certain major customers for granting them with the rights to claim for the Group's delivery of additional units of products (capped at a pre-determined ratio to the customer's purchases of the Group's products over a 12-month period) under certain pre-agreed circumstances which are irrelevant to the quality and functionality of the Group's products (the "claims for additional units"). Revenue from these sales is recognised based on the price specified in the respective contracts, net of the estimated volume rebates and the estimated claims for additional units. Accumulated experience is used to estimate and provide for the discounts and claims, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Revenue is recognised net of value-added taxes and volume rebates and claims for additional units as mentioned above (if applicable). Revenue is measured at the fair value of the consideration received or receivable.

As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

### 2.25 Earnings per share

To calculate earnings per share, after the period when the establishment of the Company.

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

*(b) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the [REDACTED] of all dilutive potential ordinary shares.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 2.26 Leases as lessee

The Group leases properties in the PRC as lessee. Rental contracts are typically made for fixed periods of 2-5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (if applicable):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implied in the lease, if that rate can be determined, or the respective incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following (if applicable):

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

### 2.27 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### 2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 3 FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. Risk management is carried out by the management of the Group. The Group currently does not use any derivative financial instruments to hedge certain risk exposure.

#### 3.1 Financial risk factors

##### (a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the functional currency of respective group entities. RMB is the functional currency of both the Company and its subsidiary.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency other than RMB. Certain trade payables, redemption liabilities, trade receivables and cash and cash equivalents are denominated in foreign currencies other than RMB and hence exposed the Group to foreign currency risk. The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

Most foreign exchange transactions were denominated in USD for the group entities that have functional currency in RMB. As at 31 December 2019, 2020 and 2021 and 30 June 2022, if the USD strengthened/weakened by 5% against the RMB, with all other variables held constant, net profit for the year/period would have been approximately RMB24,000 lower/higher, RMB104,000 lower/higher, RMB19,002,000 lower/higher and RMB19,880,000 lower/higher, respectively.

##### (b) Credit risk

Credit risk mainly arises from bank deposit with initial term of over three months, cash and cash equivalents, trade receivables and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in consolidated balance sheets.

The Group expects that there is no significant credit risk associated with bank deposit with initial term of over three months and cash and cash equivalents since they are deposited at state-owned banks or reputable commercial banks which are high-credit-quality financial institutions. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group has the following types of financial assets subject to expected credit loss model:

- trade receivables
- other receivables

##### (i) Credit risk of trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical credit losses and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product and the Producer Price Index in China (the prime location where it sells its goods) to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

On that basis, the loss allowance as at 31 December 2019, 2020 and 2021 and 30 June 2022 were determined as follows for trade receivables:

	<b>No more than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>At 31 December 2019</b>					
Expected loss rate (%)	2%	3%	4%	43%	16%
Gross carrying amount – trade receivables (RMB’000)	12,630	10,557	13,426	17,219	53,832
Loss allowance (RMB’000)	(245)	(278)	(505)	(7,473)	(8,501)
	<b>No more than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>At 31 December 2020</b>					
Expected loss rate (%)	3%	5%	7%	54%	16%
Gross carrying amount – trade receivables (RMB’000)	11,563	10,900	12,802	10,401	45,666
Loss allowance (RMB’000)	(379)	(498)	(883)	(5,589)	(7,349)
	<b>No more than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>At 31 December 2021</b>					
Expected loss rate (%)	5%	8%	12%	90%	26%
Gross carrying amount – trade receivables (RMB’000)	8,140	8,412	8,780	6,825	32,157
Loss allowance (RMB’000)	(447)	(662)	(1,038)	(6,141)	(8,288)
	<b>No more than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>At 30 June 2022</b>					
Expected loss rate (%)	5%	9%	18%	73%	27%
Gross carrying amount – trade receivables (RMB’000)	15,649	7,957	9,205	11,981	44,792
Loss allowance (RMB’000)	(779)	(727)	(1,691)	(8,712)	(11,909)

**APPENDIX I**

**ACCOUNTANT’S REPORT**

Trade receivables are written off where there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. Movements in the loss allowance for trade receivables during the respective year/period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
At beginning of the year/period	(6,879)	(8,501)	(7,349)	(7,349)	(8,288)
(Provision for)/reversal of impairment of trade receivables	(1,622)	1,152	(939)	(1,040)	(3,621)
At end of the year/period	<u>(8,501)</u>	<u>(7,349)</u>	<u>(8,288)</u>	<u>(8,389)</u>	<u>(11,909)</u>

(ii) *Credit risk of other receivables*

For other receivables, management makes periodic assessments as well as individual assessment on the recoverability based on historical settlement records, experience and forward-looking information on macroeconomic factors affecting the ability of the counterparties to settle the receivables. Movements in the loss allowance for other receivables during the respective year/period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
At beginning of the year/period	(1,014)	(1,180)	(1,660)	(1,660)	(188)
(Provision for)/reversal of impairment of other receivables	(166)	(480)	1,472	1,504	(548)
At end of the year/period	<u>(1,180)</u>	<u>(1,660)</u>	<u>(188)</u>	<u>(156)</u>	<u>(736)</u>

(c) *Liquidity risk*

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the policy of the Group is to regularly monitor the Group’s liquidity risk and to maintain adequate cash and cash equivalents to meet the Group’s liquidity requirements.

The table below analyses the Group’s non-derivative financial liabilities that will be settled into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The following table presents the Group’s contractual maturities of financial liabilities as at 31 December 2019, 2020 and 2021 and 30 June 2022:

	<b>Less than 1 year</b>	<b>Between 1-2 years</b>	<b>More than 2 years</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 31 December 2019</b>				
Trade and other payables (excluded other taxes payable and employee benefit payables)	48,893	–	–	48,893
Lease liabilities	426	–	–	426
	<u>49,319</u>	<u>–</u>	<u>–</u>	<u>49,319</u>
<b>As at 31 December 2020</b>				
Trade and other payables (excluded other taxes payable and employee benefit payables)	51,623	–	–	51,623
Lease liabilities	119	–	–	119
	<u>51,742</u>	<u>–</u>	<u>–</u>	<u>51,742</u>
<b>As at 31 December 2021</b>				
Trade and other payables (excluded other taxes payable and employee benefit payables)	13,994	–	–	13,994
Lease liabilities	2,247	2,089	3,071	7,407
	<u>16,241</u>	<u>2,089</u>	<u>3,071</u>	<u>21,401</u>
<b>As at 30 June 2022</b>				
Trade and other payables (excluded other taxes payable and employee benefit payables)	40,072	–	–	40,072
Lease liabilities	2,155	2,131	2,475	6,761
	<u>42,227</u>	<u>2,131</u>	<u>2,475</u>	<u>46,833</u>

The redemption liabilities with carrying amounts of approximately RMB679,986,000 (estimated undiscounted cash flow amounts of RMB701,066,000) and RMB720,861,000 (estimated undiscounted cash flow amounts of RMB732,072,000) as at 31 December 2021 and 30 June 2022 respectively (Note 30) have not been included in the analysis above as it is not managed by maturity date by the management of the Company.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**3.2 Capital risk management**

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

In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt. The Group monitors capital (including share capital and other reserves) by regularly reviewing the capital structure. As a part of this review, the Company considers the cost of capital and the risks associated with the issued share capital. In the opinion of the directors of the Company, the Group’s capital risk is low as it does not have any external borrowings as of the respective balance sheet dates.

**3.3 Fair value estimation**

*(a) Financial assets and liabilities*

*(i) Fair value hierarchy*

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the Historical Financial Information. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The fair values of the financial assets and liabilities measured at amortised cost approximate their carrying amounts as at 31 December 2019, 2020 and 2021 and 30 June 2022.

There are no financial liabilities that were measured at fair value as at 31 December 2019, 2020 and 2021 and 30 June 2022 and there are no financial assets that were measured at fair value as at 31 December 2020 and 2021.

The following table presents the Group’s financial assets that were measured at fair value at 31 December 2019 and 30 June 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>At 31 December 2019</b>				
Financial assets at FVOCI	–	–	849	849
<b>At 30 June 2022</b>				
Financial assets at FVPL	–	–	1,004	1,004

The Group’s policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

## APPENDIX I

## ACCOUNTANT'S REPORT

### *(ii) Valuation techniques used to determine fair values*

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

For unlisted equity securities where the fair values have been determined based on present values and the discount rates used were adjusted for the counterparty own credit risk. The directors of the Company have not identified that a reasonable change in any of the inputs that could cause the significant change of fair value. Accordingly, the directors of the Company have concluded not to disclose the details on the qualitative and quantitative sensitivity of changes in unobservable inputs.

### *(iii) Valuation processes*

The finance department of the Group performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values, and report directly to the chief financial officer ("CFO"). Discussions of valuation processes and results are held between the CFO and the finance personnels responsible for valuations on a periodical basis, in line with the Group's reporting periods.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- Discount rates for financial assets were determined using a capital asset pricing model to calculate discount rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Credit risk factors specific to the Group (including assumptions about credit default rates) are derived from credit risk gradings determined by the Group's internal credit risk management group.
- Expected revenue growth and profit margins factors for unlisted equity securities are estimated based on market information of comparable companies with similar business.

There were no changes in valuation techniques during the Track Record Period. There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the Track Record Period.

### *(iv) Fair value measurements using significant unobservable inputs (level 3)*

During the Track Record Period, the valuation of level 3 instruments mainly included investment in wealth management products issued by banks. As these instruments are not traded in an active market, their fair values have been determined by income approach to use a discounted cash flow analysis with an expected rate of return.

All the wealth management products were mature within one year with variable return rates indexed to the performance of underlying assets. The fair values were determined based on discounted cash flow assuming the expected return will be obtained upon maturity.



**APPENDIX I**

**ACCOUNTANT’S REPORT**

The following table presents the changes in level 3 items for the year ended 31 December 2021 and the six months ended 30 June 2022:

	<b>FVPL</b>
	<i>RMB'000</i>
Opening balance as at 1 January 2021	–
Acquisitions	3,275,000
Disposals	(3,281,669)
Gains recognised in other income ( <i>Note 10</i> )	6,669
	<hr/>
Closing balance as at 31 December 2021	–
	<hr/> <hr/>
Opening balance as at 1 January 2022	–
Acquisitions	2,740,000
Disposals	(2,743,809)
Gains recognised in other income ( <i>Note 10</i> )	4,813*
	<hr/>
Closing balance as at 30 June 2022	1,004
	<hr/> <hr/>
* Includes unrealised gains recognised in profit or loss attributable to balances held as at 30 June 2022	4
	<hr/> <hr/>

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements for the year ended 31 December 2021 and the six months ended 30 June 2022:

		<b>Range of inputs</b>		
		<b>For the year ended 31 December 2021</b>	<b>For the six months ended 30 June 2022</b>	
<b>Significant unobservable inputs</b>	<b>Expected</b>	<b>Relationship of unobservable inputs to fair values</b>		
Investment in wealth management products issued by banks	Expected return rate	2.09% to 3.00%	2.04%	The higher the expected return rate, the higher the fair value

For investment in wealth management products issued by banks, the directors of the Company have not identified that a reasonable change in any of the inputs that could cause the significant change of fair value. Accordingly, the directors of the Company have concluded not to disclose the details on the quantitative sensitivity of changes in unobservable inputs.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 4 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group’s accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### (i) Estimated impairment of goodwill and intangible assets not subject to amortisation

The Group tests whether goodwill and intangible assets not subject to amortisation has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (“CGU”) is determined based on the higher of fair value less costs of disposal or value-in-use calculations which involved significant management’s judgement and estimates. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period or a longer period where applicable. Cash flows beyond the periods as covered by the management approved budget are extrapolated using the estimated growth rates. Details of impairment assessment, the key assumptions adopted and management’s judgment applied in the assessment are disclosed in Notes 17 and 18.

#### (ii) Capitalisation of development costs

As of the 31 December 2019, 2020 and 2021 and 30 June 2022, the carrying amount of the Group’s development costs as capitalised as intangible assets amounted to approximately RMB53,401,000, RMB41,927,000, RMB92,025,000 and RMB103,346,000, respectively.

The determination of the capitalisation amounts involved management’s judgement in assessing of whether technical and commercial feasibility of each project had been achieved. Technical feasibility is evaluated based on testing results of products and commercial feasibility are evaluated based on forecast with assumptions on revenue to be generated, budget costs to be incurred and relevant market analysis of the relevant products.

#### (iii) Estimated useful lives and residual values of property, plant and equipment and technologies

The Group’s management determines the estimated useful lives, residual values and related depreciation and amortisation charges for the Group’s property, plant and equipment and patents for technologies with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore changing the depreciation and amortisation charges in future periods.

#### (iv) Provision of expected credit loss (“ECL”) for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group’s historical default rates taking into consideration both quantitative and qualitative information that is reasonable and supportable including forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group’s trade receivables are disclosed in Notes 3.1(b) and 23.

#### (v) Allocation of transaction price to performance obligations

Revenue arrangements with distinct performance obligation are divided into separate units of accounting and the transaction price is allocated based on relative stand-alone selling prices.

Significant assumptions and estimates have been made in estimating the number of units to be claimed for each of distinct performance obligation, and changes in judgments on these assumptions and estimates could materially impact the timing of revenue recognition.

## APPENDIX I

## ACCOUNTANT’S REPORT

### (vi) Fair value of restricted share granted and share-based payment recognised under the ESOP

The Group has adopted the ESOP for the Group’s certain employees in 2021. The fair value of the restricted shares granted to employees is determined by using the discounted cash flow method to determine the underlying equity fair value of the Company and equity allocation based on Option Pricing model (“OPM model”) to determine the fair value of common shares. Significant estimates on assumptions, such as risk-free interest rate, volatility, dividend yield and lack of marketability discount are made based on management’s best estimates. Further details are included in Note 28.

The Group has to estimate the expected forfeiture rate at the end of vesting periods (the “Forfeiture Rate”) of the restricted shares granted in order to determine the amount of share-based payment expenses charged to the profit or loss for each year/period. As at 31 December 2021 and 30 June 2022, management of the Company has assessed and concluded that the expected Forfeiture Rate of the restricted shares awarded of the Group are to be nil and 12.7%, respectively.

## 5 SEGMENT INFORMATION

### Description of segments and principal activities

The Group’s business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resource and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

The CODM assessed the performance of the reportable operating segments mainly based on segment revenue, cost of sales, research and development expenses of each reportable operating segment. Thus, segment result would present revenue, cost of sales, research and development expenses and gross profit for each reportable operating segment, which is in line with CODM’s performance review.

The Group’s reportable operating segments are as follows:

#### Occluder Business

Occluder Business is primarily operated by Shanghai Shape Memory Alloy, which is engaged in the business of research, development and sales of interventional treatment series occluders for defective congenital heart disease.

#### Heart Valve Business

Heart Valve Business is primarily operated by the Beijing Branch of Shanghai Shape Memory Alloy, which is currently engaged in the business of research and development of heart valve medical devices.

There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources to or evaluate the performance of the operating segments.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The segment information provided to the Group’s CODM for reportable segments for the respective years/periods is as follows:

	<b>Year ended 31 December 2019</b>		
	<b>Occluder Business</b>	<b>Heart Valve Business</b>	<b>Total</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	116,451	–	116,451
Cost of sales	(13,619)	–	(13,619)
<b>Gross profit</b>	<b>102,832</b>	<b>–</b>	<b>102,832</b>
Research and development expenses	(8,020)	(17,810)	(25,830)
<b>Segment profit/(loss)</b>	<b>94,812</b>	<b>(17,810)</b>	<b>77,002</b>
Unallocated items			
– Distribution expenses			(21,760)
– General and administrative expenses			(8,981)
– Net provision for impairment losses on financial assets			(1,788)
– Other income and gains – net			15,746
– Finance income – net			127
<b>Profit before income tax</b>			<b>60,346</b>

	<b>Year ended 31 December 2020</b>		
	<b>Occluder Business</b>	<b>Heart Valve Business</b>	<b>Total</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Revenue	148,247	–	148,247
Cost of sales	(15,134)	–	(15,134)
<b>Gross profit</b>	<b>133,113</b>	<b>–</b>	<b>133,113</b>
Research and development expenses	(11,234)	(27,723)	(38,957)
<b>Segment profit/(loss)</b>	<b>121,879</b>	<b>(27,723)</b>	<b>94,156</b>
Unallocated items			
– Distribution expenses			(23,146)
– General and administrative expenses			(8,383)
– Net reversal of impairment losses on financial assets			672
– Other income and gains – net			13,238
– Finance income – net			142
<b>Profit before income tax</b>			<b>76,679</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<b>Year ended 31 December 2021</b>		
	<b>Occluder Business</b>	<b>Heart Valve Business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	222,583	–	222,583
Cost of sales	(25,038)	–	(25,038)
<b>Gross profit</b>	<b>197,545</b>	<b>–</b>	<b>197,545</b>
Research and development expenses	(18,561)	(22,826)	(41,387)
<b>Segment profit/(loss)</b>	<b>178,984</b>	<b>(22,826)</b>	<b>156,158</b>
Unallocated items			
– Distribution expenses			(43,072)
– General and administrative expenses			(59,874)
– Net reversal of impairment losses on financial assets			533
– Other income and gains – net			22,642
– Finance costs – net			(10,360)
<b>Profit before income tax</b>			<b>66,027</b>

	<b>Six months ended 30 June 2021 (Unaudited)</b>		
	<b>Occluder Business</b>	<b>Heart Valve Business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	110,968	–	110,968
Cost of sales	(11,884)	–	(11,884)
<b>Gross profit</b>	<b>99,084</b>	<b>–</b>	<b>99,084</b>
Research and development expenses	(5,823)	(10,623)	(16,446)
<b>Segment profit/(loss)</b>	<b>93,261</b>	<b>(10,623)</b>	<b>82,638</b>
Unallocated items			
– Distribution expenses			(17,383)
– General and administrative expenses			(24,457)
– Net reversal of impairment losses on financial assets			464
– Other income and gains – net			4,401
– Finance costs – net			(693)
<b>Profit before income tax</b>			<b>44,970</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<b>Six months ended 30 June 2022</b>		
	<b>Occluder Business</b>	<b>Heart Valve Business</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	124,804	–	124,804
Cost of sales	(15,322)	–	(15,322)
<b>Gross profit</b>	109,482	–	109,482
Research and development expenses	(7,490)	(12,147)	(19,637)
<b>Segment profit/(loss)</b>	<b>101,992</b>	<b>(12,147)</b>	<b>89,845</b>
Unallocated items			
– Distribution expenses			(16,626)
– General and administrative expenses			(16,402)
– Net provision for impairment losses on financial assets			(4,169)
– Other income and gains/(losses) – net			(18,289)
– Finance costs – net			(9,053)
<b>Profit before income tax</b>			<b>25,306</b>

*Note:*

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, the research and development expenses capitalised as intangible assets and not included in the segment information above amounted to approximately RMB12,236,000, RMB12,411,000, RMB74,996,000, RMB26,684,000 and RMB28,055,000, respectively.

The major customers which contributed more than 10% of the Group’s total revenue for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 are listed as below:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
Percentage of revenue from the major customers to the Group’s total revenue					
Customer A (Occluder Business)	*	19%	*	*	*

*(Unaudited)*

\* The amount of aggregate revenue from the customer (which is a related company) is less than 10% of the Group’s total revenue for the respective years/periods.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**Analysis of revenue**

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Derived:					
– In the PRC	116,451	148,247	210,259	109,887	105,555
– Outside the PRC	–	–	12,324	1,081	19,249
	<u>116,451</u>	<u>148,247</u>	<u>222,583</u>	<u>110,968</u>	<u>124,804</u>

Revenue is attributed to countries based on the customers’ locations.

**6 REVENUE**

An analysis of the Group’s revenue by category for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 was as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from contracts with customers recognised at a point in time					
– Revenue from sales of medical occluders	<u>116,451</u>	<u>148,247</u>	<u>222,583</u>	<u>110,968</u>	<u>124,804</u>

Revenues from external customers are derived from the sales of medical occluders both directly to hospitals and network of distributors. The Group has recognised revenue-related contract liabilities as set forth in Note 32.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**7 EXPENSES BY NATURE**

The details of cost of sales, distribution expenses, general and administrative expenses and research and development expense are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Employee benefit expense (Note 8)	31,259	32,363	58,546	18,773	31,148
Products testing, pre-clinical trial and animals studies fees	2,606	11,739	11,254	5,535	2,807
Changes in inventories of finished goods and work in progress	(315)	(3,541)	(12,505)	(3,199)	(2,814)
Raw materials and consumables used for					
– products production	5,935	9,394	22,804	8,963	8,533
– research and development	4,129	6,834	9,536	4,817	5,704
	10,064	16,228	32,340	13,780	14,237
Consulting services fees	6,016	7,201	7,845	3,538	1,748
Amortisation of intangible assets (Note 18)	250	1,511	4,182	1,365	3,458
Depreciation of					
– property, plant and equipment (Note 14)	2,978	3,028	2,882	1,466	1,685
– right-of-use assets (Note 15)	459	470	1,673	558	1,190
– investment properties (Note 16)	1,030	1,105	1,070	535	451
	4,467	4,603	5,625	2,559	3,326
Travelling expenses	5,120	3,714	7,020	2,979	1,637
Utilities and office expenses	2,270	3,531	3,349	788	948
Taxes and surcharges	2,412	2,427	5,836	2,406	1,693
Marketing expenses	2,448	2,168	7,134	1,848	3,046
Transportation costs	868	784	1,374	474	555
[REDACTED] expenses	–	–	32,690	17,219	5,124
Others	2,725	2,892	4,681	2,105	1,074
<b>Total</b>	<b>70,190</b>	<b>85,620</b>	<b>169,371</b>	<b>70,170</b>	<b>67,987</b>



**APPENDIX I**

**ACCOUNTANT’S REPORT**

**8 EMPLOYEE BENEFIT EXPENSE**

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Wages, salaries and bonuses	30,593	33,246	41,529	18,235	23,042
Social security costs and housing benefits	6,119	4,782	8,091	2,817	5,693
Other employee welfares	821	511	687	384	170
Share-based payment expenses	–	–	22,257	3,952	7,801
	37,533	38,539	72,564	25,388	36,706
Less: amounts capitalised as intangible assets	(6,274)	(6,176)	(14,018)	(6,615)	(5,558)
Amount charged to profit or loss	31,259	32,363	58,546	18,773	31,148
Representing amounts charged to:					
– cost of sales	4,716	4,794	7,224	3,061	4,667
– distribution expenses	6,254	7,867	18,699	6,664	9,208
– general and administrative expenses	4,237	3,889	17,141	4,523	9,045
– research and development expenses	16,052	15,813	15,482	4,525	8,228
	31,259	32,363	58,546	18,773	31,148

(a) The employees of the Group in the PRC have participated in state-managed pension scheme operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contribution under the scheme.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years/periods include 2, 2, 2, 2 and 2 directors for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively. The emoluments payable to the remaining 3, 3, 3 and 3 highest paid individuals for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 respectively are as below:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Wages, salaries and bonuses	1,560	1,958	2,096	1,032	933
Social security costs and housing benefits	334	182	325	164	135
Share-based payments	–	–	1,821	357	1,247
	1,894	2,140	4,242	1,553	2,315

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The emoluments of the non-director highest paid individuals fell within the following bands:

Emolument bands (in HK dollar)	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
HK\$1 – HK\$500,000	–	–	–	2	–
HK\$500,001 – HK\$1,000,000	3	3	–	1	2
HK\$1,000,001 – HK\$1,500,000	–	–	1	–	1
HK\$1,500,001 – HK\$2,000,000	–	–	1	–	–
HK\$2,000,001 – HK\$2,500,000	–	–	1	–	–
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

**9 NET PROVISION FOR/(REVERSAL OF) IMPAIRMENT LOSSES ON FINANCIAL ASSETS**

Net provision for/(reversal of) loss allowance on:	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
– trade receivables	1,622	(1,152)	939	1,040	3,621
– other receivables	166	480	(1,472)	(1,504)	548
	<u>1,788</u>	<u>(672)</u>	<u>(533)</u>	<u>(464)</u>	<u>4,169</u>

APPENDIX I

ACCOUNTANT’S REPORT

10 OTHER INCOME AND GAINS/(LOSSES) – NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Government grants	8,998	5,630	7,743	4,476	2,574
Commission income from related party (Note 21(a))	–	–	–	–	734
Rental income from investment properties (Note 16(a))	3,027	2,454	2,564	1,253	215
Investment income on wealth management products	–	–	6,669	–	4,809
Others	1,234	249	414	378	40
Other income	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 FVPL	–	–	–	–	4
Net loss on disposal of financial assets at FVOCI	–	(139)	–	–	–
Net loss on disposal/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
Other gains/(losses) – net	2,487	4,905	5,252	(1,706)	(26,661)
<b>Other income and gains/(losses) – net</b>	<b>15,746</b>	<b>13,238</b>	<b>22,642</b>	<b>4,401</b>	<b>(18,289)</b>

11 FINANCE INCOME/(COSTS) – NET

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
<b>Finance income:</b>					
Bank interest income	151	149	1,185	221	1,645
<b>Finance costs:</b>					
Interest expense on lease liabilities	(24)	(7)	(229)	(66)	(175)
Interest expense on redemption liabilities	–	–	(11,316)	(848)	(10,523)
	(24)	(7)	(11,545)	(914)	(10,698)
<b>Finance income/(costs) – net</b>	<b>127</b>	<b>142</b>	<b>(10,360)</b>	<b>(693)</b>	<b>(9,053)</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**12 INCOME TAX EXPENSE**

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current income tax charge	11,238	4,273	12,429	7,882	8,557
Deferred income tax (credit)/charge	(2,801)	3,634	(5,099)	(4,679)	(7,506)
<b>Income tax expense</b>	<b>8,437</b>	<b>7,907</b>	<b>7,330</b>	<b>3,203</b>	<b>1,051</b>

Shanghai Shape Memory Alloy is qualified as a “High and New Technology Enterprise (“HNTE”)” under the relevant PRC laws and regulations on 23 October 2017 (status renewed on 18 November 2020). Accordingly, it was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022. Shanghai Shape Memory Alloy is subject to the requirement for re-applying for the renewal of this HNTEs status every three years.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that has been effective from 2018 to 2020, enterprise engaging in research and development activities are entitled to claim 175% (raised to 200% from 2021 onwards) of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (the “super deduction”).

**Reconciliation of income tax expense**

A reconciliation of the expected income tax calculated at the applicable tax rate and profit before income tax, with the actual income tax is as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit before income tax	60,346	76,679	66,027	44,970	25,306
Tax calculated at the PRC statutory income tax rate (25%)	15,087	19,170	16,507	11,243	6,327
Tax effect of:					
Preferential tax rate	(6,035)	(7,669)	(10,207)	(6,476)	(6,220)
Expenses not deductible for tax purpose	253	301	6,726	857	4,012
Super deduction for research and development expenses	(868)	(3,895)	(5,696)	(2,421)	(3,068)
	<b>8,437</b>	<b>7,907</b>	<b>7,330</b>	<b>3,203</b>	<b>1,051</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**13 EARNINGS PER SHARE**

**(a) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during each year/period. The basic earnings per share for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 is calculated on the profit attributable to owners of the Company and on the assumption that 277.2 million shares issued upon the incorporation of the Company in connection with the Reorganisation were deemed to have been in issue since 1 January 2019.

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
				<i>(Unaudited)</i>	
Profit attributable to owners of the Company for the years/periods (RMB’000)	51,909	68,772	58,697	41,767	24,255
Weighted average number of ordinary shares in issue (in thousands) <i>(note)</i>	277,200	277,200	303,883	283,134	324,295
Basic earnings per share (in RMB per share)	<u>0.19</u>	<u>0.25</u>	<u>0.19</u>	<u>0.15</u>	<u>0.07</u>

*Note:*

The 29,558,155 shares subscribed by the [REDACTED] (Note 26(c)) are treated as ordinary shares for the purpose to calculate earnings per share as they are recognised in equity and have no preferred right as to dividends compared with ordinary shares. Movement in the number of fully paid ordinary shares outstanding for the reported periods are shown in Note 26.

**(b) Diluted earnings per share**

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**14 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Electronic equipment</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At 1 January 2019</b>						
Cost	80,110	956	13,449	2,263	1,290	98,068
Accumulated depreciation	(7,846)	(839)	(7,203)	(484)	(1,033)	(17,405)
<b>Net book amount</b>	<b>72,264</b>	<b>117</b>	<b>6,246</b>	<b>1,779</b>	<b>257</b>	<b>80,663</b>
<b>Year ended 31 December 2019</b>						
Opening net book amount	72,264	117	6,246	1,779	257	80,663
Additions	–	123	2,497	–	53	2,673
Net transfer to investment properties	(11,613)	–	–	–	–	(11,613)
Write-off	–	(1)	(8)	–	–	(9)
Depreciation charge	(1,926)	(45)	(894)	(266)	(124)	(3,255)
<b>Closing net book amount</b>	<b>58,725</b>	<b>194</b>	<b>7,841</b>	<b>1,513</b>	<b>186</b>	<b>68,459</b>
<b>At 31 December 2019</b>						
Cost	69,716	1,055	15,892	2,263	1,344	90,270
Accumulated depreciation	(10,991)	(861)	(8,051)	(750)	(1,158)	(21,811)
<b>Net book amount</b>	<b>58,725</b>	<b>194</b>	<b>7,841</b>	<b>1,513</b>	<b>186</b>	<b>68,459</b>
<b>Year ended 31 December 2020</b>						
Opening net book amount	58,725	194	7,841	1,513	186	68,459
Additions	–	146	1,592	407	12	2,157
Disposals/write-off	–	(1)	(1)	(123)	–	(125)
Depreciation charge	(1,731)	(79)	(1,149)	(262)	(74)	(3,295)
<b>Closing net book amount</b>	<b>56,994</b>	<b>260</b>	<b>8,283</b>	<b>1,535</b>	<b>124</b>	<b>67,196</b>
<b>At 31 December 2020</b>						
Cost	69,716	1,189	17,477	2,334	1,356	92,072
Accumulated depreciation	(12,722)	(929)	(9,194)	(799)	(1,232)	(24,876)
<b>Net book amount</b>	<b>56,994</b>	<b>260</b>	<b>8,283</b>	<b>1,535</b>	<b>124</b>	<b>67,196</b>
<b>Year ended 31 December 2021</b>						
Opening net book amount	56,994	260	8,283	1,535	124	67,196
Additions	–	983	10,606	–	1,106	12,695
Write-off	–	(1)	–	–	–	(1)
Depreciation charge	(1,622)	(442)	(1,240)	(271)	(54)	(3,629)
<b>Closing net book amount</b>	<b>55,372</b>	<b>800</b>	<b>17,649</b>	<b>1,264</b>	<b>1,176</b>	<b>76,261</b>
<b>At 31 December 2021</b>						
Cost	69,716	2,141	28,083	2,334	2,462	104,736
Accumulated depreciation	(14,344)	(1,341)	(10,434)	(1,070)	(1,286)	(28,475)
<b>Net book amount</b>	<b>55,372</b>	<b>800</b>	<b>17,649</b>	<b>1,264</b>	<b>1,176</b>	<b>76,261</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<b>Buildings</b>	<b>Electronic equipment</b>	<b>Machinery</b>	<b>Vehicles</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Six months ended 30 June 2022</b>						
Opening net book amount	55,372	800	17,649	1,264	1,176	76,261
Additions	974	62	7,192	–	211	8,439
Write-off	–	(1)	–	–	–	(1)
Depreciation charge	(877)	(147)	(1,053)	(136)	(40)	(2,253)
<b>Closing net book amount</b>	<b>55,469</b>	<b>714</b>	<b>23,788</b>	<b>1,128</b>	<b>1,347</b>	<b>82,446</b>
<b>At 30 June 2022</b>						
Cost	70,690	1,841	35,275	2,334	2,673	112,813
Accumulated depreciation	(15,221)	(1,127)	(11,487)	(1,206)	(1,326)	(30,367)
<b>Net book amount</b>	<b>55,469</b>	<b>714</b>	<b>23,788</b>	<b>1,128</b>	<b>1,347</b>	<b>82,446</b>

Depreciation of property, plant, and equipment charged to profit and loss and the amounts of depreciation being capitalised are analysed as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation for the year/period	3,255	3,295	3,629	1,742	2,253
Less: amounts capitalised as intangible assets	(277)	(267)	(747)	(276)	(568)
<b>Amount charged to profit or loss (Note 7)</b>	<b>2,978</b>	<b>3,028</b>	<b>2,882</b>	<b>1,466</b>	<b>1,685</b>
Representing amounts charged to:					
– cost of sales	805	803	839	405	528
– distribution expenses	16	24	50	20	34
– general and administrative expenses	1,539	1,294	1,100	550	717
– research and development expenses	618	907	893	491	406
	<b>2,978</b>	<b>3,028</b>	<b>2,882</b>	<b>1,466</b>	<b>1,685</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**15 RIGHT-OF-USE ASSETS**

**(a) Amounts recognised in the consolidated balance sheets**

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2022</i>
Right-of-use-assets				<i>RMB'000</i>
– Leased buildings	454	216	6,763	5,841

The Group leases various warehouses, staff dormitories and areas for research and development activities. Rental contracts are typically made for fixed periods of 2-5 years without extension option or residual value guarantee.

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

	<u>Leased buildings</u>
	<i>RMB'000</i>
<b>At 1 January 2019</b>	
Cost	804
Accumulated depreciation	(613)
<b>Net book amount</b>	<u>191</u>
<b>Year ended 31 December 2019</b>	
Opening net book amount	191
Additions	722
Depreciation charge	(459)
<b>Closing net book amount</b>	<u>454</u>
<b>At 31 December 2019</b>	
Cost	1,526
Accumulated depreciation	(1,072)
<b>Net book amount</b>	<u>454</u>
<b>Year ended 31 December 2020</b>	
Opening net book amount	454
Additions	232
Depreciation charge	(470)
<b>Closing net book amount</b>	<u>216</u>
<b>At 31 December 2020</b>	
Cost	1,758
Accumulated depreciation	(1,542)
<b>Net book amount</b>	<u>216</u>
<b>Year ended 31 December 2021</b>	
Opening net book amount	216
Additions	8,220
Depreciation charge	(1,673)
<b>Closing net book amount</b>	<u>6,763</u>



**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<u>Leased buildings</u>
	<i>RMB’000</i>
<b>At 31 December 2021</b>	
Cost	8,452
Accumulated depreciation	<u>(1,689)</u>
<b>Net book amount</b>	<b><u>6,763</u></b>
<b>Six months ended 30 June 2022</b>	
Opening net book amount	6,763
Additions	268
Depreciation charge	<u>(1,190)</u>
<b>Closing net book amount</b>	<b><u>5,841</u></b>
<b>At 30 June 2022</b>	
Cost	8,552
Accumulated depreciation	<u>(2,711)</u>
<b>Net book amount</b>	<b><u>5,841</u></b>

(b) Lease liabilities recognised in the consolidated balance sheets as follows:

	<u>As at 31 December</u>			<u>As at</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>30 June</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<u>2022</u>
				<i>RMB’000</i>
Lease liabilities – current	369	116	2,143	1,994
Lease liabilities – non-current	<u>–</u>	<u>–</u>	<u>4,044</u>	<u>4,294</u>
	<b><u>369</u></b>	<b><u>116</u></b>	<b><u>6,187</u></b>	<b><u>6,288</u></b>

(c) Amounts recognised in profit or loss as follows:

	<u>Year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
				<i>(Unaudited)</i>	
Depreciation charge of right-of-use assets (Note 7)	459	470	1,673	558	1,190
Interest expense (Note 11)	<u>24</u>	<u>7</u>	<u>229</u>	<u>66</u>	<u>175</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**16 INVESTMENT PROPERTIES**

	<b>Buildings</b>
	<i>RMB'000</i>
<b>At 1 January 2019</b>	
Cost	37,159
Accumulated depreciation	(4,552)
<b>Net book value</b>	<b>32,607</b>
<b>Year ended 31 December 2019</b>	
Opening net book value	32,607
Disposals	(517)
Net transfer from property, plant and equipment ( <i>Note 14</i> )	11,613
Depreciation charge ( <i>Note 7</i> )	(1,030)
<b>Closing net book value</b>	<b>42,673</b>
<b>At 31 December 2019</b>	
Cost	46,709
Accumulated depreciation	(4,036)
<b>Net book value</b>	<b>42,673</b>
<b>Year ended 31 December 2020</b>	
Opening net book value	42,673
Disposals	(945)
Depreciation charge ( <i>Note 7</i> )	(1,105)
<b>Closing net book value</b>	<b>40,623</b>
<b>At 31 December 2020</b>	
Cost	45,081
Accumulated depreciation	(4,458)
<b>Net book value</b>	<b>40,623</b>
<b>Year ended 31 December 2021</b>	
Opening net book value	40,623
Depreciation charge ( <i>Note 7</i> )	(1,070)
<b>Closing net book value</b>	<b>39,553</b>
<b>At 31 December 2021</b>	
Cost	45,081
Accumulated depreciation	(5,528)
<b>Net book value</b>	<b>39,553</b>
<b>Six months ended 30 June 2022</b>	
Opening net book value	39,553
Depreciation charge ( <i>Note 7</i> )	(451)
<b>Closing net book value</b>	<b>39,102</b>
<b>At 30 June 2022</b>	
Cost	45,081
Accumulated depreciation	(5,979)
<b>Net book value</b>	<b>39,102</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

- (a) As at 31 December 2019, 2020 and 2021 and 30 June 2022, the fair values of the investment properties of the Group as determined by an independent professional valuation firm amounted to approximately RMB55,600,000, RMB47,300,000 and RMB47,300,000 and RMB47,300,000, respectively.

The amounts recognised in profit and loss for investment properties are as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Rental income ( <i>Note 10</i> )	3,027	2,454	2,564	1,253	215
Direct operating expenses from properties that generated rental income	(1,030)	(1,105)	(1,070)	(535)	(451)

Depreciation of investment properties for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 of RMB1,030,000, RMB1,105,000, RMB1,070,000, RMB535,000 and RMB451,000, respectively have been charged to “general and administrative expenses”.

**(b) Leasing arrangements**

The investment properties are leased to tenants under operating leases with rentals payable quarterly. There are no variable lease payments that depend on an index or rate.

Minimum lease payments receivable on leases of investment properties are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,454	2,482	2,497	507
Between 1 and 2 years	2,482	2,497	2,418	401
Between 2 and 3 years	2,497	2,418	1,239	–
Between 3 and 4 years	2,418	1,239	–	–
Between 4 and 5 years	1,239	–	–	–
	<u>11,090</u>	<u>8,636</u>	<u>6,154</u>	<u>908</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**17 GOODWILL**

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
Goodwill on acquisition of Shanghai Shape Memory Alloy	48,282	48,282	48,282	48,282

As mentioned in Note 1, Lepu Medical acquired 100% of the equity interest in Shanghai Shape Memory Alloy in October 2008 from an independent third party. The goodwill of approximately RMB48,282,000 as recognised represents the excess of the purchase consideration over the fair value of the net identifiable assets acquired, which is attributable to the core technology and synergy effects expected from the Occluder Business of Shanghai Shape Memory Alloy.

As part of the Reorganization, Lepu Medical has injected its 100% equity interest in Shanghai Shape Memory Alloy to the Company in exchange for 277,200,000 ordinary shares of the Company. As described in Note 1.3, the Historical Financial Information have been prepared by including the historical financial information of the company/division engaged in the [REDACTED] Business, including Shanghai Shape Memory Alloy, which are under common control of Lepu Medical immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the consolidating company/division first came under the control of Lepu Medical, whichever is a shorter period. Hence, the goodwill from the acquisition of Shanghai Shape Memory Alloy as previously recognised by Lepu Medical has been consolidated by the Group as if it has been consolidated from the earliest date presented in the Historical Financial Information. None of the goodwill recognised is expected to be deductible for income tax purposes.

For the purpose of impairment review for goodwill and intangible assets not subject to amortisation (i.e. capitalised development costs in Note 18 refers) which are attributable to the CGU of Occluder Business, the recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated terminal growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

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

The growth rate for the first 5 years and budgeted gross profit margin were determined by the 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 the 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 approximately RMB196,352,000, RMB240,173,000 and RMB484,252,000 as at 31 December 2019, 2020 and 2021, respectively.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

Management of the Company performs 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, the headroom would be changed as below:

	<b>Headroom amount</b>		
	<b>As at 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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

The directors of the Company have not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amount of goodwill and intangible assets not subject to amortisation (attributable to the CGU of Occluder Business) to exceed their recoverable amount. Accordingly, the directors of the Company have concluded that no provision for impairment is required to be recognised as of the respective balance sheet dates.

As there were no indicators for impairment of the CGU of Occluder Business at 30 June 2022, management has not updated any of the impairment calculations since 31 December 2021 and the directors of the Company have concluded that no provision for impairment of the CGU of Occluder Business is required to be recognised as of 30 June 2022.

**18 INTANGIBLE ASSETS**

	<b>Patents and licences</b>	<b>Purchased software</b>	<b>Development costs</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At 1 January 2019</b>				
Cost	397	108	41,165	41,670
Accumulated amortisation	(158)	(25)	–	(183)
<b>Net book value</b>	<b>239</b>	<b>83</b>	<b>41,165</b>	<b>41,487</b>
<b>Year ended 31 December 2019</b>				
Opening net book value	239	83	41,165	41,487
Costs for internal development	–	–	12,236	12,236
Additions	943	–	–	943
Amortisation charge	(396)	(11)	–	(407)
<b>Closing net book value</b>	<b>786</b>	<b>72</b>	<b>53,401</b>	<b>54,259</b>
<b>At 31 December 2019</b>				
Cost	943	108	53,401	54,452
Accumulated amortisation	(157)	(36)	–	(193)
<b>Net book value</b>	<b>786</b>	<b>72</b>	<b>53,401</b>	<b>54,259</b>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	<u>Patents and licences</u>	<u>Purchased software</u>	<u>Development costs</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Year ended 31 December 2020</b>				
Opening net book value	786	72	53,401	54,259
Costs for internal development	–	–	12,411	12,411
Additions	1,036	–	–	1,036
Transfer ( <i>note</i> )	23,885	–	(23,885)	–
Amortisation charge	(1,736)	(11)	–	(1,747)
<b>Closing net book value</b>	<u>23,971</u>	<u>61</u>	<u>41,927</u>	<u>65,959</u>
<b>At 31 December 2020</b>				
Cost	25,864	108	41,927	67,899
Accumulated amortisation	(1,893)	(47)	–	(1,940)
<b>Net book value</b>	<u>23,971</u>	<u>61</u>	<u>41,927</u>	<u>65,959</u>
<b>Year ended 31 December 2021</b>				
Opening net book value	23,971	61	41,927	65,959
Costs for internal development	–	–	74,996	74,996
Additions	–	19	–	19
Transfer ( <i>note</i> )	24,898	–	(24,898)	–
Amortisation charge	(4,404)	(13)	–	(4,417)
<b>Closing net book value</b>	<u>44,465</u>	<u>67</u>	<u>92,025</u>	<u>136,557</u>
<b>At 31 December 2021</b>				
Cost	50,762	127	92,025	142,914
Accumulated amortisation	(6,297)	(60)	–	(6,357)
<b>Net book value</b>	<u>44,465</u>	<u>67</u>	<u>92,025</u>	<u>136,557</u>
<b>Six months ended 30 June 2022</b>				
Opening net book value	44,465	67	92,025	136,557
Costs for internal development	–	–	28,055	28,055
Additions	–	515	–	515
Transfer ( <i>note</i> )	16,734	–	(16,734)	–
Amortisation charge	(3,462)	(16)	–	(3,478)
<b>Closing net book value</b>	<u>57,737</u>	<u>566</u>	<u>103,346</u>	<u>161,649</u>
<b>At 30 June 2022</b>				
Cost	67,496	642	103,346	171,484
Accumulated amortisation	(9,759)	(76)	–	(9,835)
<b>Net book value</b>	<u>57,737</u>	<u>566</u>	<u>103,346</u>	<u>161,649</u>

*Note:*

During the years ended 31 December 2020 and 2021 and the six months ended 30 June 2022, Shanghai Shape Memory Alloy obtained two, two and one Medical Device Registration Certificates related to new occluder products, respectively. The carrying amounts of the related development costs as previously capitalised were therefore transferred to patents and licences with amortisation commenced then accordingly.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The Group’s development costs represented capitalised development expenditures which are not subject to amortisation during the development stage but are subject to an annual impairment testing. Prior to 31 December 2020, all the capitalised development costs are attributable to the CGU of Occluder Business. For the year ended 31 December 2021 and the six months ended 30 June 2022, part of the eligible development costs attributable to the CGU of Heart Valve Business of approximately RMB41,477,000 and RMB21,073,000 have been capitalised, respectively.

Development costs which are attributable to the CGU of Occluder Business and more details of the impairment test as conducted by management and the result of which have been set out in Note 17.

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 at 31 December 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.

The management has involved an independent qualified valuer to perform impairment assessment to assess the fair value less cost of disposal of the development costs which are attributable to the CGU of Heart Valve Business as at 31 December 2021 by using the discounted cash flow approach. For the discounted cash flows, the estimated revenue was based on the management’s expected timing of the product candidates’ commercialisation, productivity and sales volume. Management estimated the product candidates’ sales volume based on market conditions and the state 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 commercialisation for the applicable product candidates.

Considering the development stage and expected market conditions, management expected that the first commercialisation year of related heart valve product candidates will be in 2025. Based on the related heart valve product candidates’ life cycle and industry practice, the 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 management with reference to 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 the Group operates. The key assumptions used in the fair value less cost of disposal calculation for the CGU of Heart Valve Business are as follows:

	<u>Gross profit margin</u>	<u>Growth rate of revenue</u>		<u>Cost component ratio</u>	<u>Post-tax discount rate</u>
		<u>2026-2030</u>	<u>2031-2035</u>		
As at 31 December 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 be exceeded its carrying amount as at 31 December 2021 by approximately RMB21,322,000.

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 and the management believe that the key assumptions would not likely to change as such:

	<u>As at 31 December 2021</u>
Gross profit margin	-12.54%
Growth rate of revenue	-7.68%
Cost component ratio	+8.40%
Post-tax discount rate	+3.57%

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The directors of the Company have not identified that a reasonable possible change in any of the key assumptions that could cause the carrying amount of CGU of the Heart Valve Business to exceed its recoverable amount. The directors of the Company have concluded that no provision for impairment of the CGU of Heart Valve Business is required to be recognised as at 31 December 2021.

As there were no indicators for impairment of the CGU of the Heart Valve Business at 30 June 2022, management has not updated any of the impairment calculations since 31 December 2021 and the directors of the Company have concluded that no provision for impairment of the CGU of the Heart Valve Business is required to be recognised as of 30 June 2022.

Amortisation of intangible assets has been charged to profit or loss or capitalised as follows:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Amortisation for the year	407	1,747	4,417	1,509	3,478
Less: amounts capitalised as development costs	(157)	(236)	(235)	(144)	(20)
Amount charged to profit or loss (Note 7)	<u>250</u>	<u>1,511</u>	<u>4,182</u>	<u>1,365</u>	<u>3,458</u>
Representing amounts charged to:					
– cost of sales	239	1,500	4,168	1,360	3,344
– general and administrative expenses	11	11	11	5	15
– research and development expenses	–	–	3	–	99
	<u>250</u>	<u>1,511</u>	<u>4,182</u>	<u>1,365</u>	<u>3,458</u>

**19 FINANCIAL INSTRUMENTS BY CATEGORY**

The Group holds the following financial instruments:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets as per consolidated balance sheets</b>				
Financial assets at amortised cost				
– trade receivables	45,331	38,317	23,869	32,883
– other receivables	8,581	10,681	1,816	18,924
– bank deposit with initial term of over three months and cash and cash equivalents	16,119	18,792	713,480	734,534
Financial assets at FVPL	–	–	–	1,004
Financial assets at FVOCI	849	–	–	–
	<u>70,880</u>	<u>67,790</u>	<u>739,165</u>	<u>787,345</u>



**APPENDIX I**

**ACCOUNTANT’S REPORT**

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
<b>Liabilities as per consolidated balance sheets</b>				
Financial liabilities at amortised cost				
– trade and other payables (excluding employee benefits payables and other tax payables)	48,893	51,623	13,994	40,072
– lease liabilities	369	116	6,187	6,288
– redemption liabilities	–	–	679,986	720,861
	<u>49,262</u>	<u>51,739</u>	<u>700,167</u>	<u>767,221</u>

The Group’s exposure to various risks associated with the financial instruments has been set out in Note 3. The maximum exposure to credit risk at each balance sheet date is the carrying amount of each class of financial assets as mentioned above.

**20 DEFERRED INCOME TAX**

**Group**

The analysis of deferred income tax assets/(liabilities), prior to any offset pursuant to net-off provisions, is as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Deferred income tax assets				
– to be recovered within 12 months	5,654	2,121	3,326	4,110
– to be recovered after 12 months	1,452	1,351	6,259	12,844
	<u>7,106</u>	<u>3,472</u>	<u>9,585</u>	<u>16,954</u>
Deferred income tax liabilities				
– to be settled within 12 months	–	–	(349)	(335)
– to be settled after 12 months	(97)	–	(665)	(542)
	<u>(97)</u>	<u>–</u>	<u>(1,014)</u>	<u>(877)</u>
	<u>7,009</u>	<u>3,472</u>	<u>8,571</u>	<u>16,077</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax related to the same tax authority.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The movement in deferred income tax assets and liabilities during the Track Record Period, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

**Deferred income tax assets**

	Research and development expenses	Allowances for receivables	Contract liabilities	Tax losses	Lease liabilities	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 1 January 2019</b>	1,514	1,184	1,300	–	–	307	4,305
Credited/(charged) to profit or loss	2,671	268	14	–	–	(152)	2,801
<b>As at 31 December 2019</b>	4,185	1,452	1,314	–	–	155	7,106
(Charged)/credited to profit or loss	(4,185)	(101)	414	–	–	238	(3,634)
<b>As at 31 December 2020</b>	–	1,351	1,728	–	–	393	3,472
(Charged)/credited to profit or loss	–	(80)	5	5,652	929	(393)	6,113
<b>As at 31 December 2021</b>	–	1,271	1,733	5,652	929	–	9,585
Credited to profit or loss	–	626	180	6,549	14	–	7,369
<b>As at 30 June 2022</b>	–	1,897	1,913	12,201	943	–	16,954

**Deferred income tax liabilities**

	Fair value changes of financial assets	Right-of-use assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>As at 1 January 2019</b>	(73)	–	(73)
Charged to other comprehensive income	(24)	–	(24)
<b>As at 31 December 2019</b>	(97)	–	(97)
Credited to other comprehensive income	97	–	97
<b>As at 31 December 2020</b>	–	–	–
Charged to profit or loss	–	(1,014)	(1,014)
<b>As at 31 December 2021</b>	–	(1,014)	(1,014)
(Charged)/credit to profit or loss	(1)	138	137
<b>As at 30 June 2022</b>	(1)	(876)	(877)

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**Company**

**Deferred income tax assets**

	<u>Tax losses</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at 29 January 2021 (date of incorporation of the Company)</b>	–	–
Credited to profit or loss	<u>5,652</u>	<u>5,652</u>
<b>As at 31 December 2021</b>	<u>5,652</u>	<u>5,652</u>
<b>As at 1 January 2022</b>	5,652	5,652
Credited to profit or loss	<u>6,549</u>	<u>6,549</u>
<b>As at 30 June 2022</b>	<u>12,201</u>	<u>12,201</u>

**Deferred income tax liabilities**

	<u>Fair value changes of financial assets</u>	<u>Total</u>
	<i>RMB’000</i>	<i>RMB’000</i>
<b>As at 1 January 2022</b>	–	–
Charged to profit or loss	<u>(1)</u>	<u>(1)</u>
<b>As at 30 June 2022</b>	<u>(1)</u>	<u>(1)</u>

APPENDIX I

ACCOUNTANT’S REPORT

21 PREPAYMENTS AND OTHER RECEIVABLES

Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Receivables due from related parties (Note 35(c))	6,788	8,034	–	–
Payment of expenses 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 (note a)	–	–	–	17,098
Others	221	195	259	295
	9,761	12,341	2,004	19,660
Less: provision for impairment of other receivables	(1,180)	(1,660)	(188)	(736)
Other receivables – net	8,581	10,681	1,816	18,924
Prepayment to related parties (Note 35(c))	–	303	58	1,234
Prepayment for raw materials	1,828	5,266	9,948	20,235
Prepayment for products testing and clinical trial fee	2,871	3,021	3,547	5,405
Prepayment for purchases of property, plant and equipment	632	1,000	11,187	12,304
[REDACTED] expenses prepaid or to be capitalised	–	–	3,474	3,540
Prepayment for consulting service fees	138	691	522	357
Value-added tax recoverable	–	–	1,705	912
Others	24	220	695	1,200
	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

Notes:

- (a) During the six months ended 30 June 2022, the Group has provided COVID-19 antigen testing related products distribution services (as an agent) to a subsidiary of Lepu Medical (the “Fellow Subsidiary”). Under the distribution arrangement, the Group purchased the related products from the Fellow Subsidiary and sold them to the end customers following the instructions from the Fellow Subsidiary. The Group merely acted as an agent to sell the related products to the end customers on behalf of the Fellow Subsidiary. Except for the commission income of approximately RMB734,000 as recognised by the Group from the provision of such distribution services on net basis, no other revenue or income has been recognised by the Group under the distribution arrangement. The sale proceeds receivable from the end customers and the amounts payable to the Fellow Subsidiary in connection with the sales and purchases of the related COVID-19 antigen testing products have been recognised as the Group’s other receivables and other payables, respectively.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

- (b) Other receivables due from related parties were denominated in RMB, unsecured, interest-free and had no fixed terms of repayment.

**Company**

	<b>As at 31 December</b>	<b>As at 30 June</b>
	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Prepayments and other receivables</b>		
– Other receivables due from subsidiary	–	21,290
– [REDACTED] expenses prepaid or to be capitalised	3,474	3,540
– Value-added tax recoverable	1,092	912
– Others	–	216
	<u>4,566</u>	<u>25,958</u>

The Company’s other receivables from subsidiary are denominated in RMB, unsecured, interest-free and repayable on demand.

**22 INVENTORIES**

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>11,052</u>	<u>23,319</u>	<u>33,402</u>	<u>40,269</u>

During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, inventories recognised in profit and loss amounted to approximately RMB9,749,000, RMB12,687,000, RMB19,835,000, RMB10,581,000 and RMB11,423,000, respectively. These costs are charged to profit or loss as follows:

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Cost of inventories sold or consumed charged to:					
– cost of sales	5,620	5,853	10,299	5,764	5,719
– research and development expenses	4,129	6,834	9,536	4,817	5,704
	<u>9,749</u>	<u>12,687</u>	<u>19,835</u>	<u>10,581</u>	<u>11,423</u>

APPENDIX I

ACCOUNTANT’S REPORT

23 TRADE RECEIVABLES

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Trade receivables from contracts with customers				
– third parties	34,882	35,588	31,887	43,086
– related parties (Note 35(c))	18,950	10,078	270	1,706
	53,832	45,666	32,157	44,792
Less: allowance for impairment	(8,501)	(7,349)	(8,288)	(11,909)
	45,331	38,317	23,869	32,883

The Group generally does not offer any official contractual credit terms to its customers and will closely monitor the settlement pattern of respective customers. For certain individual customers with long-term relationship with the Group and have good credit history in the past, the Group may allow them to settle the related receivable balances within a discretionary period ranging from 30 days to 180 days. The aging analysis of the gross trade receivable as at 31 December 2019, 2020 and 2021 and 30 June 2022, based on invoice date, are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Within 1 year	36,613	35,265	25,332	32,811
Between 1 year and 2 years	12,886	6,483	1,992	6,916
Over 2 years	4,333	3,918	4,833	5,065
	53,832	45,666	32,157	44,792

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Details of the allowance for impairment and the movement in the allowance balance has been set out in Note 3.1(b).

The carrying amounts of trade receivables are denominated in the following currencies:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
RMB	53,832	45,666	30,840	37,484
USD	–	–	1,141	6,839
EUR	–	–	176	469
	53,832	45,666	32,157	44,792

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

**Group and Company**

	<u>As at 30 June</u>
	<u>2022</u>
	<i>RMB’000</i>
Investment in wealth management products issued by banks	<u>1,004</u>

The financial assets at fair value through profit or loss as of 30 June 2022 represent investments in wealth management products denominated in RMB, with expected rates of return of 2.04% per annum. The returns of the investments are not guaranteed, hence the contractual cash flows do not qualify for solely payments of principal and interest. Therefore, the investments have been accounted for as financial assets at fair value through profit or loss. None of these investments are past due.

*(i) Amounts recognised in profit or loss*

The carrying amount of the financial assets was a reasonable approximation of their fair value due to the short-term investment period and stable yield rate. Investment income of RMB4,809,000 and unrealised fair value gains of RMB4,000 have been recognised as other income and gain for the six months ended 30 June 2022 (Note 10).

*(ii) Risk exposure and fair value measurements*

Information about the methods and assumptions used in determining fair value has been set out in Note 3.3.

**25 BANK DEPOSIT WITH INITIAL TERM OF OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS**

**Group**

	<u>As at 31 December</u>			<u>As at</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>30 June</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Cash and cash equivalents:				
– Cash at bank and in hand	<u>16,119</u>	<u>18,792</u>	<u>713,480</u>	<u>664,534</u>
Cash and cash equivalents are denominated in:				
– RMB	16,119	18,792	648,410	590,191
– USD	–	–	63,094	71,482
– EUR	–	–	1,976	2,861
	<u>16,119</u>	<u>18,792</u>	<u>713,480</u>	<u>664,534</u>
Bank deposit with initial term of over three months denominated in:				
– RMB	<u>–</u>	<u>–</u>	<u>–</u>	<u>70,000</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**Company**

	<b>As at 31 December</b>	<b>As at 30 June</b>
	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents:		
– Cash at bank and in hand	694,946	556,491
Cash and cash equivalents are denominated in:		
– RMB	639,821	499,404
– USD	55,125	57,087
	694,946	556,491
Bank deposit with initial term of over three months denominated in:		
– RMB	–	70,000

**26 SHARE CAPITAL**

**Group and Company**

	<b>Number of ordinary shares</b>	<b>Nominal value of shares</b>	<b>Share capital</b>	<b>Total</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Issued and fully paid</b>				
<b>As at 29 January 2021 (date of incorporation of the Company)</b>	–	–	–	–
Issuance of ordinary shares	324,294,997	324,295	324,295	324,295
<b>As at 31 December 2021 and 30 June 2022</b>	324,294,997	324,295	324,295	324,295

On 29 January 2021, the Company was incorporated as a joint stock limited liability company in the PRC by Lepu Medical and Target Medical, with a registered capital of RMB280,000,000. The shares as issued by the Company during the period from 29 January 2021 (date of incorporation) to 30 June 2022 are summarised as below:

- (a) On 5 March 2021, Lepu Medical injected the 100% equity interest of Shanghai Shape Memory Alloy to the Company in exchange for 277,200,000 ordinary shares of the Company. Upon completion of the capital injection, capital reserve of approximately RMB713,776,000, which represented the fair value of 100% equity interest of Shanghai Shape Memory Alloy at the date of capital injection, was transferred to the Company’s share capital and share premium accounts for the amounts of approximately RMB277,200,000 and RMB436,576,000, respectively.

Target Medical has also subscribed 2,800,000 shares of the Company on 23 March 2021, with cash consideration of RMB7,209,000. The difference of par value of the shares issued and total consideration of approximately RMB4,409,000 was recorded as share premium.



---

**APPENDIX I**

**ACCOUNTANT’S REPORT**

---

- (b) On 26 April 2021, the Company entered into investment agreement with Ningbo Jiacheng and Ningbo Jiadu, pursuant to which Ningbo Jiacheng and Ningbo Jiadu subscribed 5,600,000 and 9,137,000 shares of the Company at the consideration of RMB19,488,000 and RMB31,796,000, respectively and these shares were issued in June 2021. The difference of par value of the shares issued and total consideration of approximately RMB36,547,000 was recorded as share premium.
  
- (c) Pursuant to the [REDACTED] Shareholders Agreement as mentioned in Note 1.1, the [REDACTED] have subscribed 29,558,155 shares of the Company at a total cash consideration of approximately RMB609,740,000 (out of which, capital injection amounts of approximately RMB512,560,000 are denominated in USD (representing USD80 million as injected by 3 of the [REDACTED])) and these shares have been issued by the Company in June 2021. The difference of par value of the shares issued and total consideration of approximately RMB580,182,000 was recorded as share premium.

APPENDIX I

ACCOUNTANT’S REPORT

27 TREASURY STOCK AND OTHER RESERVES

Group	Other reserves					Total
	Treasury stock	Share premium	Capital reserve	Capital reserve-share-based payments	Other reserves	
	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2019</b>	–	–	(57,916)	–	414	(57,502)
Fair value changes of equity investment at FVOCI	–	–	–	–	138	138
Deemed distributions (note a)	–	–	(60,985)	–	–	(60,985)
Deemed contributions (note a)	–	–	19,604	–	–	19,604
<b>As at 31 December 2019</b>	<u>–</u>	<u>–</u>	<u>(99,297)</u>	<u>–</u>	<u>552</u>	<u>(98,745)</u>
<b>As at 1 January 2020</b>	–	–	(99,297)	–	552	(98,745)
Fair value changes of equity investment at FVOCI	–	–	–	–	427	427
Disposal of equity investment at fair value through other comprehensive income	–	–	–	–	(979)	(979)
Deemed distributions (note a)	–	–	(777,645)	–	–	(777,645)
Deemed contributions (note a)	–	–	730,176	–	–	730,176
<b>As at 31 December 2020</b>	<u>–</u>	<u>–</u>	<u>(146,766)</u>	<u>–</u>	<u>–</u>	<u>(146,766)</u>
<b>As at 1 January 2021</b>	–	–	(146,766)	–	–	(146,766)
Issuance of shares to Lepu Medical (Note 26(a))	–	436,576	(713,776)	–	–	(277,200)
Issuance of shares to Target Medical (Note 26(a))	–	4,409	–	–	–	4,409
Issuance of shares to Ningbo Jiacheng and Ningbo Jiadu (Note 26(b))	–	36,547	–	–	–	36,547
Issuance of shares to [REDACTED] (Note 26(c))	–	580,182	–	–	–	580,182
Deemed distributions (note a)	–	–	(72,167)	–	–	(72,167)
Deemed contributions (note a)	–	–	446,079	–	–	446,079
Recognition of redemption liabilities (Note 30)	(671,507)	–	–	–	–	–
Share-based payments – deemed contribution from Lepu Medical (Note 28(a))	–	–	–	22,257	–	22,257
<b>As at 31 December 2021</b>	<u>(671,507)</u>	<u>1,057,714</u>	<u>(486,630)</u>	<u>22,257</u>	<u>–</u>	<u>593,341</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Other reserves					Total
	Treasury stock	Share premium	Capital reserve	Capital reserve-share-based payments	Other reserves	
	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000	
<b>As at 1 January 2022</b>	(671,507)	1,057,714	(486,630)	22,257	–	593,341
Share-based payments – deemed contribution from Lepu Medical (Note 28(a))	–	–	–	7,801	–	7,801
<b>As at 30 June 2022</b>	<u>(671,507)</u>	<u>1,057,714</u>	<u>(486,630)</u>	<u>30,058</u>	<u>–</u>	<u>601,142</u>

(a) Deemed distributions and contributions

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Deemed distributions					
– Cash payments in relation to the Shanghai Shape Memory Alloy’s investment in Ningbo Bingkun (note i)	(60,985)	(777,645)	–	–	–
– Cash distribution to shareholder during the Reorganisation (note ii)	–	–	(72,167)	(72,167)	–
	<u>(60,985)</u>	<u>(777,645)</u>	<u>(72,167)</u>	<u>(72,167)</u>	<u>–</u>
Deemed contributions					
– Cash receipt from Lepu Medical for the Shanghai Shape Memory Alloy’s transfer out of investment in Ningbo Bingkun (note i)	–	658,800	439,200	439,200	–
– Dividend received from Ningbo Bingkun (note i)	–	37,830	–	–	–
– Injection of Heart Valve Business (note ii)	19,604	33,546	6,879	6,879	–
	<u>19,604</u>	<u>730,176</u>	<u>446,079</u>	<u>446,079</u>	<u>–</u>

## APPENDIX I

## ACCOUNTANT’S REPORT

### Notes:

- (i) Shanghai Shape Memory Alloy has acquired 63.05% equity interests in Ningbo Bingkun from a third party in September 2015 and its equity interests in Ningbo Bingkun are further increased to 98.05% in December 2018. Shanghai Shape Memory Alloy has been designated by Lepu Medical as the shareholding entity to hold this investment on its behalf. Shanghai Shape Memory Alloy’s investments costs in Ningbo Bingkun were primarily financed by Lepu Medical, with the remaining portion being financed by the cash as accumulated from Shanghai Shape Memory Alloy’s own business operations in prior years.

Ningbo Bingkun is principally engaged in the research, development, production and sales of surgical matching devices and minimally invasive surgical-related products for use in open surgeries and laparoscopic surgeries which are unrelated to the [REDACTED] Business. Considering Ningbo Bingkun is not a company engaged in the [REDACTED] Business, its financial information (together with Shanghai Shape Memory Alloy’s investments costs in Ningbo Bingkun and any payable balances arisen from the investments (the “Payable Balances”) as reflected in the Shanghai Shape Memory Alloy’s standalone financial statements) have not been included in this Historical Financial Information in accordance with the basis of presentation as set out in Note 1.3.

During the years ended 31 December 2019 and 2020, the aggregated total of Shanghai Shape Memory Alloy’s cash payments for further investments in Ningbo Bingkun (regardless of the funding source) and settlement of the Payable Balances amounted to approximately RMB60,985,000 and RMB777,645,000, respectively and these cash payments have been accounted for as deemed distributions to Lepu Medical during the respective years.

The dividend income as received by Shanghai Shape Memory Alloy from Ningbo Bingkun of RMB37,830,000 during the year ended 31 December 2020 has been accounted for as deemed contribution from Lepu Medical.

As mentioned in Note 1.2, Shanghai Shape Memory Alloy has 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 the Company in January 2021. The cash receipts of these disposal consideration have been accounted for as deemed contribution from Lepu Medical.

- (ii) As part of the Reorganisation mentioned in Note 1.2, Shanghai Shape Memory Alloy has acquired the Heart Valve Business from Lepu Medical at an aggregate consideration of approximately RMB72,167,000 which was treated as a deemed distribution to the shareholder of the Group. The net assets and financial results attributable to the Heart Valve Business have been included in this Historical Financial Information based on basis of presentation as set out in Note 1.3. During the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021, the cash as injected by Lepu Medical for the development of the Heart Valve Business of RMB19,604,000, RMB33,546,000, RMB6,879,000 and RMB6,879,000, respectively have been accounted for as deemed contribution from Lepu Medical.

### (b) Treasury stock

Treasury stock is recorded to reflect the carrying amount of the redemption liabilities when it is initially reclassified from equity, and will be reversed when the redemption liabilities are derecognised upon when the Group’s obligations in connection with those redemption liabilities are discharged, cancelled or have expired which will then be reclassified back to equity. Details of the redemption liabilities have been set out in Note 30.

### Company

As at 31 December 2021 and 30 June 2022, the Company’s other reserves represent the share premium as arisen from the issuance of the Company’s shares of RMB1,057,714,000.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**28 SHARE-BASED PAYMENTS**

As mentioned in Note 1.2, both Ningbo Jiadu and Ningbo Jiacheng are not controlled by the Group under the ESOP.

In June 2021, Ningbo Jiadu (with the authorisation from the Board of Directors of Lepu Medical) has granted 9,136,842 shares of the Company to 49 employees of the Group (the “Grantees”) at a consideration of RMB3.48 per share under the ESOP which are vested when Grantees complete a contractual terms of services with the aim to motivate the Grantees to continue serving the Group in future. The Grantees’ interests in these granted shares are held through their proportionate partnership interests in Ningbo Jiadu as limited partners.

Pursuant to the limited partnership agreement of Ningbo Jiadu, the employees with equity incentive are restricted from selling, transferring or disposing of their respective partnership interest for the first 12 months from the date of the Company’s shares are [REDACTED] on a recognised stock exchange (the “[REDACTED]”). On the first [REDACTED] after each of the first and second anniversary of the [REDACTED], 15% of the interest owned by each of the employees with equity incentive will be vested and released. On the first [REDACTED] after the third anniversary of the [REDACTED], the remaining 70% of the interest owned by each of the employees with equity incentive will be vested and released.

If the Company fails to complete a successful [REDACTED] of its shares on a recognised stock exchange within 24 months from the dates when the Grantees owned their respective partnership interests in Ningbo Jiadu (the “partnership joining date”), on each of the third and fourth anniversary of the partnership joining date, 15% of the interests owned by each of the employees with equity incentive will be vested and released. On the fifth anniversary of the partnership joining date, the remaining 70% of the interest owned by each of the employees with equity incentive will be vested and released.

Set out below are the movement in the number of awarded restricted shares under the ESOP:

	<u>Number of shares</u>
<b>At 1 January 2021</b>	–
Granted	9,136,842
Vested	–
Forfeited	–
	<hr/>
<b>At 31 December 2021 and 30 June 2022</b>	<b>9,136,842</b>
	<hr/> <hr/>

The fair value of the restricted shares granted to employees is determined by using the discounted cash flow method to determine the underlying equity fair value of the Company and equity allocation based on OPM model to determine the fair value of common shares. Significant estimates on key assumptions, such as risk-free interest rate, volatility, dividend yield and lack of marketability discount are made based on management’s best estimates.

Details of these key assumptions at the date of grant are summarised as below:

	<u>Key assumptions/ inputs</u>
Risk-free interest rate	2.61%
Volatility	42.7%
Dividend yield	0%
Lack of marketability discount	12%

As at 31 December 2021 and 30 June 2022, management of the Company has assessed and estimated that the expected Forfeiture Rate for each of the vesting period of the restricted shares granted to be nil and 12.7%. Due to the change in the expected Forfeiture Rate, a reversal of share-based payment expenses of approximately RMB6,381,000 has been recognised and net with the share-based payment expenses for the six months ended 30 June 2022.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

*(a) Expenses arising from share-based payment transactions*

	<b>Year ended</b>	<b>Six months ended 30 June</b>	
	<b>31 December</b>	<b>2021</b>	<b>2022</b>
	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share-based payment expenses, net	22,257	3,952	7,801
Less: amounts capitalised as intangible assets	(4,457)	(1,128)	(704)
Amount charged to profit or loss	<u>17,800</u>	<u>2,824</u>	<u>7,097</u>
Representing amounts charged to:			
– distribution expenses	2,836	504	415
– general and administrative expenses	9,200	1,630	4,890
– research and development expenses	5,764	690	1,792
	<u>17,800</u>	<u>2,824</u>	<u>7,097</u>

Considering the abovementioned shares were granted to the Grantees for securing their continuous services to the Group, the Group has recognised the related share-based payment expenses during the year ended 31 December 2021 and the six months ended 30 June 2022. The shares as granted by Ningbo Jiadu under the approval from Lepu Medical (the parent of the Company) are those shares as subscribed and fully paid by Ningbo Jiadu in April 2021 (Note 26(b)). Therefore, the grant of the shares by Ningbo Jiadu to the Grantees without any recharge to the Group has also been accounted for as deemed contribution from shareholders in equity.

**29 DEFERRED INCOME**

	<b>As at 31 December</b>			<b>As at</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred government grants	2,148	1,315	482	152

Deferred government grants primarily comprise of assets related government grants, which is deferred and recognised in profit or loss on a straight-line basis over the residual expected useful lives of the related assets.

## APPENDIX I

## ACCOUNTANT’S REPORT

### 30 REDEMPTION LIABILITIES

#### Group and Company

	As at 31 December	As at 30 June
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Redemption liabilities, at amortised cost	679,986	720,861

On 28 May 2021, the Company and the [REDACTED] as mentioned in Note 1.1 (i.e. Vivo Capital Fund IX, SCC Growth, Shanghai Biomedical, Huaihua Haozhi and CDH Supermatrix), entered into [REDACTED] Shareholders Agreement, pursuant to which each of the [REDACTED] agreed to [REDACTED] in the Company by subscription of the increased registered capital of the Company. The cash as injected by the [REDACTED] for the subscription of the Company’s shares as allotted pursuant to the [REDACTED] Shareholder Agreement amounted to approximately RMB609,740,000 (Note 26(c)).

Pursuant to the [REDACTED] Shareholders Agreement, the preferred rights are expected to be granted to the [REDACTED] or become effective when any of the following circumstance occurs or the date comes, whichever is the earliest (collectively the “Triggering Events and Effective Dates”):

- (i) The Company’s application for [REDACTED] (the “[REDACTED]”) has not been approved by the relevant regulatory authority or stock exchange since submitting within twelve months;
- (ii) The Company voluntarily withdraws the [REDACTED] application or the [REDACTED] sponsor of the Company withdraws its recommendation letter;
- (iii) The application of [REDACTED] was rejected or rebutted by the relevant regulatory authority or stock exchange;
- (iv) The Company fails to qualify its shares [REDACTED] on a recognised stock exchange prior to 31 December 2022.

These preferred rights are summarised as follows:

#### (a) Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, the [REDACTED] shall be entitled to receive the liquidation preference amount, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the other holders of ordinary shares.

The liquidation preference amount for the [REDACTED] is calculated whichever higher of: (i) the distributable assets of the Company for the [REDACTED] based on their shareholding ratio; (ii) the original investment principals from the [REDACTED], plus an annual simple rate of 10% of the original investment principals for a period of time commencing from the delivery date to the actual payments date of the settlement (calculated as 360 days in a calendar year) and any declared but unpaid dividends or profits thereon up to the date of the settlement, meanwhile, minus any dividends or profits already distributed. If the amount of distributable assets is not enough to cover the amount calculated based on the method described in (ii) above, the difference should be paid by Lepu Medical.

A liquidation event means (i) any sale, disposition or conveyance by the Company of all or substantially all of its assets (including the exclusive licensing of all or substantially all the intellectual property assets of the Company); (ii) any merger, consolidation or other transactions resulting in the Company acquired by other entity or after which change the substantial control of the Company; (iii) any liquidation, dissolution or winding up, either voluntarily or involuntarily, of the Company.

## APPENDIX I

## ACCOUNTANT’S REPORT

### (b) Anti-dilution right

If the Company increases its share capital at a price lower than the price paid by the [REDACTED] on a per share capital basis (the “New Low Financing”), the [REDACTED] have a right to require : (i) the Company to issue new share capital for nominal price (or lowest price allowed by the law) to the [REDACTED]; (ii) the Controlling Shareholder to transfer the equity interests of the Company to the [REDACTED] at nominal price or the lowest price allowed by the law; (iii) the Controlling Shareholder to settle the difference in cash, so that the total amount paid by the [REDACTED] divided by the total amount of share capital obtained is equal to the price per share capital in the new issuance.

### (c) Redemption right

The [REDACTED] have a right to require the Lepu Medical to redeem their investments if (i) the Company failed to qualify its shares list on a recognised stock exchange before 31 December 2022; (ii) during the period from the issuance date to before the Company’s share qualified list on a recognised stock exchange, the Company and its ultimate controlling shareholder or other existing shareholders has committed a major criminal violation; (iii) the ultimate controlling shareholder of Lepu Medical was changed.

The redemption amount for the [REDACTED] is the original investment principals from the [REDACTED], and any declared but unpaid dividends or profits thereon up to the date of the settlement, meanwhile, minus any dividends or profits distributed to the [REDACTED].

The liquidation preferences granted to the [REDACTED] constitute possible obligations for the Company to repurchase its own equity instruments. These obligations were recognised as redemption liabilities which are initially measured at fair value (representing the present value of the expected cash flows for settling the related obligations if these rights are exercised by the investors) and subsequently measured at amortised cost. The Company applied a redemption discount rate of 3.10% to determine the initial recognition amount of the redemption liabilities. As mentioned above, Lepu Medical is solely responsible for any settlement to the [REDACTED] if they exercise their redemption rights. The anti-dilution right is a derivative financial instrument measured at fair value through profit or loss, of which the fair value was considered close to nil as the directors of Company expected the New Low Financing would never occur before the Company’s successful [REDACTED].

Pursuant to the [REDACTED] Shareholders Agreement, the preferred rights granted to the [REDACTED] will lapse upon the completion of the [REDACTED], the redemption liabilities will then be transferred to the Group’s equity accordingly.

### Recognition and measurement of redemption liabilities

The redemption liabilities are arisen from the share capital of the Company with preferred rights as held by the [REDACTED]. The Group recognised the redemption liabilities as financial liabilities due to that all triggering events of key preferred rights to the [REDACTED], are out of control of the Company and they do not meet the definition of equity for the Company. The financial liabilities are initially measured at fair value (representing the present value of the estimated redemption liabilities) and subsequently measured at amortised cost. The present value is the amount expected to be paid to the [REDACTED] upon liquidation which is assumed to be at the dates of issuance of the Company’s shares with preferred rights. Interests from the financial instruments are charged in finance cost.

In June 2021, the Company issued share capital of approximately RMB29,558,000 to the [REDACTED]. The difference between capital contribution received from the [REDACTED] and share capital issued of approximately RMB580,182,000 was credited as the Company’s share premium. The Company further recognised the redemption liabilities of approximately of RMB671,507,000 which is the present value of the estimated redemption liabilities as of the date of issuance of the Company’s shares with preferred rights to the [REDACTED]. The Company applied a redemption discount rate of 3.10%, to determine the present value of the redemption liabilities.

Considering the Triggering Events and Effective Dates as mentioned above, management of the Company has classified the entire redemption liabilities as current liabilities as at 31 December 2021 and 30 June 2022.



**APPENDIX I**

**ACCOUNTANT’S REPORT**

The movements of redemption liabilities are set out below:

**Group and Company**

	<b>Redemption liabilities</b>	
	<u>RMB'000</u>	
<b>As at 1 January 2021</b>		–
Initial recognition		671,507
Exchange gain		(2,837)
Interest expense ( <i>Note 11</i> )		<u>11,316</u>
<b>As at 31 December 2021</b>		<u><u>679,986</u></u>
<b>As at 1 January 2022</b>		679,986
Exchange losses		30,352
Interest expense ( <i>Note 11</i> )		<u>10,523</u>
<b>As at 30 June 2022</b>		<u><u>720,861</u></u>
	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>30 June</b>
	<u><b>2021</b></u>	<u><b>2022</b></u>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Denominated in:</b>		
USD	571,165	610,379
RMB	<u>108,821</u>	<u>110,482</u>
	<u><u>679,986</u></u>	<u><u>720,861</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

31 TRADE AND OTHER PAYABLES

Group

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Trade payables				
– related parties ( <i>Note 35(c)</i> )	1,243	2,019	–	147
– third parties	3,221	2,401	6,680	5,536
	4,464	4,420	6,680	5,683
Other payables to related parties ( <i>Note 35(c)</i> )	42,866	45,754	–	25,629
Employee benefits payable	4,379	6,988	7,139	6,172
Other taxes payable	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
	<u>57,286</u>	<u>62,137</u>	<u>26,300</u>	<u>54,427</u>

Note:

As at 31 December 2019 and 2020, other payables due to related parties primarily represented balances due to Lepu Medical (*Note 35(c)*) as arisen from Lepu Medical’s settlement of certain employee benefit expenses and operating costs on behalf of the Group.

The abovementioned operating costs as paid by Lepu Medical on behalf of the Group represents the settlement of sales proceeds as collected on behalf of an independent overseas supplier for its sales of certain surgical dressing products in the China market which the Group had provided the related distribution services (as an agent). The aforesaid distribution arrangement was terminated in the second half of 2019. For the year ended 31 December 2019, the income from the provision of such distribution services and other services to the supplier amounted to approximately RMB1,261,000.

As at 31 December 2019, 2020, 2021 and 30 June 2022, the expenses and operating costs as settled by Lepu Medical on behalf of the Group but not yet settled by the Group amounted to approximately RMB42,866,000, RMB45,754,000, nil and nil, respectively.

As at 30 June 2022, other payables due to related parties represent the balances payable to the Fellow Subsidiary as arisen from the distribution arrangement as mentioned in *Note 21(a)*.

Other payables due to related parties are denominated in RMB, unsecured, interest-free and repayable on demand.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

The credit period granted by suppliers to the Group ranged from 30 days to 120 days. Aging analysis of the trade payables at each balance sheet date are as follows:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	4,132	3,179	6,533	5,536
Between 1 year and 2 years	186	1,002	–	–
Over 2 years	146	239	147	147
	<u>4,464</u>	<u>4,420</u>	<u>6,680</u>	<u>5,683</u>

The carrying amounts of trade and other payables are denominated in the following currencies:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	56,506	61,289	25,407	53,575
EUR	–	–	–	49
USD	780	848	893	803
	<u>57,286</u>	<u>62,137</u>	<u>26,300</u>	<u>54,427</u>

**Company**

	As at	As at
	31 December	30 June
	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Other payables		
– Payable to subsidiary	50,500	–
– Accrual of [REDACTED] expenses	5,535	7,045
– Other taxes payable	2,039	1,213
– Employee benefits payable	717	479
	<u>58,791</u>	<u>8,737</u>

The Company’s other payable to the subsidiary was denominated in RMB, unsecured, interest-free and had no fixed terms of repayment.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**32 CONTRACT LIABILITIES**

	<b>As at 1 January</b>	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2019</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities					
– receipts in advance from customers	3,108	3,448	3,826	3,229	1,668
– rebates to customers ( <i>note</i> )	3,161	4,200	4,672	3,589	2,932
– customers’ rights to claim for additional units of products ( <i>note</i> )	5,504	4,558	6,845	7,965	9,826
	<u>11,773</u>	<u>12,206</u>	<u>15,343</u>	<u>14,783</u>	<u>14,426</u>

*Note:*

The Group has contracted with certain customers to offer them with volume rebates if their purchases of the Group’s products (i.e. occluders) have exceeded certain pre-determined level and these volume rebates are to be settled by way of the delivery of additional units of the Group’s products to these customers with no cash alternative settlement. In addition, the Group has also contracted with certain customers for granting them with the rights to claim for the Group’s delivery of additional units of its products (capped at a pre-determined ratio to the respective customer’s total quantities of products as purchased in a financial year) under certain pre-agreed circumstances which are irrelevant to the quality and functionality of the Group’s products (the “claims of additional units”). The sale transaction prices as allocated to the Group’s unsatisfied performance obligations in delivering additional units of its products as settlement for the aforesaid volume rebates and the claims of additional units have been deferred and accounted for as contract liabilities of the Group.

	<b>Year ended 31 December</b>			<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>2022</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	<u>11,773</u>	<u>12,206</u>	<u>15,343</u>	<u>15,343</u>	<u>14,783</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**33 CASH FLOW INFORMATION**

**(a) Reconciliation of profit before income tax to cash generated from operations**

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	60,346	76,679	66,027	44,970	25,306
Adjustments for:					
– depreciation and amortisation	4,717	6,114	9,807	3,924	6,784
– amortisation of deferred income related to government grants	(833)	(833)	(833)	(416)	(330)
– net loss on disposal/write-off of property, plant and equipment	9	19	1	1	1
– net gains on disposal of investment properties	(2,436)	(5,111)	–	–	–
– net loss on disposal of financial assets at FVOCI	–	139	–	–	–
– net provisions for/(reversal of) impairment losses on financial assets	1,788	(672)	(533)	(464)	4,169
– share-based compensation expenses	–	–	17,800	2,824	7,097
– fair value gains on financial assets at fair value through profit or loss	–	–	–	–	(4)
– investment income on financial assets at fair value through profit or loss	–	–	(6,669)	–	(4,809)
– finance (income)/costs – net	(127)	(142)	10,360	693	9,053
– net foreign exchange (gains)/losses	–	–	(5,192)	1,766	26,864
	<u>63,464</u>	<u>76,193</u>	<u>90,768</u>	<u>53,298</u>	<u>74,131</u>
Change in working capital:					
– inventories	(1,426)	(12,267)	(10,083)	2,876	(6,867)
– prepayments and other receivables	(5,241)	(7,024)	1,725	4,288	(27,669)
– trade receivables	(15,870)	8,166	13,509	5,985	(12,529)
– trade and other payables	19,576	4,851	9,250	4,149	26,832
– contract liabilities	433	3,137	(560)	400	(357)
– deferred income	(100)	–	–	–	–
	<u>(1,426)</u>	<u>(12,267)</u>	<u>(10,083)</u>	<u>2,876</u>	<u>(6,867)</u>
Cash generated from operations	<u>60,836</u>	<u>73,056</u>	<u>104,609</u>	<u>70,996</u>	<u>53,541</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**(b) Changes in liabilities from financing activities**

	<b>Lease liabilities</b>	<b>Redemption liabilities</b>	<b>Other payable to related parties</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>At 1 January 2019</b>	106	–	26,727
Cash flows	(483)	–	–
New leases	722	–	–
Additions	–	–	16,139
Interest expense ( <i>Note 11</i> )	24	–	–
<b>At 31 December 2019</b>	<u>369</u>	<u>–</u>	<u>42,866</u>
<b>At 1 January 2020</b>	369	–	42,866
Cash flows	(492)	–	–
New leases	232	–	–
Additions	–	–	2,888
Interest expense ( <i>Note 11</i> )	7	–	–
<b>At 31 December 2020</b>	<u>116</u>	<u>–</u>	<u>45,754</u>
<b>At 1 January 2021</b>	116	–	45,754
Cash flows	(2,378)	–	(45,858)
New leases	8,220	–	–
Additions	–	–	104
Initial recognition of redemption liabilities ( <i>Note 30</i> )	–	671,507	–
Interest expense ( <i>Notes 11 and 30</i> )	229	11,316	–
Foreign exchange adjustment ( <i>Note 30</i> )	–	(2,837)	–
<b>At 31 December 2021</b>	<u>6,187</u>	<u>679,986</u>	<u>–</u>
<b>At 1 January 2022</b>	6,187	679,986	–
Cash flows	(342)	–	–
New leases	268	–	–
Interest expense ( <i>Notes 11 and 30</i> )	175	10,523	–
Foreign exchange adjustments ( <i>Note 30</i> )	–	30,352	–
<b>At 30 June 2022</b>	<u>6,288</u>	<u>720,861</u>	<u>–</u>
<b>(Unaudited)</b>			
<b>At 1 January 2021</b>	116	–	45,754
Cash flows	(666)	–	(45,389)
New leases	3,636	–	–
Initial recognition of redemption liabilities ( <i>Note 30</i> )	–	671,507	–
Interest expense ( <i>Note 11</i> )	66	848	–
Foreign exchange adjustments ( <i>Note 30</i> )	–	4,678	–
<b>At 30 June 2021</b>	<u>3,152</u>	<u>677,033</u>	<u>365</u>

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**(c) Major non-cash transactions**

	<b>Year ended 31 December</b>
	<b>2021</b>
	<i>RMB’000</i>
Issue of shares to Lepu Medical in exchange of its entire 100% equity interest in Shanghai Shape Memory Alloy ( <i>Notes 1.2(v) and 26(a)</i> )	713,776

**34 COMMITMENTS**

The Group capital commitments as of 31 December 2019, 2020 and 2021 and 30 June 2022 are as follows:

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Property, plant and equipment	–	–	10,776	6,491

**35 RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of the Group’s business during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, and balances arising from related party transactions as at 31 December 2019, 2020 and 2021 and 30 June 2022.

**(a) Name and relationship with related parties**

<b>Names of the major related parties</b>	<b>Nature of relationship</b>
Lepu Medical Technology (Beijing) Co., Ltd. (“Lepu Medical”), (樂普(北京)醫療器械股份有限公司)	Parent of the Company
Jiangsu Bolangsensi Medical Equipment Co., Ltd. (江蘇博朗森思醫療器械有限公司)	A subsidiary of Lepu Medical
Lepu (Shanghai) Medical Equipment Co., Ltd. (樂普(上海)醫療器械有限公司)	A subsidiary of Lepu Medical
Xi’an Qinming Medical Instrument Co., Ltd. (西安秦明醫學儀器有限公司)	A subsidiary of Lepu Medical
Anhui Magete Medical Technology Co., Ltd. (安徽省瑪格特醫療科技有限公司)	A subsidiary of Lepu Medical
Lepu International Holdings (Shenzhen) Co., Ltd. (樂普國際控股(深圳)有限公司)	A subsidiary of Lepu Medical
Hefei High-tech Cardiovascular Hospital (合肥高新心血管病醫院)	A subsidiary of Lepu Medical
Beijing Ruixiang Taikang Technology Co., Ltd. (北京瑞祥泰康科技有限公司)	A subsidiary of Lepu Medical
Beijing Target Medical Technologies Co., Ltd. (北京天地和協科技有限公司)	A subsidiary of Lepu Medical

APPENDIX I

ACCOUNTANT’S REPORT

Names of the major related parties	Nature of relationship
Lepu Biopharma Co., Ltd. (樂普生物科技股份有限公司)	A joint venture of Lepu Medical
Lepu Hangjia (Shanghai) Business Incubator Management Co., Ltd. (樂普航嘉(上海)創業孵化器管理有限公司)	A subsidiary of joint venture of Lepu Medical
LepuCare (India) Vascular Solutions Pvt. Ltd.	A subsidiary of Lepu Medical
Beijing Lepu Precision Medical Technology Co., Ltd. (北京樂普精密醫療科技有限公司)	A subsidiary of Lepu Medical
Jiangsu Shangzhi Medical Instrument Co., Ltd. (江蘇上智醫療器械有限公司)	A subsidiary of Lepu Medical
Beijing Lepu Medical Technology Co., Ltd. (北京樂普診斷科技股份有限公司)	A subsidiary of Lepu Medical

(b) Transactions with related parties

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Sale of goods					
– Lepu Medical	7,815	27,970	9,712	8,520	–
– Subsidiaries of Lepu Medical	2,397	3,069	6,384	2,951	2,560
	<u>10,212</u>	<u>31,039</u>	<u>16,096</u>	<u>11,471</u>	<u>2,560</u>
Rental income					
– Subsidiaries of Lepu Medical	608	519	471	211	215
– Joint venture of Lepu Medical	378	479	522	260	–
– Subsidiary of joint venture of Lepu Medical	1,256	939	1,041	517	–
	<u>2,242</u>	<u>1,937</u>	<u>2,034</u>	<u>988</u>	<u>215</u>
Commission income					
– Subsidiary of Lepu Medical ( <i>Note 21(a)</i> )	–	–	–	–	734
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>734</u>
Purchases of raw materials and services					
– Lepu Medical ( <i>note</i> )	399	740	29,258	18,175	16,111
– Subsidiaries of Lepu Medical	417	330	3,036	874	622
	<u>816</u>	<u>1,070</u>	<u>32,294</u>	<u>19,049</u>	<u>16,733</u>



**APPENDIX I**

**ACCOUNTANT’S REPORT**

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Addition of right-of-use assets (leased buildings)					
– Lepu Medical	–	–	2,901	–	–
Payment of lease liabilities					
– Lepu Medical	–	–	596	–	–

*Note:* Up to the date of this Historical Financial Information, the key research and development work of certain heart valve products were registered under the name of, and conducted by, Lepu Medical. In May 2021, the Group entered into a framework agreement with Lepu Medical and entrusted Lepu Medical to development of certain heart valve products under the Group’s instruction due to regulatory restrictions and commercial reasons (the “Entrusted Development Services”). For the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022, the service fee paid/payable to Lepu Medical in respect of these Entrusted Development Services amounted to approximately RMB28,715,000, Nil and RMB16,111,000, respectively.

On top of the transactions with related parties as disclosed above, the Group also has the following transactions with related parties as disclosed in other notes:

- (i) the Group has issued certain of its shares to Lepu Medical for the 100% equity interest in Shanghai Shape Memory Alloy (Note 26(a));
- (ii) the Group has certain deemed contributions from or distributions to Lepu Medical during the Track Record Period (Notes 27(a) and 28(a)); and
- (iii) the Group has purchased certain COVID-19 antigen testing related products with carrying amounts of approximately RMB22,681,000 from a subsidiary of Lepu Medical and sold them to end customers on behalf of that subsidiary of Lepu Medical under a distribution arrangement as described in (Note 21(a)).

**(c) Balances with related parties**

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Receivables from related parties</b>				
Trade receivables				
– Lepu Medical	12,246	–	–	–
– Subsidiaries of Lepu Medical	6,704	10,078	270	1,706
	18,950	10,078	270	1,706

**APPENDIX I**

**ACCOUNTANT’S REPORT**

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Other receivables				
– Lepu Medical	–	68	–	–
– Subsidiaries of Lepu Medical	4,731	4,627	–	–
– Joint venture of Lepu Medical	480	161	–	–
– Subsidiary of joint venture of Lepu Medical	1,577	3,178	–	–
	<u>6,788</u>	<u>8,034</u>	<u>–</u>	<u>–</u>
Prepayments				
– Subsidiaries of Lepu Medical	–	303	58	1,234
	<u>–</u>	<u>303</u>	<u>58</u>	<u>1,234</u>
<b>Payables to related parties</b>				
Trade payables				
– Lepu Medical	1,243	2,019	–	147
	<u>1,243</u>	<u>2,019</u>	<u>–</u>	<u>147</u>
Other payables				
– Lepu Medical	42,866	45,750	–	–
– Subsidiaries of Lepu Medical	–	4	–	25,629
	<u>42,866</u>	<u>45,754</u>	<u>–</u>	<u>25,629</u>
Lease liabilities				
– Lepu Medical	–	–	2,157	2,218
	<u>–</u>	<u>–</u>	<u>2,157</u>	<u>2,218</u>

All the trade receivables/payable, lease liabilities and prepayment balances with related parties are trade in nature. As at 30 June 2022, other payable to a subsidiary of Lepu Medical represented the balances as arisen from the distribution arrangement as detailed in Note 21(a), which is also trade in nature. All other receivables from related parties and other payable to related parties (excluding aforementioned balances) are non-trade in nature, and these balances have been fully settled up to the date of this Historical Financial Information.

**APPENDIX I**

**ACCOUNTANT’S REPORT**

**(d) Key management personnel compensation**

Key management includes directors (executive and non-executive) and respective department heads. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December			Six months ended 30 June	
	2019	2020	2021	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, other short-term employee benefits and share-based payment					
– Directors and supervisors	1,982	2,004	8,147	1,850	4,410
– Other key management	749	881	4,388	1,131	1,400
	<u>2,731</u>	<u>2,885</u>	<u>12,535</u>	<u>2,981</u>	<u>5,810</u>

**(e) Directors’ emoluments**

The remuneration of every director and the chief executive officer for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, were set out below:

	Wages, salaries and bonuses	Social security costs and housing benefits	Total
	RMB'000	RMB'000	RMB'000
<b>For the year ended 31 December 2019</b>			
<b>Executive directors</b>			
Ms. Chen Juan (note a)	577	100	677
Ms. Zhang Yuxin (note b)	605	127	732
<b>Non-executive directors</b>			
Mr. Fu Shan (note e)	–	–	–
Mr. Zheng Guorui (note e)	–	–	–
Mr. Leung Waifung (note c)	–	–	–
Mr. Zheng Yufeng (note e)	–	–	–
Mr. Liu Daozhi (note e)	–	–	–
	<u>1,182</u>	<u>227</u>	<u>1,409</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Wages, salaries and bonuses	Social security costs and housing benefits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>For the year ended 31 December 2020</b>			
<b>Executive directors</b>			
Ms. Chen Juan ( <i>note a</i> )	620	64	684
Ms. Zhang Yuxin ( <i>note b</i> )	660	111	771
<b>Non-executive directors</b>			
Mr. Fu Shan ( <i>note e</i> )	–	–	–
Mr. Zheng Guorui ( <i>note e</i> )	–	–	–
Mr. Leung Waifung ( <i>note c</i> )	–	–	–
Mr. Zheng Yufeng ( <i>note e</i> )	–	–	–
Mr. Liu Daozhi ( <i>note e</i> )	–	–	–
	<u>1,280</u>	<u>175</u>	<u>1,455</u>

	Wages, salaries and bonuses	Social security costs and housing benefits	Share-based payments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>For the year ended 31 December 2021</b>				
<b>Executive directors</b>				
Ms. Chen Juan ( <i>note a</i> )	1,411	131	2,276	3,818
Ms. Zhang Yuxin ( <i>note b</i> )	949	131	1,973	3,053
<b>Non-executive directors</b>				
Mr. Fu Shan ( <i>note e</i> )	–	–	–	–
Mr. Zheng Guorui ( <i>note e</i> )	–	–	–	–
Mr. Leung Waifung ( <i>note c</i> )	133	–	–	133
Mr. Zheng Yufeng ( <i>note e</i> )	117	–	–	117
Mr. Liu Daozhi ( <i>note e</i> )	117	–	–	117
Ms. Chan Ka Lai Vanessa ( <i>note d</i> )	67	–	–	67
	<u>2,794</u>	<u>262</u>	<u>4,249</u>	<u>7,305</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Wages, salaries and bonuses	Social security costs and housing benefits	Share-based payments	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>For the six months ended 30 June 2021 (Unaudited)</b>				
<b>Executive directors</b>				
Ms. Chen Juan ( <i>note a</i> )	810	66	382	1,258
Ms. Zhang Yuxin ( <i>note b</i> )	570	66	331	967
<b>Non-executive directors</b>				
Mr. Fu Shan ( <i>note e</i> )	–	–	–	–
Mr. Zheng Guorui ( <i>note e</i> )	–	–	–	–
Mr. Leung Waifung ( <i>note c</i> )	100	–	–	100
Mr. Zheng Yufeng ( <i>note e</i> )	17	–	–	17
Mr. Liu Daozhi ( <i>note e</i> )	17	–	–	17
	<u>1,514</u>	<u>132</u>	<u>713</u>	<u>2,359</u>
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>For the six months ended 30 June 2022</b>				
<b>Executive directors</b>				
Ms. Chen Juan ( <i>note a</i> )	796	64	1,247	2,107
Ms. Zhang Yuxin ( <i>note b</i> )	611	66	1,080	1,757
<b>Non-executive directors</b>				
Mr. Fu Shan ( <i>note e</i> )	–	–	–	–
Mr. Zheng Guorui ( <i>note e</i> )	–	–	–	–
Mr. Zheng Yufeng ( <i>note e</i> )	100	–	–	100
Mr. Liu Daozhi ( <i>note e</i> )	100	–	–	100
Ms. Chan Ka Lai Vanessa ( <i>note d</i> )	100	–	–	100
	<u>1,707</u>	<u>130</u>	<u>2,327</u>	<u>4,164</u>

Notes:

- (a) Ms. Chen Juan was appointed as the chief executive officer and director of the Company on 29 January 2021. The amounts presented above represent the wages, salaries and bonuses and other benefits paid/payable to her during the Track Record Period.
- (b) Ms. Zhang Yuxin was appointed as a director of the Company on 29 January 2021. The amounts presented above represent the wages, salaries and bonuses and other benefits paid/payable to her during the Track Record Period.
- (c) Mr. Leung Waifung was appointed as a non-executive director of the Company on 29 January 2021 and resigned on 2 September 2021.
- (d) Ms. Chan Ka Lai Vanessa was appointed as a non-executive director of the Company on 2 September 2021.
- (e) Mr. Fu Shan, Mr. Zheng Guorui, Mr. Zheng Yufeng and Mr. Liu Daozhi were appointed as non-executive directors of the Company on 9 June 2021.

## APPENDIX I

## ACCOUNTANT’S REPORT

**(f) Directors’ retirement benefits**

There were no retirement benefits paid/payable to any director during the Track Record Period.

**(g) Directors’ termination benefits**

There were no termination benefits paid/payable to any director during the Track Record Period.

**(h) Consideration provided to or receivable by third parties for making available directors’ Services**

No consideration was provided to or receivable by third parties for making available directors’ services during the Track Record Period.

**(i) Information about loans, quasi-loans, controlled corporate bodies, connected entities and other dealings in favor of directors**

No loans, quasi-loans, controlled corporate bodies, connected entities and other dealings were entered into between the Group and the directors in favor of the directors, during the Track Record Period.

**(j) Directors’ material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years/period or at any time during the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022.

### 36 CONTINGENCIES

The Group did not have any material contingent liabilities as of 31 December 2019, 2020 and 2021 and 30 June 2022.

### 37 DIVIDEND

Pursuant to the resolution of the shareholders’ meeting of Shanghai Shape Memory Alloy held on 20 January 2021, it is resolved that Shanghai Shape Memory Alloy distributed dividend of RMB320,000,000 to Lepu Medical. No other dividend has been declared by the Company or the companies now comprising the Group during each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022.

### 38 EVENTS OCCURRING AFTER THE REPORTING PERIOD

[There were no significant events after the end of the Track Record Period that require additional disclosures or adjustments.]

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2022 and up to the date of this report. Save as disclosed in Note 37 and elsewhere in the Historical Financial Information, no other dividend or distribution have been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2022.