You should read the following discussion and analysis in conjunction with our consolidated financial statements included in "Appendix I — Accountants' Report" to this Document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical events, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this Document, including those set forth in "Risk Factors" and "Forward-Looking Statements" in this Document.

OVERVIEW

We are the largest domestic player and the fourth largest player with a market share of 6.7% in China's ophthalmic medical device market in terms of revenue in 2021. We provide a broad spectrum of ophthalmic medical device and our product offering covers all seven ophthalmology sub-specialties where ophthalmic medical devices are utilized for their diagnosis, treatment or surgeries, according to Frost & Sullivan. We are an early mover in China's ophthalmic medical device industry with over 20 years of track record. Over 4,000 end customers in China (including over 1,200 Class III hospitals and 1,500 Class II hospitals) as of the Latest Practicable Date, covering ophthalmic diagnostic equipment, surgical and treatment equipment and consumables, as well as providing after-sale technical services.

During the Track Record Period, a significant portion of our revenue was generated from the sales of ophthalmic medical equipment and consumables. We distribute a broad product portfolio covering the medical device categories of each of the seven major ophthalmology sub-specialties, being vitreoretinal diseases, cataracts, refractive surgery, glaucoma, ocular surface diseases, optometry and pediatric ophthalmology. Our product portfolio comprised Distribution Products of our brand partners and Proprietary Products which we develop and manufacture. As of the Latest Practicable Date, we had collaborated with 19 overseas brand partners, of which 16 had entered into exclusive distribution arrangements for their products with us, including Heidelberg, Schwind and Optos. With our long-term track record, in-depth market understanding and industry knowhow, extensive sales network and experienced operational team, we have become the preferred partner of many global leaders in their sub-segments of the ophthalmic medical device industry, helping them navigate the complex regulatory landscape in China, providing them access to our mature and flexible multi-channel sales network, and further promoting their products through our professional technical service team. We have also gradually expanded our portfolio of Proprietary Products through our own R&D efforts and our acquisition of Teleon and Roland.

Capitalizing on our technical service capability, we provide our end customers with technical services primarily in China to support their maintenance and after-sale services requests, and generate service revenue therefrom. Our customers may purchase warranty services on an annual basis under which we provide unlimited technical services during the period, or we may charge our customers based on the specific maintenance request. We are the second largest ophthalmic medical device technical service provider in China in terms of revenue from provision of technical services in 2021, according to Frost & Sullivan. As of the Latest Practicable Date, our technical service team comprised 127 technicians and our industry-leading technical service network covered all provincial administrative regions in China. With their skill set, our technical service team and nationwide service network are capable of providing our customers with multiple types of services such as operating environmental assessment, installation, after-sales technical support, repair and maintenance for various products.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue amounted to RMB1,106.7 million, RMB962.1 million, RMB1,298.2 million, RMB578.6 million and RMB577.9 million, respectively, and our gross profit was RMB463.3 million, RMB436.2 million, RMB609.5 million, RMB269.8 million and RMB281.2 million for the same periods, respectively. Our gross profit margin increased from 41.9% in 2019 to 45.3% in 2020 and further to 46.9% in 2021, and it increased from 46.6% for the six months ended June 30, 2021 to 48.7% for the six months ended June 30, 2022.

BASIS OF PRESENTATION AND PREPARATION

Our financial information is presented in RMB, which is the functional currency of the Company and was prepared and presented in accordance with the IFRS. Pursuant to the Reorganization, as more fully explained in the paragraph headed "Reorganization" in the section headed "History, Reorganization and Development" in the Document, our Company became the holding company of the companies now comprising our Group. As the Restructuring mainly involved inserting new holding companies and has not resulted in any change of the respective voting, economic substance and beneficial interests, the Historical Financial Information for the Relevant Periods has been presented by applying the principles of pooling of interests.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Growth of China's Ophthalmic medical Device Market

Our financial performance and future growth depend on the overall growth of China's ophthalmic medical device market. Ophthalmic medical device remains significantly under-penetrated in China, and as a result, China's ophthalmic medical device market is expected to experience a healthy growth trajectory. According to Frost & Sullivan, China ophthalmic medical device market increased from RMB9.2 billion in 2017 to RMB16.3 billion in 2021, representing a CAGR of 15.5%, which is on a faster trajectory than the global ophthalmic medical device market. The slight contraction in the market in 2020 was caused by the outbreak of COVID-19, which paused the public tendering processes of many hospitals and substantially reduced the number of surgeries performed in China and therefore affected the sales of medical equipment and consumables. The market is expected to experience higher growth in the coming five years and is expected to grow to RMB28.3 billion and RMB49.2 billion in 2025 and 2030, respectively. For details, see "Industry Overview."

Product Portfolio

The profitability of our sales of products business is affected by the composition of our product portfolio, as the sales volume and gross profit margin of different products in our portfolio vary. Generally, the gross profit margin of the sales of our ophthalmic medical equipment is lower than that of ophthalmic medical consumables. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, gross profit margin of the sales of ophthalmic medical equipment was 39.7%, 43.4%, 44.7%, 44.9% and 45.9%, respectively, while gross profit margin of the sales of ophthalmic medical consumables was 52.5%, 51.8%, 51.2%, 51.0% and 55.0%, respectively.

The percentage of revenue derived from ophthalmic medical consumables out of our total revenue increased from 13.4% in 2019 to 14.6% in 2020, and further to 31.5% in 2021, and increased from 31.2% for the six months ended June 30, 2021 to 35.7% for the six months ended June 30, 2022. This contributed to the increase in our gross profit from RMB463.3 million in 2019 to RMB609.5 million in 2021 and from RMB269.8 million for the six months ended June 30, 2021 to RMB281.2 million for the six months ended June 30, 2022, as well as the increase in our gross profit margin from 41.9% in 2019 to 46.9% in 2021, and from 46.6% for the six months ended June 30, 2021 to 48.7% for the six months ended June 30, 2022. We expect to continue to focus on our higher-margin ophthalmic medical consumables. Our product portfolio may gradually evolve in the future as we launch and introduce new products with different margin profiles, and this will continue to have an positive impact on our profitability.

During the Track Record Period, we primarily offered a broad suite of ophthalmic medical equipment and consumables. We also actively develop and introduce new products to expand the coverage of our product portfolio, which we believe will diversify our revenue source and enable us to maintain sustainable growth. We have 15 key pipeline products. We believe these candidates represent the long-term growth opportunities of the ophthalmology market. For details of our product pipeline, see "Business — Our Product Portfolio and Technical Services — Product Pipeline."

Development of our Technical Services Business

In addition to sales of products, we also derived revenue from the provision of technical services. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, revenue generated from the provision of technical services was RMB107.9 million, RMB138.8 million, RMB161.6 million, RMB80.9 million and RMB89.7 million, respectively, representing 9.8%, 14.4%, 12.4%, 14.0% and 15.5% of our total revenue, respectively. Given the technical complexities of the maintenance and repair of the medical equipment, our customers rely on our quality technical services and we generally enjoy recurring revenues from our technical service businesses. From 2019 to 2021, revenue generated from the provision of technical services increased from RMB107.9 million to RMB161.6 million, representing a CAGR of 22.4%. We therefore actively promote our technical services to achieve sustainable growth and development and believe the development of our technical services business plays a vital role in our overall business model.

Penetration into Overseas Markets

We generate the majority of our revenue from sales to our customers in Greater China. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, revenue generated from sales to Greater China customers was RMB1,106.6 million, RMB956.3 million, RMB1,033.9 million, RMB450.7 million and RMB453.4 million, respectively, representing 100%, 99.4%, 79.6%, 77.8% and 78.3% of our total revenue, respectively. Our ability to effectively manage our sales network and to expand hospital coverage of our domestic sales network is critical to our business performance. Through our sales network, as of the Latest Practicable Date, our products were ultimately sold to over 4,000 end customers in China, including over 1,200 Class III hospitals and 1,500 Class II hospitals in all provincial administrative regions in China. Going forward, we will adopt a targeted distribution strategy to encourage domestic distributors to increase the share of wallet from major Class IIIA hospitals and increase penetration in lower-tier hospitals.

For the year ended December 31, 2021 and six months ended June 30, 2022, we generated revenue of RMB264.4 million and RMB124.4 million from sales outside Greater China, respectively, which accounted for 20.4% and 21.7% of our total revenue for the same periods. This is due to our acquisition of Teleon and Roland, which expand our global footprint. Going forward, we plan to expand our sales and increase our brand recognition in global markets, accelerate product registrations under our brand in more countries, and continue to launch new products globally. We believe that our efforts in expanding our international presence will enable us to increase sales and further enhance our results of operations.

Regulatory Environment in China

The medical device market in China is highly regulated. The implementation and enforcement of government policies and regulations in China generally have a significant impact on the introduction, development, manufacture, pricing and sale of medical devices in China, which may also increase the cost of compliance with such policies and regulations for medical device companies in China. Specifically, medical devices must be filed or registered with the NMPA or its local branches at the prefectural city level before they can be manufactured or commercialized in China and such registration must be renewed periodically. Any change in laws, regulations or policies in relation to such filing or registration could affect our ability and plans to launch new products and renew registration for existing products. For details, see "Regulatory Overview."

We expect the regulatory framework for the medical device industry in China to continue to evolve. In recent years, the healthcare regulatory framework in China has undergone significant changes, such as those with respect to pricing and tender process for medical devices, which may affect our financial condition and results of operations.

- *Tendering process*. In light of the PRC government's policy objective of price containment of medical products, public hospitals generally determine their suppliers and make purchases through the public tendering process, according to which they post their supply request and requirements publicly. We work with our domestic distributors to participate in such public tendering process to sell our products to public hospitals and other medical institutions. According to Frost & Sullivan, public tendering has long been the industry norm process for sales of medical device to public hospitals, and it does not have any significant impact on our business operations and financial performance.

- *Two-Invoice System*. In April 2017, the PRC Government announced a pilot program in certain provinces in China to implement the "Two-Invoice System," which generally limits the network of distributors to a single layer of distributors for sale of medical devices from manufacturers to hospitals. For details, see "Regulatory Overview — Laws and Regulations Relating to Medical Devices — Two-Invoice System." As the affected sales revenue was relatively small and the demand for our products from end customers are not affected, the "Two-Invoice System" had not had a material adverse effect on our financial condition and results of operations. If additional provinces begin to implement "Two-Invoice System" for medical devices, we expect that (i) we may conduct more marketing activities and provide services ancillary to our product sales by ourselves or by engaging third-party service providers, which may result in additional sales and marketing expenses; (ii) we may experience increases in our revenue and gross margin as we may have higher ex-factory price or distribution price under the "Two-Invoice System"; and (iii) we may experience increases in trade receivable balances and turnover days in those regions, as we may grant relatively longer credit terms to certain customers whose payment process tends to be longer, such as hospitals in the case of direct sales. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our sales that are subject to the Two-Invoice System represented less than 2.5% of our aggregate revenue for the corresponding periods. We had complied with the applicable laws and regulations in respect of the Two-Invoice System in all material aspects throughout the Track Record Period and up to the Latest Practicable Date, and it does not have any significant impact on our business operations and financial performance. However, as the implementation of the "Two-Invoice System" is still at an early stage, and interpretations and enforcement of this system continue to evolve, the actual effect of the "Two-Invoice System" on our future results of operations remains uncertain.

- *Centralized volume-based procurement regime.* Certain provincial and municipal authorities in China have adopted and organized volume-based and centralized procurement regime for medical device products sold to public hospitals and other medical institutions in China. Public hospitals and other medical institutions participating in such centralized procurement regime may only purchase products that is admitted into the product catalogue determined in accordance with the centralized procurement regime. See "Regulatory Overview — Laws and Regulations Relating to Medical Devices — Tendering Processes for Medical Devices" for details. As the general distributor of our Distribution Products, we participate in such centralized procurement regimes to market our Distribution Products to public hospitals and non-profit medical institutions. The Company considered the centralized procurement regimes provide us with the opportunity to quickly penetrate into the end market of public hospitals, and we strategically select the products to be admitted into the centralized procurement regimes to boost sales volume and sales of such products. On the other hand, we also differentiate the products sold under centralize procurement regimes and the products sold otherwise (e.g. direct sales to private hospitals) in China. As of the Latest Practicable Date, four of our products, namely Lentis spherical intraocular lens (PCA81), Lentis aspherical monofocal intraocular lens (L-312), Lentis Comfort EDoF intraocular lens (LS-313 MF15) and

Lentis Comfort EDoF intraocular lens (LS-313 MF15T) had been sold under at least one centralized volume-based procurement regime. Except for Lentis Comfort EDoF intraocular lens (LS-313 MF15T), which was not admitted into any centralized procurement regime until December 2021, the aggregate revenue generated from our sales of the four products in China increased significantly when compared to their sales preceding to admission into centralized procurement regime, while their admissions to the centralized procurement regime resulted in lower sale prices of the products. Given that we have the discretion to apply for admission with respect to specific type of product into the centralized procurement regimes and the sales of many our products are still under-penetrated in China, we believe the centralized procurement regimes will not have significant impact on our business operations and financial performance in near future. On the other hand, we proactively explore the possibility to admit our IOL product for sales through the centralized procurement regime and evaluate the business opportunity brought by centralized procurement regimes and select the products to be admitted to the centralized procurement regimes. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the aggregate sales volume of the four products amounted to approximately 41,000 pieces, 30,000 pieces, 54,000 pieces and 29,000 pieces, respectively.

Business Acquisitions

During the Track Record Period, we completed a series of acquisitions. Particularly, we completed the acquisition of Roland in November 2020 and the acquisition of Teleon in January 2021. As a result, their results of operations have been consolidated in our financial statements since the completion of such acquisitions. On the other hand, business acquisitions will have an impact on our cashflow, and our capital expenditures as well as increase goodwill, which is subject to future impairment risk, on our balance sheet. Accordingly, our results of operations during the Track Record Period may not be directly comparable, especially between the year ended December 31, 2020 and 2021, and our future results of operations and financial condition may be affected by our historical and future business acquisitions. For more information regarding these acquisitions in the Track Record Period, see "History, Reorganization and Corporate Structure — Our Major Subsidiaries" and Note 35 to the Accountants' Report in Appendix I to this Document.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

- Sale of products. Revenue from the sale of ophthalmic medical equipment and ophthalmic medical consumables is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance after installation.

- After-sales services. Revenue from the provision of after-sales services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by us.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Business combinations and goodwill

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

We determine that we have acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

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

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

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

Derivative financial instruments

Initial recognition and subsequent measurement

We use derivative financial instruments, such as foreign currency swaps and interest rate swaps, to hedge our foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Impairment of Goodwill

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2019, 2020 and 2021 and June 30, 2022 was RMB16.2 million, RMB31.2 million, RMB882.7 million and RMB857.6 million, respectively. The carrying amount of Roland, Gaush Germany, and Teleon Holding B.V. was denominated in Euro, and the decrease in the goodwill between December 31, 2021 and June 30, 2022 was attributable to the fluctuation of exchange rates between RMB and Euro. We had not recorded any impairment on our goodwill during the Track Record Period.

The goodwill acquired through business combinations is allocated to the following cash-generating units (the "**CGUs**") for impairment testing:

- Gaush Medica;
- Gaush Consumables;
- Suzhou Gaush Precision;
- Roland and Gaush Germany; and
- Teleon Holding B.V.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Gaush Medica	16,190	16,190	16,190	16,190
Gaush Consumables	–	5,320	5,320	5,320
Suzhou Gaush Precision	–	2,361	2,361	2,361
Roland and Gaush Germany	–	7,357	6,622	6,429
Teleon Holding B.V.	–	–	852,205	827,263
	16,190	31,228	882,698	857,563

The recoverable amount of the CGUs has been determined based on a value in use ("**VIU**") calculation using cash flow projections based on financial budgets approved by the senior management. The cash flow projections covering a 5-year period were applied for Gaush Medica, Roland and Gaush Germany, and Teleon Holding B.V.; and a 8-year period was used for Gaush Consumables and Suzhou Gaush Precision. The forecast period in the goodwill impairment test has considered the development stage of the entity and commercialization prospect of major products.

Based on our best knowledge and experience in the industry, it is reasonable to assume that it takes 3 years longer for an early stage entity to develop and commercialize products before reaching perpetual growth. We believe that a forecasted periods of five years and eight years, respectively, is feasible and reflects a more reasonable entity value. As of December 31, 2019, 2020 and 2021 and June 30, 2022, the recoverable amounts of the CGUs or group of CGUs exceeding their carrying amounts are as follows:

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000			
Gaush Medica	10,029	18,400	19,862	25,278
Gaush Consumables	–	3,925	2,269	3,369
Suzhou Gaush Precision	–	1,354	1,871	3,860
Roland and Gaush Germany	–	3,365	5,757	6,178
Teleon Holding B.V.	–	–	236,406	274,065
	10,029	27,044	266,165	312,750

Goodwill is tested by the management for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of the CGUs has been determined based on a VIU calculation. That calculation uses cash flow projections based on financial budgets approved by the management. Other key assumptions for the VIU calculation relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the management's expectations for the market development.

The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill.

	As of December 31, 2019		
	Pre-tax discount rate	Budgeted gross profit margin	Terminal growth rate
Gaush Medica	19.05%	45.60%-50.00%	3.00%

	As of December 31, 2020		
	Pre-tax discount rate	Budgeted gross profit margin	Terminal growth rate
Gaush Medica	17.65%	45.00%–50.00%	3.00%
Gaush Consumables	18.22%	30.00%–52.00%	3.00%
Suzhou Gaush Precision	17.70%	27.03%–50.00%	3.00%
Roland and Gaush Germany	22.84%	43.00%–45.00%	2.00%

	As of December 31, 2021		
	Pre-tax discount rate	Budgeted gross profit margin	Terminal growth rate
Gaush Medica	17.40%	40.13%–46.00%	3.00%
Gaush Consumables	18.49%	30.00%–49.00%	3.00%
Suzhou Gaush Precision	17.66%	30.54%–49.00%	3.00%
Roland and Gaush Germany	22.84%	43.00%–45.00%	2.00%
Teleon Holding B.V.	14.76%	57.00%–62.61%	2.00%

	As of June 30, 2022		
	Pre-tax discount rate	Budgeted gross profit margin	Terminal growth rate
Gaush Medica	17.50%	40.63%–46.00%	3.00%
Gaush Consumables	18.47%	28.99%–47.84%	3.00%
Suzhou Gaush Precision	17.75%	30.54%–49.00%	3.00%
Roland and Gaush Germany	22.80%	43.00%–45.00%	2.00%
Teleon Holding B.V.	14.81%	56.18%–62.10%	2.00%

Assumptions were used in the VIU calculation of the CGUs for the Track Record Period. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

- Pre-tax discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

- The range of budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

- Terminal growth rate — The forecasted terminal growth rate is based on the management's expectations and does not exceed the long-term average growth rate for the industry relevant to the CGUs or group CGUs.

The values assigned to the key assumptions on market development of medical equipment and medical consumables and discount rates are consistent with external information sources.

We perform a sensitivity test by decreasing 1% of budgeted gross margin, decreasing 0.5% of terminal growth rate or increasing 1% of pre-tax discount rate, with all other assumptions held constant. The impacts on the amount by which each CGU's recoverable amount above its carrying amount (headroom) are as below:

	As of December 31, 2019			
	Headroom	**Impact by decreasing gross profit margin**	**Impact by decreasing terminal growth rate**	**Impact by increasing pre-tax discount rate**
	RMB'000			
Gaush Medica	10,029	(2,000)	(2,000)	(5,000)

	As of December 31, 2020			
	Headroom	**Impact by decreasing gross profit margin**	**Impact by decreasing terminal growth rate**	**Impact by increasing pre-tax discount rate**
	RMB'000			
Gaush Medica	18,400	(3,000)	(2,000)	(5,000)
Gaush Consumables	3,925	(800)	(600)	(2,100)
Suzhou Gaush Precision	1,354	(900)	(500)	(1,300)
Roland and Gaush Germany	3,365	(2,387)	(796)	(2,387)
	27,044	(7,087)	(3,896)	(10,787)

	As of December 31, 2021			
	Headroom	**Impact by decreasing gross profit margin**	**Impact by decreasing terminal growth rate**	**Impact by increasing pre-tax discount rate**
	RMB'000			
Gaush Medica	19,862	(4,000)	(2,000)	(6,000)
Gaush Consumables	2,269	(800)	(500)	(1,700)
Suzhou Gaush Precision	1,871	(1,000)	(400)	(1,600)
Roland and Gaush Germany	5,757	(2,166)	(722)	(1,444)
Teleon Holding B.V.	236,406	(36,099)	(18,049)	(109,018)
	266,165	(44,065)	(21,671)	(119,762)

	As of June 30, 2022			
	Headroom	Impact by decreasing gross profit margin	Impact by decreasing terminal growth rate	Impact by increasing pre-tax discount rate
	RMB'000			
Gaush Medica	25,278	(4,000)	(2,000)	(6,000)
Gaush Consumables	3,369	(800)	(500)	(1,700)
Suzhou Gaush Precision	3,860	(1,100)	(400)	(800)
Roland and Gaush Germany	6,178	(2,103)	(701)	(1,402)
Teleon Holding B.V.	274,065	(35,042)	(49,059)	(106,528)
	312,750	(43,045)	(52,660)	(116,430)

Considering there was still sufficient headroom based on the assessment, we believe that a reasonably possible change in the above key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount, would not result in an impairment provision of goodwill. For details, see Note 15 to the Accountants' Report set out in Appendix I to this Document.

Provision for Expected Credit Losses (ECLs) on Trade Receivables and Contract Assets

We use a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on our historical observed default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a certain sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. For details, see Notes 20 and 22 to the Accountants' Report set out in Appendix I to this Document.

Fair Value Measurement

We measure our convertible redeemable Preferred Shares, loan at fair value through profit or loss derivative financial instruments and financial assets at fair value through profit or loss as of December 31, 2019, 2020 and 2021. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

For assets and liabilities that are recognised on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) as of December 31, 2019, 2020 and 2021. See Note 39 to the Accountants' Report in Appendix I to this Document.

The Preferred Shares and the Mezzanine Loan Facility were categorized as level 3 financial liabilities measured at fair value through profit or loss during the Track Record Period. Our Directors, based on the professional advice received, adopted the following procedures: (i) engaged an independent valuer (the "**Independent Valuer**"), provided documents related to the Preferred Shares and the Mezzanine Loan Facility and other necessary financial and non-financial information to enable the valuer to perform valuation procedures, and discussed with the Independent Valuer on relevant assumptions; (ii) carefully considered all information especially those non-market related information input which require management assessments and estimates; and (iii) reviewed the valuation working papers and results prepared by the Independent Valuer and considered the assumptions and methods adopted by the Independent Valuer as set out therein. Based on the above procedures, our Directors are satisfied with the categorization within level 3 of fair value measurement pursuant to the SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions."

The Reporting Accountants have carried out necessary audit works including considering the qualification, independence and credentials of the Independent Valuer, reviewing the valuation results, with the assistance from their internal valuation specialists in relation to the methodology, assumptions and sources of data used by our management, checking the details of the fair value measurement of financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, together with a quantitative sensitivity analysis are set forth in Note 31, Note 32 and Note 39 to the Accountants' Report in Appendix I to this Document. The opinion of our Reporting Accountants on our historical financial information during the Track Record Period is set forth on page I-2 of Appendix I to this Document.

In relation to the valuation analysis on level 3 financial liabilities of the Preferred Shares and the Mezzanine Loan Facility during the Track Record Period, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) reviewed the subscription agreements of the Preferred Shares and the facility agreement of the Mezzanine Loan Facility to understand the nature and details of such financial liabilities; (ii) reviewed relevant notes in the Accountants' Report as contained in Appendix I to this Document and discussed with the Reporting Accountants the audit procedures they performed on the valuation of such financial liabilities; (iii) reviewed the valuation working papers and results prepared by the Independent Valuer for the valuation of such financial liabilities, and discussed with the Independent Valuer on the key basis and assumptions they applied for the valuation of such financial liabilities; and (iv) considered the qualification, independence and credentials of the Independent Valuer. Having considered the work performed by the Directors and Reporting Accountants and the relevant due diligence performed as stated above, nothing has come to the Joint Sponsors' attention that would cause the Joint Sponsors to cast doubt on the valuation of level 3 financial liabilities of the Preferred Shares and the Mezzanine Loan Facility.

DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

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

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
							(Unaudited)			
	RMB'000 (except percentages)									
Revenue	1,106,655	100	962,075	100	1,298,218	100	578,568	100.0	577,874	100.0
Cost of sales	(643,310)	(58.1)	(525,898)	(54.7)	(688,747)	(53.1)	(308,773)	(53.4)	(296,633)	(51.3)
Gross profit	463,345	41.9	436,177	45.3	609,471	46.9	269,795	46.6	281,241	48.7
Profit /(Loss) before tax	2,149	0.2	149,155	15.5	(137,964)	(10.6)	(11,512)	(2.0)	(32,147)	(5.6)
(Loss)/Profit for the year	(38,026)	(3.4)	98,538	10.2	(191,571)	(14.8)	(34,585)	(6.0)	(53,264)	(9.2)
Attributable to:										
Owners of the parent	(37,041)	(3.3)	99,367	10.3	(190,447)	(14.7)	(34,462)	(6.0)	(51,134)	(8.8)
Non-controlling interests	(985)	(0.1)	(829)	(0.1)	(1,124)	(0.1)	123	0.0	(2,130)	(0.4)
	(38,026)	(3.4)	98,538	10.2	(191,571)	(14.8)	(34,585)	(6.0)	(53,264)	(9.2)

Non-IFRS Measure

To supplement the Group's consolidated financial statements, which are presented in accordance with the IFRS, the Company also uses adjusted net profit for the year, which are not required by, or presented in accordance with the IFRS.

We define adjusted net profit (Non-IFRS measure) as net profit/(loss) adding back fair value loss and foreign exchange loss on Preferred Shares and [**REDACTED**] and deducting foreign exchange gains on Preferred Shares. Fair value losses and foreign exchange losses/(gains) on Preferred Shares are non-cash in nature and do not result in cash out-flow, and given that the Preferred Shares will be converted into Shares upon the [**REDACTED**], we do not expect to record such losses or gains after the [**REDACTED**]. [**REDACTED**] are expenses relating to the [**REDACTED**]. We believe the exclusion of fair value losses and foreign exchange losses/(gains) on Preferred Shares and [**REDACTED**] provides investors and management with greater visibility as to the underlying performance of our business operations and facilitates comparison of operating performance of other companies in our industry and of ourselves during different periods.

However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this measure has limitations as an analytical tool. As such, it should not be considered in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under the IFRS.

The table below sets forth a reconciliation of net profit/(loss) for the year to adjusted net profit (Non-IFRS measure) for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
			RMB'000		
(Loss)/Profit for the Period	(38,026)	98,538	(191,571)	(34,585)	(53,264)
Add:					
Fair value loss on Preferred Shares	173,152	64,631	375,606	99,247	36,099
Foreign exchange losses/(gains) on Preferred Shares	9,548	(45,165)	(37,949)	(16,619)	88,709
[**REDACTED**]	–	–	[**REDACTED**]	–	[**REDACTED**]
Adjusted net profit for the period (Non-IFRS measure)	144,674	118,004	171,319	48,043	90,457

Our adjusted net profit (Non-IFRS measure) decreased from RMB144.7 million for the year ended December 31, 2019 to RMB118.0 million for the year ended December 31, 2020 primarily due to the decrease in revenue and gross profit as the result of the initial outbreak of COVID-19 in China in 2020, which was partially offset by the decrease in selling and distribution expenses. Our adjusted net profit (Non-IFRS measure) increased to RMB171.3 million for the year ended December 31, 2021, primarily due to the increase of revenue in 2021 after the acquisition of Teleon and our sales of products in China bounced back in 2021 from the market low point in light of the outbreak of COVID-19 in 2020. Our adjusted net profit (Non-IFRS measure) increased from RMB48.0 million for the six months ended June 30, 2021 to RMB90.5 million for the six months ended June 30, 2022, which was primarily attributable to the (i) increase in our gross profit and gross profit margin, as the revenue contribution of the sales of ophthalmic medical consumables and technical services improved; and (ii) decrease in finance costs during the same periods, as we partially repaid our various interest-bearing borrowings (including the Vendor Loan and bank borrowings) and the finance costs for the six months ended June 30, 2022 primarily represented the interest expenses and did not include the one-off upfront expenses incurred when we draw down the bank borrowings in relation to the acquisition of Teleon in 2021, and was partially offset by the increase in research and development expenses and selling and distribution expenses.

Revenue

For the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, our revenue amounted to RMB1,106.7 million, RMB962.1 million, RMB1,298.2 million, RMB578.6 million and RMB577.9 million, respectively. We generated revenue from the sales of ophthalmic medical equipment and consumables, as well as provision of technical services during the Track Record Period. Our revenue is generally higher in the second half of the year when purchases of ophthalmic medical device by end customers are more active. The table below sets forth the breakdown of our revenue by business segment for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Sales of ophthalmic medical equipment	849,405	76.7	676,917	70.4	718,718	55.4	311,821	53.9	274,509	47.5
Sales of ophthalmic medical consumables	147,928	13.4	140,924	14.6	408,368	31.5	180,665	31.2	206,139	35.7
Technical service	107,925	9.8	138,784	14.4	161,605	12.4	80,927	14.0	89,708	15.5
Others*	1,397	0.1	5,450	0.6	9,527	0.7	5,155	0.9	7,518	1.3
Total	1,106,655	100	962,075	100	1,298,218	100	578,568	100.0	577,874	100.0

* Others primarily included the registration service fees and the royalties we received for the licensing out of certain of our intellectual properties. On March 22, 2016, Teleon entered into a license agreement with a reputable Japanese specialized pharmaceutical company focusing on ophthalmic treatment. For details, see "Business — Intellectual Property." We also charge our brand partners for registering their products and providing maintenance and repair services for their medical equipment products outside China.

Sales of Products

Ophthalmic medical equipment

During the Track Record Period, a majority of our revenue was generated from sales of ophthalmic medical equipment. For the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, our revenue generated from the sales of ophthalmic medical equipment was RMB849.4 million, RMB676.9 million, RMB718.7 million, RMB311.8 million and RMB274.5 million, respectively, accounting for 76.7%, 70.4%, 55.4%, 53.9% and 47.5% of our total revenue, respectively. Our revenue from the sales of ophthalmic medical equipment decreased from RMB849.4 million in 2019 to RMB676.9 million in 2020 due to the decline in demand for our products as the ophthalmology specialized hospitals and clinics suspended or reduced their operation in light of the outbreak of COVID-19 in China in the first half of 2020. Our revenue from sales of ophthalmic medical equipment increased to RMB718.7 million in 2021, reflecting our strong recovery from the market low point in light of the outbreak of COVID-19 after the ophthalmology hospitals and clinics in China gradually resumed their operation in the second half of 2020. Our revenue from sales of ophthalmic medical equipment decreased from RMB311.8 million for the six months ended June 30, 2021 to RMB274.5 million for the six months ended June 30, 2022 because the delivery and installment (and hence the revenue recognition) as to our ophthalmic medical equipment products were interrupted by the outbreak of COVID-19 in Eastern China in the first half of 2022.

The table below sets forth further breakdown of our revenue generated from the sales of ophthalmic medical equipment by product types.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Sales of ophthalmic medical equipment										
Diagnostic equipment	498,033	58.6	368,927	54.5	451,798	62.8	179,950	57.7	154,987	56.4
Surgical & treatment equipment	351,372	41.4	297,393	43.9	257,793	35.9	128,767	41.3	116,325	42.4
Other equipment	–	–	10,597	1.6	9,127	1.3	3,104	1.0	3,197	1.2
Total	849,405	100	676,917	100	718,718	100	311,821	100.0	274,509	100.0

During the Track Record Period, a majority portion of our sales of ophthalmic medical equipment revenue was generated from sales of diagnostic equipment. The revenue generated from the sales of diagnostic equipment accounted for 58.6%, 54.5%, 62.8%, 57.7% and 56.4% of our sales of ophthalmic medical equipment for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, respectively.

Ophthalmic medical consumables

Revenue from sales of ophthalmic medical consumables slightly decreased from RMB147.9 million in 2019 to RMB140.9 million in 2020 primarily due to the impact of COVID-19, and increased to RMB408.4 million in 2021, primarily reflecting our strong recovery from the market low point in light of the outbreak of COVID-19 in 2020 and the consolidation of Teleon starting from January 2021. Our ophthalmic medical consumable products include intraocular lens and other consumables. As consumables are utilized in each relevant ophthalmology surgical operations, while the replacement and purchase of equipment may not be of the same urgency, the recovery from COVID-19 with respect to the sales of ophthalmic medical consumables outpaced that of ophthalmic medical equipment. Revenue from sales of ophthalmic medical consumables increased from RMB180.7 million for the six months ended June 30, 2021 to RMB206.1 million for the six months ended June 30, 2022, primarily reflecting the increase in sales volume of surgical consumables which are usually used by our customers with the ophthalmic surgical medical equipment we sold so the demand for which increases in line with the improving penetration of our ophthalmic surgical medical equipment. The table below sets forth further breakdown of our revenue generated from the sales of ophthalmic medical consumables by product types for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Sales of ophthalmic medical consumables										
Intraocular lens	67,924	45.9	56,698	40.2	259,621	63.6	122,440	67.8	124,935	60.6
Other consumables	80,004	54.1	84,226	59.8	148,747	36.4	58,225	32.2	81,204	39.4
Total	147,928	100	140,924	100	408,368	100	180,665	100	206,139	100

Product Types and Geographical Areas

Our product portfolio includes both Distribution Products, being products of our brand partners, and Proprietary Products, being products we develop and manufacture. The table below sets forth the breakdown of our sales of products revenue by Distribution Product and Proprietary Product for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Distribution Products	986,004	98.9	793,121	97.0	810,989	72.0	349,027	70.9	338,657	70.5
Proprietary Products	11,329	1.1	24,720	3.0	316,097	28.0	143,459	29.1	141,991	29.5
Total	997,333	100	817,841	100	1,127,086	100	492,486	100	480,648	100

For the years ended December 31, 2019, 2020 and 2021, our revenue generated from the sales of Proprietary Products increased from RMB11.3 million in 2019 to RMB24.7 million in 2020 and further increased to RMB316.1 million in 2021, representing a CAGR of 428.2% from 2019 to 2021, and remained stable between the six months ended June 30, 2021 and 2022. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our revenue generated from the sales of Proprietary Products accounted for 1.1%, 3.0%, 28.0%, 29.1% and 29.5% of our revenue generated from sales of products for the same period, respectively. The significant increase in the revenue contribution of our Proprietary Products mainly reflected the revenue generated from the sales of intraocular lens products of Teleon and electrophysiological products of Roland after the acquisitions of Roland in November 2020 and of Teleon in January 2021. For the year ended December 31, 2021, the revenue generated from the sales of the products of Teleon and Roland amounted to RMB259.6 million and RMB36.5 million, respectively. The revenue and gross profit of Teleon for the year ended December 31, 2021 on a standalone basis was RMB275.7 million and RMB155.4 million, respectively. The revenue and gross profit of Teleon increased after we completed the acquisition, as a result of the strong recovery from the COVID-19 outbreak in 2020 which also benefited Teleon on a standalone basis. The recovery of the European economy from COVID-19 also contributed to Teleon's increase in revenue and gross profits in 2021. The revenue and gross profit of Roland for the year ended December 31, 2021 on a standalone basis was RMB26.1 million and RMB10.9 million, respectively. The business of Roland remained stable after we completed the acquisition. Our revenue generated from the sales of Distribution Products generally fluctuated in line with our total revenue during the Track Record Period.

The table below sets forth the breakdown of our revenue by geographic areas for the periods indicated. Our revenue generated from the geographic regions other than Greater China significantly increased during the year ended December 31, 2021, which was primarily attributable to our consolidation of sales in geographic regions other than Greater China of Roland and Teleon after we completed the respective acquisitions.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Greater China	1,106,619	100	956,347	99.4	1,033,863	79.6	450,714	77.8	453,427	78.3
Asia Pacific (excluding Greater China)	–	–	3,143	0.3	64,856	5.0	27,765	4.8	25,187	4.4
Europe (excluding Germany)	–	–	367	*	56,677	4.4	25,951	4.5	25,239	4.4
Germany	36	*	1,111	0.1	103,566	8.0	54,910	9.5	56,399	9.8
America (including Canada)	–	–	617	0.1	16,798	1.3	8,475	1.5	6,701	1.2
Oceania	–	–	–	–	17,026	1.3	8,694	1.5	7,283	1.3
Others	–	–	490	0.1	5,432	0.4	2,059	0.4	3,638	0.6
Total	1,106,655	100	962,075	100	1,298,218	100	578,568	100.0	577,874	100.0

* Less than 0.1%.

The table below sets forth the breakdown of the revenue from our sales of Proprietary Products and Distribution Products by geographic areas for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Distribution Products										
Greater China	986,004	100.0	793,121	100.0	743,805	91.8	313,726	89.9	307,505	90.9
Germany	–	–	–	–	61,157	7.5	32,477	9.3	29,230	8.6
Europe (excluding Germany)	–	–	–	–	5,778	0.7	2,712	0.8	1,815	0.5
Asia Pacific (excluding Greater China)	–	–	–	–	204	*	97	*	99	*
Others	–	–	–	–	45	*	15	*	8	*
Total	986,004	100	793,121	100	810,989	100	349,027	100	338,657	100
Proprietary Products										
Greater China	11,329	100.0	19,914	80.5	118,926	37.6	50,906	35.5	59,155	41.6
Asia Pacific (excluding Greater China)	–	–	2,320	9.4	64,652	20.5	27,668	19.3	22,105	15.6
Europe (excluding Germany)	–	–	367	1.5	50,899	16.1	23,239	16.2	23,000	16.2
Germany	–	–	1,012	4.1	42,409	13.4	22,433	15.6	20,117	14.2
Oceania	–	–	–	–	17,026	5.4	8,694	6.1	7,283	5.1
America (including Canada)	–	–	617	2.5	16,798	5.3	8,475	5.9	6,701	4.7
Others	–	–	490	2.0	5,387	1.7	2,044	1.4	3,630	2.6
Total	11,329	100	24,720	100	316,097	100	143,459	100	141,991	100

* Less than 0.1%

Technical Services

In addition to our product offering, we provide our end customers with technical services primarily in China to support their equipment maintenance and after-sale service requests. Our revenue generated from provision of technical services increased from RMB107.9 million in 2019 to RMB138.8 million in 2020 and further to RMB161.6 million in 2021, representing a CAGR of 22.4% from 2019 to 2021, and it increased from RMB80.9 million for the six months ended June 30, 2021 to RMB89.7 million for the six months ended June 30, 2022. As our technical services mainly focused on the maintenance and repair of the medical equipment we sold, we expect our revenue from provision of technical services to continue to grow as the number of pieces of the medical equipment we sold accumulates. Our customers may purchase warranty services on an annual basis under which we provide unlimited technical services during the period, or we may charge our customers based on the specific maintenance request. The table below sets forth further breakdown of our revenue from provision of technical services.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Warranty services	72,264	67.0	98,391	70.9	116,632	72.1	55,147	68.1	70,749	78.9
Maintenance services	9,721	9.0	10,175	7.3	13,340	8.3	6,219	7.7	4,613	5.1
Technical services related accessories	25,940	24.0	30,218	21.8	31,633	19.6	19,561	24.2	14,346	16.0
Total	107,925	100	138,784	100	161,605	100	80,927	100	89,708	100

Cost of Sales

Our cost of sales mainly consists of costs of goods sold. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our cost of sales was RMB643.3 million, RMB525.9 million, RMB688.7 million, RMB308.8 million and RMB296.6 million, respectively. Our costs of goods fluctuated along with our revenue, which decreased from RMB1,106.7 million in 2019 to RMB962.1 million in 2020, primarily due to the impact of COVID-19 on our sales performance. Our cost of sales increased to RMB688.7 million in 2021 along with our revenue which increased from RMB962.1 million to RMB1,298.2 million, which was primarily due to the recovery of PRC medical device market from the impact of COVID-19. Our cost of sales decrease from RMB308.8 million for the six months ended June 30, 2021 to RMB296.6 million for the six months ended June 30, 2022, which was primarily attributable to the decline in our sales of ophthalmic medical equipment due to outbreak of COVID-19 in Eastern China in the first half of 2022 and was offset by the increase in revenue generated from ophthalmic medical consumables and technical services. The following table sets forth the breakdown of our cost of sales by nature for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Cost of goods sold										
Sales of ophthalmic medical equipment	511,158	79.5	381,924	72.6	387,811	56.4	174,085	56.4	140,765	47.4
Sales of ophthalmic medical consumables	70,232	10.9	67,907	12.9	116,025	16.8	49,892	16.2	53,639	18.1
Provision of services	19,311	3.0	36,152	6.9	48,133	7.0	24,191	7.8	28,787	9.7
Others	–	–	1,966	0.4	856	0.1	759	0.2	8,761	3.0
Sub-total	600,701	93.4	487,949	92.8	552,825	80.3	248,927	80.6	231,952	78.2
Labor costs	34,775	5.4	30,901	5.9	91,017	13.2	37,427	12.1	44,268	14.9
Transportation and logistics expenses	6,830	1.1	5,707	1.1	6,932	1.0	2,743	0.9	1,994	0.7
Amortization and depreciation	1,004	0.1	1,341	0.2	37,973	5.5	19,676	6.4	18,419	6.2
Total	643,310	100	525,898	100	688,747	100	308,773	100	296,633	100

The following table sets forth the breakdown of our cost of sales by business segments for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Sales of ophthalmic medical equipment	512,161	79.6	383,265	72.9	397,190	57.7	171,887	55.7	148,574	50.0
Sales of ophthalmic medical consumables	70,232	10.9	67,907	12.9	199,200	28.9	88,475	28.7	92,857	31.3
Provision of technical services	60,917	9.5	72,760	13.8	91,501	13.3	47,652	15.4	46,441	15.7
Others	–	–	1,966	0.4	856	0.1	759	0.2	8,761	3.0
Total	643,310	100	525,898	100	688,747	100	308,773	100	296,633	100

Gross Profit and Gross Profit Margin

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our gross profit was RMB463.3 million, RMB436.2 million, RMB609.5 million, RMB269.8 million and RMB281.2 million, respectively. Our gross profit margin increased from 41.9% in 2019 to 45.3% in 2020 to 46.9% in 2021, and increased from 46.6% for the six months ended June 30, 2021 to 48.7% for the six months ended June 30, 2022. Such successive improvements in gross profit margin reflected our continuous efforts to optimize our product portfolio. The gross profit margin of our ophthalmic medical consumables is higher than that of our ophthalmic medical equipment. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our gross profit margin for the sales of ophthalmic medical consumables was 52.5%, 51.8%, 51.2%, 51.0% and 55.0%, respectively. The percentage of revenue derived from ophthalmic medical consumables out of our total revenue increased from 14.6% in 2020 to 31.5% in 2021, and increased from 31.2% for the six months ended June 30, 2021 to 35.7% for the six months ended June 30, 2022. This contributed to the successive increases in our overall gross profit margin during the Track Record Period.

The following table sets forth the breakdown of gross profit and gross profit margin by business segments for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)
							(Unaudited)			
	RMB'000 (except percentages)									
Sales of ophthalmic medical equipment	337,244	39.7	293,652	43.4	321,528	44.7	139,934	44.9	125,935	45.9
Sales of ophthalmic medical consumables	77,696	52.5	73,017	51.8	209,168	51.2	92,190	51.0	113,282	55.0
Provision of technical services	47,008	43.6	66,024	47.6	70,104	43.4	33,275	41.1	43,267	48.2
Others	1,397	100.0	3,484	63.9	8,671	91.0	4,396	85.3	(1,243)	(16.5)
Total gross profit/overall gross profit margin	463,345	41.9	436,177	45.3	609,471	46.9	269,795	46.6	281,241	48.7

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

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)	Gross profit	Gross profit margin (%)
							(Unaudited)			
	RMB'000 (except percentages)									
Distribution Products	411,062	41.7	355,623	44.8	365,032	45.0	162,522	46.6	156,379	46.2
Proprietary Products	3,878	34.2	11,046	44.7	165,664	52.4	69,601	48.5	82,838	58.3
Total gross profit/overall gross profit margin	414,940	41.6	366,669	44.8	530,696	47.1	232,123	47.1	239,217	49.8

As the sales volume and revenue of our Proprietary Products increased and utilization of our manufacturing capacity improved during the Track Record Period, the manufacturing costs on per products basis decreased, resulting in lower unit costs and the successive increases in the gross profit margin of our Proprietary Products. In addition, in January 2021, we completed the acquisition of Teleon, which primarily manufactures and sells Intraocular lens products and they carry a relatively higher gross profit margin than our other Proprietary Product, and this also contributed to the increase of gross profit margin of our Proprietary Products in 2021.

Other Income and Gains

Our other income and gains primarily consist of (i) bank interest income; (ii) government grants; (iii) investment income and gains from financial products at fair value through profit or loss; and (iv) foreign exchange gains. Our transactions with many brand partners, and loan at fair value through profit or loss and convertible redeemable Preferred Shares have been denominated in foreign currencies. We recorded foreign exchange gains if the RMB amount to pay decreases as RMB appreciated. For the years ended December 31, 2020 and 2021, our foreign exchange gains were RMB18.3 million and RMB61.8 million, respectively. The government grants primarily represented the municipal government's subsidies granted to MingWang Medical which are positively related to, among others, the value-added tax and corporate income tax paid by certain subsidiaries. We would continue to advocate the relevant government authorities for our continuing entitlement to such government grants. The following table sets forth the breakdown of our other income and gains for the periods indicated.

	For the year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Government grants	7,269	49.7	10,446	28.7	13,908	17.8	8,409	25.0	11,293	81.0
Bank interest income	3,674	25.2	3,128	8.6	2,020	2.6	647	1.9	1,782	12.8
Others	179	1.2	2,282	6.3	58	0.1	151	0.4	865	6.2
Gain on disposal of financial assets at fair value through profit or loss	2,904	19.9	2,274	6.2	92	0.1	–	–	–	–
Fair value change from financial assets at fair value through profit or loss	589	4.0	–	–	–	–	–	–	–	–
Foreign exchange gains	–	–	18,315	50.2	61,822	79.4	24,490	72.7	–	–
Total	14,615	100	36,445	100	77,900	100	33,697	100	13,940	100

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) salaries and remuneration of our sales and marketing personnel; (ii) marketing expenses for holding the marketing events and promotion of our products; and (iii) transportation and travel expenses incurred in the course of our marketing activities. The following table sets forth the breakdown of our selling and distribution expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Labor costs	81,608	40.7	81,102	50.4	98,383	51.9	50,239	59.6	59,169	65.7
Marketing expense	71,678	35.8	40,538	25.2	48,344	25.5	14,041	16.7	14,513	16.1
Travel and business expense	36,142	18.0	26,892	16.7	32,516	17.2	12,154	14.4	10,192	11.3
Warranty expenses	6,655	3.3	7,981	5.0	673	0.4	3,353	4.0	2,128	2.4
Amortization and depreciation	2,042	1.0	2,048	1.3	6,394	3.4	3,065	3.6	3,670	4.1
Others	2,393	1.2	2,228	1.4	3,160	1.6	1,433	1.7	447	0.4
Total	200,518	100	160,789	100	189,470	100	84,285	100	90,119	100

Our selling and distribution expenses decreased in 2020 primarily due to the decreases in marketing expenses and travel expenses as traveling and hosting marketing events were restricted during the outbreak of COVID-19 in 2020. As a percentage of revenue, selling and distribution expenses decreased from 18.1% in 2019 to 16.7% in 2020, and further to 14.6% in 2021. The successive decreases in the percentage between our selling and distribution expenses and revenue primarily reflected our stronger branding and improved marketing efficiency. As a percentage of revenue, selling and distribution expenses increased from 14.6% for the six months ended June 30, 2021 to 15.6% for the six months ended June 30, 2022, primarily due to the increase in labor costs, reflecting our expansion of selling professional teams.

Administrative Expenses

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our administrative expenses amounted to RMB78.4 million, RMB90.1 million, RMB131.5 million, RMB58.9 million and RMB69.8 million, respectively. Our administrative expenses primarily consist of (i) salaries and remuneration of our administrative staff; (ii) consulting services fees, which include the fees for the engagement of professional consultants in support of our acquisitions of Teleon and Roland and our [**REDACTED**]; and (iii) transportation and travel expenses incurred in the course of our administration. We recorded inventory loss amounting RMB6.2 million in 2019, which represented the loss of inventory as we were obliged to repurchase the inventory of the previous China distributor of Teleon when we obtained the distribution right for Teleon Product from them in 2019. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our administrative expenses represented 7.1%, 9.4%, 10.1%, 10.2% and 12.1% of our revenue, respectively. The increase in the administrative expenses for the six months ended June 30, 2022 was primarily attributable to the increase in our [**REDACTED**]. The following table sets forth the breakdown of our administrative expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2019		2020		2021		2021		2022	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
							(Unaudited)			
	RMB'000 (except percentages)									
Labor cost	38,572	49.2	31,987	35.5	53,252	40.5	27,086	46.0	30,228	43.3
Consulting service fees	11,170	14.2	32,832	36.4	48,015	36.5	14,678	24.9	26,747	38.3
Travel and business expense	6,954	8.9	5,770	6.4	6,305	4.8	3,268	5.5	1,928	2.8
Marketing expense	1,480	1.9	915	1.0	1,133	0.9	526	0.9	457	0.7
Banks fees	688	0.9	8,347	9.3	454	0.3	203	0.3	146	0.2
Amortization and depreciation	9,934	12.6	8,789	9.8	13,694	10.4	5,945	10.1	7,401	10.6
Inventory loss	6,249	8.0	543	0.6	1,089	0.8	441	0.7	69	0.1
Others	3,395	4.3	925	1.0	7,580	5.8	6,764	11.6	2,815	4.0
Total	78,442	100	90,108	100	131,522	100	58,911	100	69,791	100

Research and Development Expenses

Our research and development expenses increased from RMB2.7 million in 2019 to RMB3.1 million in 2020 and further to RMB23.5 million in 2021, representing a CAGR of 197.3%, reflecting our continuous commitment of research and development and the significant increase in our R&D efforts in IOL after the acquisition of Teleon in January 2021. Our research and development expenses increased by 138.3% from RMB9.4 million for the six months ended June 30, 2021 to RMB22.4 million for the six months ended June 30, 2022, reflecting our commitment as to research and development of Proprietary Products, which currently included optometric products (optometry unit, optical biometry and automatic ocular fundus camera), OK-lens, intraocular lens and related products and technology (quantum crystal, hydrophilic and hydrophobic materials, and molding technology), as well as consumables products for ultrasonic emulsification and electrophysiological diagnostic equipment products. We expect our research and development expenses continue to increase due to the expansion of our research and development team and upgrades of our research and development centers. For details, please refer to "Future Plans and Use of [**REDACTED**] — Use of [**REDACTED**]".

Finance Costs

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our finance costs amounted to RMB3.3 million, RMB3.1 million, RMB83.5 million, RMB60.5 million and RMB20.7 million, respectively. Our finance costs primarily consisted of interest expenses on bank and other borrowings and lease liabilities. The significant increase in the finance costs for the year ended December 31, 2021 was primarily attributable to the interest expenses incurred from the bank loans taken out to fund our acquisition of Teleon in January 2021. The significant decrease in the finance costs for the six months ended June 30, 2021 and 2022 was primarily attributable to the decrease in interest on bank and other borrowings, resulting from the partial repayment of our various interest-bearing borrowings (including the Vendor Loan and bank borrowings), and the finance costs for the six months ended June 30, 2022 primarily represented the interest expenses and did not include the one-off upfront expenses incurred when we drew down the bank borrowings in relation to the acquisition of Teleon in 2021.

Income Tax Expenses

For the years ended December 31, 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our income tax expenses amounted to RMB40.2 million, RMB50.6 million, RMB53.6 million, RMB23.1 million and RMB21.1 million, respectively.

Currently, one of our PRC operating subsidiaries, Gaush Raymond qualified as a High and New Technology Enterprise (高新技術企業), is entitled to a lower enterprise income tax rate of 15% instead of the standard PRC enterprise income tax rate of 25%. Gaush Hong Kong is subject to the Hong Kong enterprise income tax of 16.5%. Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in that jurisdiction. Our subsidiaries established in the Netherlands and Germany were subject to the corporate income tax rate of 25% and 31.58%, respectively, during the Track Record Period, see Note 10 to the Accountants' Report in Appendix I to this Document.

RESULTS OF OPERATIONS

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

Revenue

Our revenue remained stable and decreased by 0.1% from RMB578.6 million for the six months ended June 30, 2021 to RMB577.9 million for the six months ended June 30, 2022, which was primarily attributable to the decrease of RMB37.3 million in revenue generated from sales of ophthalmic medical equipment due to the delivery and installment (and hence the revenue recognition) as to our ophthalmic medical equipment products being interrupted by the resurgence of COVID-19 in Eastern China in the first half of 2022, and was offset by the increase in revenue generated from (i) sales of ophthalmic medical consumables from RMB180.7 million for the six months ended June 30, 2021 to RMB206.1 million for the same period in 2022; and (ii) provision of technical services from RMB80.9 million for the six months ended June 30, 2021 to RMB89.7 million for the same period in 2022, as the number of pieces of ophthalmic surgical medical equipment we sold accumulated over time.

Cost of Sales

Our cost of sales decreased by 4.0% from RMB308.8 million for the six months ended June 30, 2021 to RMB296.6 million for the six months ended June 30, 2022, which was primarily attributable to the increase in the revenue contribution of sales of ophthalmic medical consumables and technical services during the period, which carried higher gross profit margin and lower cost of sales.

Gross Profit and Gross Profit Margin

Our gross profit increased by 4.2% from RMB269.8 million for the six months ended June 30, 2021 to RMB281.2 million for the six months ended June 30, 2022. Our gross profit margin increased from 46.6% for the six months ended June 30, 2021 to 48.7% for the six months ended June 30, 2022, primarily because of the increase in the revenue contribution of ophthalmic medical consumables and technical services, which carried relatively higher gross profit margin.

Other Income and Gains

Our other income and gains decreased significantly from RMB33.7 million for the six months ended June 30, 2021 to RMB13.9 million for the six months ended June 30, 2022. Such decrease mainly resulted from the decrease of RMB24.5 million in foreign exchange gains as the result of depreciation of RMB exchange rate against USD in the first half of 2022.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 6.9% from RMB84.3 million for the six months ended June 30, 2021 to RMB90.1 million for the six months ended June 30, 2022, primarily due to an increase of RMB9.0 million in labor costs, which was primarily resulted from the expansion of the selling and distribution personnel of our Group, and was partially offset by the decrease in the travel and business expenses of RMB2.0 million as the COVID-19 resurged in Eastern China in the first half of 2022.

Administrative Expenses

Our administrative expenses increased from RMB58.9 million for the six months ended June 30, 2021 to RMB69.8 million for the six months ended June 30, 2022, primarily due to an increase in our consulting service fees from RMB14.7 million for the six months ended June 30, 2021 to RMB26.7 million for the six months ended June 30, 2022, which was primarily attributable to the increase in our [**REDACTED**] as we furthered our preparation of the [**REDACTED**].

Research and Development Expenses

Our research and development expenses increased significantly from RMB9.4 million for the six months ended June 30, 2021 to RMB22.4 million for the six months ended June 30, 2022, primarily due to the significant expansion of the size of our research and development team.

Other Expenses

Our other expenses increased significantly from RMB2.7 million for the six months ended June 30, 2021 to RMB88.2 million for the six months ended June 30, 2022, primarily because of the significant downturn from foreign exchange gains of RMB24.5 million for the six months ended June 30, 2021 to foreign exchange losses of RMB84.6 million for the six months ended June 30, 2022, which was primarily attributable to the foreign exchange losses relating to our Preferred Shares denominated in USD as the result of depreciation of RMB exchange rate in the first half of 2022.

Finance Costs

Our finance costs decreased significantly from RMB60.5 million for the six months ended June 30, 2021 to RMB20.7 million for the six months ended June 30, 2022 primarily due to the decrease in the interest expenses as the result of our partial repayment of our various interest-bearing borrowings (including the Vendor Loan for the acquisition of Teleon) and the finance costs during the period did not include the one-off upfront expenses for the bank borrowings in relation to the acquisition of Teleon in 2021. For details, see "— Indebtedness — Bank Borrowings."

Income Tax Expense

Our income tax expense decreased by 8.7% from RMB23.1 million for the six months ended June 30, 2021 to RMB21.1 million for the six months ended June 30, 2022, which was generally in line with the decrease in our profits (excluding the effect from the fair value loss on the Preferred Shares).

Profit/loss for the Period

For the foregoing reasons, we recorded losses for the period of RMB34.6 million for the six months ended June 30, 2021 compared to the losses recorded for the period of RMB53.3 million for six months ended June 30, 2022.

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

Revenue

Our revenue increased by 34.9% from RMB962.1 million for the year ended December 31, 2020 to RMB1,298.2 million for the year ended December 31, 2021, due to (i) an increase of RMB41.8 million in revenue generated from sales of ophthalmic medical equipment, reflecting an increase in the relevant sales recovering from the adverse impacts from the outbreak of COVID-19 in 2020 and the consolidation of the results of operations of Roland, (ii) an increase of RMB267.4 million in revenue generated from sales of ophthalmic medical consumables, reflecting an increase in the relevant sales recovering from the adverse impacts from the outbreak of COVID-19 in 2020 and the consolidation of the results of operations of Teleon, (iii) an increase of RMB22.8 million in revenue from technical service, reflecting our strong recovery from the market low point in light of the outbreak of COVID-19 in 2020, and (iv) an increase of RMB4.1 million in revenue from others.

Cost of Sales

Our cost of sales increased by 31.0% from RMB525.9 million for the year ended December 31, 2020 to RMB688.7 million for the year ended December 31, 2021, which was generally in line with the increase in revenue. The increase of our cost of sales was primarily attributable to our recovery of sales during the period from the outbreak of COVID-19 in 2020 and consolidation of results of operation of Teleon.

Gross Profit and Gross Profit Margin

Our gross profit increased by 39.7% from RMB436.2 million for the year ended December 31, 2020 to RMB609.5 million for the year ended December 31, 2021. Our gross profit margin increased from 45.3% for the year ended December 31, 2020 to 46.9% for the year ended December 31, 2021, primarily because of (i) the higher sales contribution of ophthalmic medical consumables after the acquisition of Teleon, which has a generally higher gross profit margin within our business segments; and (ii) our strong recovery in 2021 from the market low point in the first half of 2020 due to the outbreak of COVID-19.

Other Income and Gains

Our other income and gains increased significantly from RMB36.4 million for the year ended December 31, 2020 to gains of RMB77.9 million for the year ended December 31, 2021. Such increase mainly resulted from (i) an increase of RMB43.5 million in foreign exchange gains as the result of the fluctuation of the exchange rate during the period. In 2021, we recorded significant increase in (A) loan at fair value through profit or loss, as we entered into the mezzanine loan to replace the bridge loan utilised to fund our acquisition of Teleon; and (B) convertible redeemable Preferred Shares, as we completed our Series B financing. As such liabilities have been denominated in foreign currencies, we recorded foreign exchange gains if our payment obligation in terms of RMB amount decreased as RMB appreciated; and (ii) an increase of RMB3.5 million in government grants, reflecting government grant received by certain subsidiaries which are positively related to, among others, the value-added tax and corporate income tax paid, and was partially offset by a decrease of RMB2.2 million in gain on disposal of financial assets at fair value through profit or loss and a decrease of RMB1.1 million in bank interest income, as a significant portion of our cash resources were utilized for the acquisition of Teleon at the end of 2020.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 17.8% from RMB160.8 million for the year ended December 31, 2020 to RMB189.5 million for the year ended December 31, 2021, primarily due to (i) an increase of RMB7.8 million in marketing expenses as we resumed the marketing activities which were hampered by the outbreak of COVID-19 in 2020 and (ii) an increase of RMB5.6 million in travel expenses, reflecting the increased travel associated with increased marketing activities in 2021, which were restricted when COVID-19 sustained in China in 2020; and (iii) an increase in our staff costs from RMB81.1 million for the year ended December 31, 2020 to RMB98.4 million for the year ended December 31, 2021 which was primarily resulted from the increase of our employees' salary.

Administrative Expenses

Our administrative expenses increased significantly from RMB90.1 million for the year ended December 31, 2020 to RMB131.5 million for the year ended December 31, 2021, primarily due to (i) an increase in our staff costs from RMB32.0 million for the year ended December 31, 2020 to RMB53.3 million for the year ended December 31, 2021 due to our salary raise in 2021 and the consolidation of the salary of employees of Teleon and Roland in Europe; and (ii) an increase in our consulting fees from RMB32.8 million for the year ended December 31, 2020 to RMB48.0 million for the year ended December 31, 2021, which primarily represent the expenses for engaging professional consultants to advice us on our acquisitions of Teleon.

Research and Development Expenses

Our research and development expenses increased significantly from RMB3.1 million for the year ended December 31, 2020 to RMB23.5 million for the year ended December 31, 2021, primarily due to the significant expansion of the size of our original research and development team after the completion of the acquisitions of Teleon.

Other Expenses

Our other expenses increased from RMB66.4 million for the year ended December 31, 2020 to RMB397.3 million for the year ended December 31, 2021, primarily because of the significant increase in the fair value loss of our Preferred Shares from RMB64.6 million for the year ended December 31, 2020 to RMB375.6 million for the year ended December 31, 2021, which is tied to our overall valuation.

Finance Costs

Our finance costs significantly increased from RMB3.1 million for the year ended December 31, 2020 to RMB83.5 million for the year ended December 31, 2021 primarily due to the interest bearing borrowings for the acquisition of Teleon. For details, see "— Indebtedness — Bank Borrowings."

Income Tax Expense

Our income tax expense increased by 5.9% from RMB50.6 million for the year ended December 31, 2020 to RMB53.6 million for the year ended December 31, 2021, which was generally in line with the increase in our profits (excluding the effect from the fair value loss on the Preferred Shares).

Profit/loss for the Period

For the foregoing reasons, we recorded profits for the period of RMB98.5 million for the year ended December 31, 2020 compared to the losses recorded for the period of RMB191.6 million for year ended December 31, 2021.

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

Revenue

Our revenue decreased by 13.1% from RMB1,106.7 million for the year ended December 31, 2019 to RMB962.1 million for the year ended December 31, 2020, primarily due to a decrease of RMB172.5 million in revenue generated from sales of ophthalmic medical equipment and a decrease of RMB7.0 million in revenue generated from sales of ophthalmic medical consumables. Such decrease is partially offset by the increase in revenue from technical service from RMB107.9 million in 2019 to RMB138.8 million in 2020.

The decreases in revenue generated from the sales of ophthalmic medical equipment and ophthalmic medical consumables were primarily attributable to the decline in the demand of our products as the hospitals and clinics suspended or reduced their operation in light of the outbreak of COVID-19 in 2020. On the other hand, as the demand for the maintenance and repair of the products sold sustained during the outbreak of COVID-19, our revenue generated from technical service increased by 28.6% from RMB107.9 million in 2019 to RMB138.8 million in 2020.

Other revenue increased by 292.9% from RMB1.4 million in 2019 to RMB5.5 million in 2020, primarily because we were able to charge our brand partners additional fees for the registration of their products in China.

Cost of Sales

Our cost of sales decreased by 18.2% from RMB643.3 million for the year ended December 31, 2019 to RMB525.9 million for the year ended December 31, 2020, which was generally in line with the decrease in our revenue in 2020. The decrease of our cost of sales was primarily attributable to the decrease of our costs of goods sold, which decreased from RMB600.7 million in 2019 to RMB487.9 million in 2020 as a result of our decreased revenue in 2020 due to the outbreak of COVID-19.

Gross Profit and Gross Profit Margin

Our gross profit slightly decreased by 5.8% from RMB463.3 million for the year ended December 31, 2019 to RMB436.2 million for the year ended December 31, 2020 as the result of the foregoing. Our gross profit margin increased from 41.9% in 2019 to 45.3% in 2020 primarily because of our continuous efforts to optimize our product portfolio.Our gross profit margin for the sales of ophthalmic medical consumables was higher than that of ophthalmic medical equipment, and the percentage of revenue derived from the sales of ophthalmic medical consumables out of our total revenue increased from 13.4% in 2019 to 14.6% in 2020. This contributed to the increase in our overall gross profit margin between 2019 and 2020.

Other Income and Gains

Our other income and gains increased by 149.3% from RMB14.6 million for the year ended December 31, 2019 to RMB36.4 million for the year ended December 31, 2020. Such increase was primarily the result of (i) an increase of RMB18.3 million in foreign exchange gains as the result of the fluctuation of foreign exchange rates; and (ii) an increase of RMB3.2 million in government grants, reflecting the increase in government grants and subsidies received by certain subsidiaries which are positively related to, among others, the value-added tax and corporate income tax paid.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 19.8% from RMB200.5 million for the year ended December 31, 2019 to RMB160.8 million for the year ended December 31, 2020, primarily due to a decrease of RMB9.2 million in travel expense and a decrease of RMB31.1 million in marketing expense, which primarily reflected the decline of our travel and marketing activities in 2020 due to the outbreak of COVID-19.

Administrative Expenses

Our administrative expenses increased by 14.9% from RMB78.4 million for the year ended December 31, 2019 to RMB90.1 million for the year ended December 31, 2020, primarily due to an increase in our consulting fees of RMB21.7 million paid for engaging professional consultants to complete our acquisitions of Teleon and Roland. Such increase was offset by the respective decreases in staff costs of RMB6.6 million and travel expenses of RMB1.2 million, as we reduced the bonus of our employees and travel in the course of business decreased in 2020 in light of the outbreak of COVID-19.

Research and Development Expenses

Our research and development expenses increased by 14.8% from RMB2.7 million for the year ended December 31, 2019 to RMB3.1 million for the year ended December 31, 2020, primarily due to an increase in staff costs from RMB1.4 million in 2019 to RMB1.6 million in 2020 as we expanded the size of our research and development team.

Other Expenses

Our other expenses decreased from RMB190.9 million for the year ended December 31, 2019 to RMB66.4 million for the year ended December 31, 2020, primarily because of the significant decrease in the fair value loss of our Preferred Shares from RMB173.2million in 2019 to RMB64.6 million in 2020, which is tied to our overall valuation.

Finance Costs

Our finance costs remained stable at RMB3.3 million in 2019 and RMB3.1 million in 2020, respectively.

Income Tax Expense

Our income tax expense increased by 25.9% from RMB40.2 million for the year ended December 31, 2019 to RMB50.6 million for the year ended December 31, 2020, primarily due to the increase in our profits (excluding the effect from the fair value loss on the Preferred Shares).

Profit/loss for the Year

For the foregoing reasons, we recorded losses for the year of RMB38.0 million in 2019 and profits for the year of RMB98.5 million in 2020.

DESCRIPTION OF CERTAIN ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated. This information has been extracted from, and should be read together with, our consolidated financial information included in "Appendix I — Accountants' Report."

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Total non-current assets	81,838	1,486,739	1,336,888	1,321,887
Total current assets	947,199	749,037	1,089,781	1,086,071
Total non-current liabilities	691,845	907,466	2,618,805	2,674,594
Total current liabilities	406,977	1,280,500	441,235	431,521
Net (liabilities)/assets	(69,785)	47,810	(633,371)	(698,157)
Equity attributable to owners of the parent				
Share capital	72	72	65	65
Other reserves	(81,402)	25,553	(656,497)	(719,653)
Non-controlling interests	11,545	22,185	23,061	21,431
Total equity	(69,785)	47,810	(633,371)	(698,157)

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

	As of December 31,			As of June 30,	As of September 30
	2019	2020	2021	2022	2022
			RMB'000		
					(unaudited)
Current assets					
Financial assets at fair value through profit or loss	200,169	10	–	–	–
Inventories	195,799	239,570	240,109	265,953	298,470
Trade receivables	193,739	170,796	170,054	163,245	151,542
Contract assets	1,666	2,190	1,937	2,423	2,315
Prepayments, other receivables and other assets	23,064	22,171	54,928	59,417	50,509
Pledged deposits	–	6,810	13,757	12,807	10,426
Cash and cash equivalents	332,762	307,490	608,996	582,226	606,026
Total current assets	947,199	749,037	1,089,781	1,086,071	1,119,288
Current liabilities					
Trade payables	113,295	104,417	68,018	61,072	88,927
Derivative financial instrument	323	128	296	75	–
Other payables and accruals	105,587	153,128	124,181	110,949	114,724
Tax payable	37,417	28,826	19,792	14,541	6,746
Interest-bearing bank and other borrowings	37,502	866,184	122,464	105,003	86,528
Contract liabilities	105,596	121,584	93,884	119,163	116,791
Lease liabilities	7,257	6,233	12,600	20,718	20,791
Total current liabilities	406,977	1,280,500	441,235	431,521	434,507
Net current assets/(liabilities)	540,222	(531,463)	648,546	654,550	684,781

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

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Non-current assets				
Property, plant and equipment	7,793	12,214	42,882	57,636
Right-of-use assets	20,936	19,659	42,643	58,953
Goodwill	16,190	31,228	882,698	857,563
Intangible assets	13,375	21,751	303,889	279,961
Long term accounts receivable	1,030	–	–	–
Prepayments and other receivables and other assets	7,349	9,526	23,843	21,547
Investment prepayment	–	1,377,908	–	–
Contract assets	356	649	84	26
Deferred tax assets	14,809	13,804	40,849	46,201
Total non-current assets	81,838	1,486,739	1,336,888	1,321,887
Non-current liabilities				
Government grant	788	99	–	–
Interest-bearing bank and other borrowings	–	194,905	635,334	577,317
Loan at fair value through profit or loss	–	–	159,099	154,382
Convertible redeemable Preferred Shares*	644,182	663,648	1,660,424	1,785,232
Contract liabilities	27,769	29,162	29,259	22,530
Deferred tax liabilities	3,024	5,762	66,374	60,931
Other payables and accruals	–	–	36,536	35,774
Lease liabilities	16,082	13,890	31,779	38,428
Total non-current liabilities	691,845	907,466	2,618,805	2,674,594

* Our convertible redeemable Preferred Shares will be converted into Shares and recorded as our share capital upon the [**REDACTED**] and we expect that we will no longer record convertible redeemable Preferred Shares after the [**REDACTED**].

Property, Plant and Equipment

Our property, plant and equipment consist of machinery and equipment, transportation equipment, leasehold improvements, office equipment and others. We had property, plant and equipment of RMB7.8 million, RMB12.2 million and RMB42.9 million and RMB57.6 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The increase between our property, plant and equipment as of December 31, 2021 and June 30, 2022 was primarily due to the procurement of equipment and leasehold improvement to further our research and development. The increase between our property, plant and equipment as of December 31, 2020 and 2021 was primarily attributable to the consolidation of the property, plant and equipment of Roland and Teleon after we completed the respective acquisitions. The significant increase between the property, plant and equipment as of December 31, 2020 and December 31, 2021 was primarily due to the consolidation of the property, plant and equipment of Teleon and Roland after the completion of the respective acquisitions.

Right-of-use Assets

Since IFRS 16 was adopted by our Group throughout the Track Record Period, we recognized right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and leases of low-value assets. We had right-of-use assets of RMB20.9 million, RMB19.7 million and RMB42.6 million and RMB59.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. The decreases in right-of-use assets in 2019 and 2020 was primarily attributable to the depreciation of our right-of-use assets. The increase in right-of-use assets as of December 31, 2021 was primarily attributable to the consolidation of the right-of-use assets of Teleon after we completed the acquisition. The increase in right-of-use assets as of June 30, 2022 was primarily attributable to the additional leasehold for storage and office space to support our future development.

Goodwill

Goodwill represented a significant portion of the total assets on our consolidated balance sheet. As of December 31, 2019, 2020 and 2021 and June 30, 2022, RMB16.2 million, RMB31.2 million and RMB882.7 million and RMB857.6 million of our total assets consisted of goodwill relating to our historical acquisitions, respectively. Our acquired goodwill arose from our acquisitions of our subsidiaries including Teleon and Roland. For more information, see "History, Reorganization and Development — Corporate Development — Our Major Subsidiaries in Germany and the Netherlands." The carrying amount of Roland, Gaush Germany, and Teleon Holding B.V. was denominated in Euro, and the decrease in the goodwill between December 31, 2021 and June 30, 2022 was attributable to the fluctuation of exchange rates between RMB and Euro. We did not record any impairment on our goodwill during the Track Record Period.

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. Both Roland and Teleon were our brand partners before our respective acquisition. We expect business synergies to arise from the vertical business integrations between the Company and each of Roland and Teleon. Through the acquisitions, the Company inherited the overseas distribution network of Roland and Teleon, which enabled overseas sales of the Company's Proprietary Products in the future. The acquisitions also helped the Company establish its own research and development capacity as to electrophysiology equipment and intraocular lens products. In addition, we believe the synergies may also arise from the unified operation, manufacturing and marketing as to the products of

Teleon and Roland. The goodwill is not deductible for income tax purposes. Assumptions were used in the value in use calculation of the cash-generating units as of December 31, 2019, 2020 and 2021 and June 30, 2022. For details, see Note 15 to the Accountants' Report set out in Appendix I to this Document.

Intangible Assets

Our intangible assets (other than goodwill) mainly represented the software we purchased and used in the ordinary course of our business as well as the patents and trademarks, identified as the result of the business combinations. We had intangible assets of RMB13.4 million, RMB21.8 million and RMB303.9 million and RMB280.0 million as of December 31, 2019, 2020 and 2021 and June 30, 2022, respectively. Our intangible assets increased from RMB13.4 million as of December 31, 2019 to RMB21.8 million as of December 31, 2020 and further to RMB303.9 million as of December 31, 2021, which were primarily attributed to the amount of the intangible assets of Roland and Teleon, respectively. Our intangible assets decreased to RMB280.0 million as of June 30, 2022, which were primarily attributable to the accumulated amortization.

Prepayments and Other Receivables and Other Assets — Non-current

Our prepayments and other receivables primarily consisted of the long-term prepayment we made to obtain product registration for our Distribution Products. As of December 31, 2019, 2020 and 2021 and June 30, 2022, our prepayments and other receivables were RMB7.3 million, RMB9.5 million and RMB23.8 million and RMB21.5 million, respectively. Such increases reflected primarily our continuous expansion of our portfolio of Distribution Products.

Investment Prepayments

As of December 31, 2020, we had investment prepayment of RMB1,377.9 million. This mainly represented the amount we paid in escrow for the ultimate settlement of the acquisition of Teleon, which took place on January 4, 2021.

Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Our financial assets at FVTPL mainly represented wealth management product we purchased from a reputable commercial bank in China to improve cash utilization efficiency, which mainly included low-risk wealth management product during the Track Record Period. The wealth management product is redeemable on demand. The expected interest rates for such wealth management product range from 1.0% to 2.5% per annum. The fair value of financial assets at FVTPL as of a specific date is the unredeemed principal amount that we have invested to purchase these wealth management products plus our expected returns with reference to the expected interest rates as of the same date. As a result, the amount of the financial assets at FVTPL is primarily affected by our purchase amount, which is determined in light of our cash flow, operational needs, expected capital expenditure and treasury management policies. Our financial assets at FVTPL decreased from RMB200.2 million as of December 31, 2019 to RMB10,000 as of December 31, 2020 as we utilized our cash resources to completed the respective acquisitions of Roland and Teleon in November 2020 and January 2021. As of December 31, 2021 and June 30, 2022, we did not have any financial assets at FVTPL.

We manage our wealth management products in accordance with our investment management policies and internal control mechanism. In assessing the wealth management products, we apply a number of internal guiding principles, including that (i) the top priority of wealth management is to protect the principal of our investments through risk management; (ii) the proposed investments must not interfere with the cash needs for our ordinary business operations; and (iii) our wealth management activities aim at maximizing returns while ensuring the safety of funds and liquidity. Our senior management, including our chief financial officer and financial control with extensive relevant knowledge and experience, has been overseeing our investment in wealth management products. Upon [**REDACTED**], our investment in wealth management products will be subject to compliance with Chapter 14 of the Listing Rules. In addition, purchases of any wealth management products in a single transaction or a series of transactions of more than RMB200 million within 12 months from the [**REDACTED**] shall be approved by the Board, and we will determine the threshold amount based on the Company's financial position, cash flows and liquidity status from time to time.

Inventories

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

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
		RMB'000		
Finished goods	176,001	199,755	215,868	223,922
Goods in transit	18,645	31,695	13,179	23,660
Raw materials	2,251	2,350	7,582	8,079
Work in progress	828	6,941	8,986	15,720
Provision for inventories	(1,926)	(1,171)	(5,506)	(5,428)
Total	195,799	239,570	240,109	265,953

	For the year ended December 31,			For the six months ended June 30
	2019	2020	2021	2022
Inventory turnover days(1)	111	152	129	158

(1) The inventories turnover days are calculated by dividing the arithmetic mean of the opening and ending carrying amount of inventories in that period by cost of sales for the corresponding period and then multiplying by 365 days or 181 days.

Our inventories increased from RMB195.8 million as of December 31, 2019 to RMB239.6 million as of December 31, 2020 and further to RMB240.1 million as of December 31, 2021 due to (i) our year-end balance of finished goods vary in line with our plan of sales and the lead time of our products, which were volatile in response to the market conditions; and (ii) the consolidation of the inventories of Teleon and Roland as we completed our acquisitions of Teleon and Roland. We made provision for our inventories as their use life comes to expire. As our revenue is generally higher in the second half of the year, our inventories at the middle of the year is generally higher and our inventories as of June 30, 2022 amounted to RMB266.0 million. Our inventory turnover days increased from 111 days to 152 days due to the decrease in our sales during the outbreak of COVID-19. Our inventory turnover days decreased to 129 days for the year ended December 31, 2021. Our inventory turnover days increased to 158 days for the six months ended June 30, 2022 due to the improvement of mid-year inventory level.

As of September 30, 2022, RMB156.0 million, representing 58.6% of our total inventories as of June 30, 2022, has been subsequently utilized. We believe there is no material utilisation issue for our total inventories, given that:

(i) the provision of our inventories has been determined with reference to a series of factors including the market price and validity period of all inventories recorded during the years indicated, instead of just the inventories as of the end of the Track Record Period; and

(ii) In addition to the subsequent utilization of inventories, inventory turnover days also provided useful information as to the overall utilization of inventories during the years indicated. For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, the Company's inventory turnover days were 111 days, 152 days, and 129 days and 158 days, respectively, indicating that the Group's inventories shall be generally utilized or sold within six months. Despite that our sales in the first half of 2022 was negatively affected by the traditional holidays in China as well as the resurgence of COVID-19 in some cities, the subsequent utilisation of our inventories as of September 30, 2022 still reached RMB156.0 million, representing 58.6% of our total inventories as of June 30, 2022.

Trade Receivables

Our trade receivables represented outstanding amounts due from our customers. We generally do not grant credit term to our domestic distributors. The following table sets forth the details of our trade receivables as of the dates indicated, trade receivables turnover days and breakdown of the Group's receivables by category of our customers for the periods indicated.

	As of December 31,			**As of June 30,**
	2019	**2020**	**2021**	**2022**
		RMB'000		
Trade receivables	198,549	176,643	180,190	172,002
Impairment	(4,810)	(5,847)	(10,136)	(8,757)
Total	193,739	170,796	170,054	163,245

	For the year ended December 31,			**For the six months ended June 30,**
	2019	**2020**	**2021**	**2022**
Trade receivable turnover days[(1)]	61	71	50	55

(1) Calculated by dividing the arithmetic mean of the opening and ending carrying amount of trade receivables in that period by revenue for the corresponding period and then multiplying by 365 days or 181 days.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000			
Trade receivables from				
Distributors	20,581	15,428	17,213	16,464
Public hospitals	62,026	56,444	42,573	40,316
Private hospitals	115,942	92,430	78,200	82,634
Overseas customers*	–	12,341	42,204	32,588
Total	198,549	176,643	180,190	172,002

* Representing customers of Roland and Teleon

As of December 31, 2019, 2020 and 2021 and June 30, 2022, we had trade receivables of RMB198.5 million, RMB176.6 million, RMB180.2 million and RMB172.0 million, respectively. Our trade receivables decreased in 2020 primarily due to the decrease in revenue with respect to the sales of ophthalmic medical equipment as the result of the outbreak of COVID-19 in 2020 and the growth of our ophthalmic medical consumables business. Customers of our ophthalmic medical consumables business are mainly our distributors with shorter receivable recovery cycle. Our trade receivables further decreased to RMB172.0 million as of June 30, 2022 primarily due to the improvement on the collection of trade receivables over two years, including those we recorded during the initial outbreak of COVID-19 in China in 2020.

Our trade receivable turnover days were 61 days, 71 days, 50 days and 55 days in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. Our trade receivable turnover days increased from 61 days in 2019 to 71 days in 2020. Such extension in the settlement of trade receivables was attributable to the slower recovery of receivables from our customers including distributors and direct sales customers in light of the outbreak of COVID-19 in China in 2020 which was primarily due to the negative impact of COVID-19 on our downstream customers' capabilities in settling the trade receivables on time. Our trade receivable turnover days decreased from 71 days in 2020 to 50 days in 2021 was primarily attribute to our customers' strong recovery from the COVID-19 outbreak in 2020, which significantly improved their capabilities in settling the trade receivables on time. Our trade receivable turnover days slightly increased from 50 days in 2021 to 55 days in the six months ended June 30, 2022.

We have implemented a credit assessment system to evaluate the creditworthiness and financial condition of our customers, taking into account their historical settlement record, business relationship with us and credit assessment. Our senior management regularly review our trade receivables balance and overdue balance, and we follow up with customers with past due trade receivables. We perform an impairment analysis at the end of each financial year using a provision matrix to measure expected credit losses and assess our credit risk exposure. As of December 31, 2019, 2020, 2021 and June 30, 2022, we recorded impairment provision of RMB4.8 million, RMB5.8 million, RMB10.1 million and RMB8.8 million, respectively, representing no more than 1% of our revenue in the corresponding periods.

The Directors concluded that the Company does not have any material recoverability issue for its trade receivables the allowance for expected credit losses was adequate and the expected credit loss rates were reasonable based on:

- our adoption of the simplified approach permitted by IFRS 9 to measure the loss allowance at lifetime Expected Credit Losses ("**ECLs**"). For the purpose of determining significant increases in credit risk and recognizing a loss allowance on a collective basis, we group our trade receivables into four different categories (i.e. distributors, public hospitals, private hospitals and overseas customers), on the basis of shared credit risk characteristics including transaction modes, historical turnover days and credit risk rating. Circumstances of individual trade receivables will also be considered in our assessment of credit risks. Higher allowance rates are generally applied as aging of receivables increases. Detailed information about the credit risk exposure and the respective allowance rates of the receivables on each category of our customers as at June 30, 2022 is as follows:

	Distributors	Public Hospitals	Private Hospitals	Overseas Customers	Group
Within 1 year	2.93%	0.92%	0.75%	1.00%	1.07%
1 to 2 years	23.13%	6.21%	2.36%	–	5.38%
2 to 3 years	34.40%	19.41%	6.98%	–	11.07%
3 to 4 years	64.56%	33.08%	26.25%	–	32.98%
4 to 5 years	78.75%	87.84%	52.50%	–	86.36%
Over 5 years	100.00%	100.00%	100.00%	–	100.00%

  Distributors: We generally do not grant credit terms to our domestic distributors and require them to make upfront payment before delivery of our products. While credit terms are granted to a few domestic distributors after considering their credit profile and settlement track record, allowance rates applied to the receivables from distributors are generally higher, compared to those for public and private hospitals, to reflect their higher credit risk exposures.

  Public and private hospitals: Credit terms are granted to hospital customers as many of them are either large public hospitals or members of large private ophthalmic groups with better credit profile and settlement track record. Allowance rates for receivables from hospital customers are generally lower, compared to those for distributors, as the recovery of such receivables has been satisfactory based on the collection history. While it is not uncommon for vendor of medical devices in China to record trade receivables from public hospitals aging over years, we consider impairment risks of such receivables to increase significantly once their aging exceeds four years based on our historical settlement record and higher allowance rates are applied.

- our trade receivables aging over one year were generally related to certain recognized and creditworthy customers without historical default, and the aging of the trade receivables in 2020 was primarily attributable to the slower recovery of receivables from our customers in light of the outbreak of COVID-19, the situation of which has been improving;

- our efforts to maintain strict control of our trade receivables as described above; and

- For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, our trade receivable turnover days were 61 days, 71 days, 50 days and 55 days, respectively. Such trade receivable turnover days are generally in line with the Company's credit term policies between one to three months. Despite that our sales in the first half of 2022 was negatively affected by the traditional holidays in China as well as the resurgence of COVID-19 in some cities, the subsequent settlement of our trade receivables outstanding (net of loss provisions) as of September 30, 2022 still reached RMB80.8 million, representing 49.5% of our total trade receivables as of June 30, 2022.

The following table sets forth an aging analysis, based on the invoice date of our trade receivables as of the dates indicated and the subsequent settlement as of September 30, 2022 of our trade receivables outstanding as of June 30, 2022.

	Outstanding as of December 31,			Outstanding as of June 30,	Subsequent settlement as of September 30,
	2019	2020	2021	2022	2022
			RMB'000		
Within 3 months	87,368	81,006	99,468	103,833	53,623
3 months-6 months	23,718	21,494	20,557	17,600	6,805
6 months–1 year	35,135	14,090	17,777	22,046	7,417
1–2 years	38,523	39,295	18,954	18,202	8,632
2–3 years	12,531	14,744	14,692	4,804	1,994
3–4 years	1,246	5,520	7,026	2,108	1,337
4–5 years	2	492	1,234	3,103	771
Over 5 years	8	2	482	306	215
Total	198,549	176,643	180,190	172,002	80,794

Our trade receivables with an aging within one year decreased from RMB146.2 million as of December 31, 2019 to RMB116.6 million as of December 31, 2020 primarily due to the decrease in our sales with respect to ophthalmic medical equipment as the result of the outbreak of COVID-19 in 2020 in China. Our trade receivables with an aging within one year increased from RMB116.6 million as of December 31, 2020 to RMB137.8 million as of December 31, 2021 and further to RMB143.5 million as of June 30, 2022 as the result of the recovery of our sales from the market low point during the outbreak of COVID-19. There is no material recoverability issue and sufficient provision has been made for our trade receivables over one year included, which trade receivables in relation to certain hospital customers in China with longer payment cycles, which is evidenced by the improving aging profile of our trade receivables as of June 30, 2022 when compared to the end of preceding financial years during the Track Record Period. According to Frost & Sullivan, public hospitals generally settle their amount due to suppliers of medical consumables and equipment within one year, while in some cases of medical equipment purchases, the unit purchase price of which is higher, public hospitals and large private hospital groups may settle a certain portion of amount due beyond one year, leveraging their bargaining power. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the turnover days of our receivables due from public hospital customers were 228 days, 175 days, 199 days and 245 days, respectively, and the turnover days of receivables due from private hospital customers during the same periods were 91 days, 132 days, 96 days and 79 days, respectively. According to Frost & Sullivan, such settlement patterns are in line with the market standard of settlement. On the other hand, the turnover days of receivables due from distributors were 10 days, 12 days, 10 days and 13 days, respectively, which is primarily the result of our general requirement that distributors shall make full upfront payment before we deliver our products. As of the Latest Practicable Date, we did not have any material legal proceedings with our customers with respect to the recovery of trade receivables.

As of September 30, 2022, RMB80.8 million, representing 49.5% of the trade receivables outstanding (net of loss provisions) as of June 30, 2022 have been settled. We believe there is no material settlement issue for our total trade receivables.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consist of (i) the amount prepaid to customs for our import of Distribution Products; and (ii) prepayment to other suppliers. The following table sets forth the details of our prepayments, other receivables and other assets as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000			
Prepayments	8,120	8,530	14,825	8,062
Deposits and other receivables	13,086	11,870	13,578	12,177
Value added tax recoverable	3,391	1,579	2,789	7,742
Advance payment of income tax	17	1,756	18,032	25,692
Service fee to be amortized	6,567	8,809	12,408	14,123
Prepayments for long-term assets	–	–	10,130	5,784
[**REDACTED**]	–	–	[**REDACTED**]	[**REDACTED**]
Others	–	315	1,739	–
Less: Impairment allowance	(768)	(1,162)	(1,890)	(1,833)
Total	30,413	31,697	78,771	80,964
Portion classified as:				
non-current portion	7,349	9,526	23,843	21,547
current portion	23,064	22,171	54,928	59,417

Our prepayments, other receivables and other assets mainly included the deposits we paid to our customers as the security for the quality of our products, deposits for participating public tender and prepayments for our rents. Our prepayments, other receivables and other assets as of December 31, 2019 and 2020 remained stable, being RMB30.4 million and RMB31.7 million, respectively. Our prepayments, other receivables and other assets increased to RMB78.8 million as of December 31, 2021 and further to RMB81.0 million as of June 30, 2022, primarily because of the increase of advance payment of income tax.

As of September 30, 2022, RMB5.4 million, representing 80.0% of our prepayments as of June 30, 2022, and RMB2.7 million, representing 22.5% of our deposits and other receivables as of June 30, 2022, has been settled.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of time deposits. Our cash and cash equivalents decreased from RMB332.8 million as of December 31, 2019 to RMB307.5 million as of December 31, 2020. The decrease of our cash and cash equivalents in 2020 was primarily attributable to our acquisitions of Roland and subsidiaries in China. Our cash and cash equivalents increased to RMB609.0 million as of December 31, 2021, primarily because we consolidated the cash and cash equivalents of Teleon after completing its acquisition in January 2021 and received the net investment proceeds upon the completion of our Series B financing. Our cash and cash equivalents decreased from RMB609.0 million as of December 31, 2021 to RMB582.2 million as of June 30, 2022 primarily because we repaid certain loans in relation to the acquisition of Teleon and made investment as to equipment and leasehold to further our research and development. The following table sets forth a breakdown of our cash and cash equivalents as of the dates indicated.

	As of December 31,			As of June 30,
	2019	**2020**	**2021**	**2022**
	RMB'000			
Cash and bank balances	332,762	307,490	608,996	582,226

Trade Payables

Our trade payables primarily represent payments due to our suppliers. In general, our suppliers grant us a credit term of 60 to 90 days. The following table sets forth an aging analysis of trade payables based on the invoice dates as of the dates indicated and trade payable turnover days for the periods indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000			
Within 3 months	110,610	103,151	65,421	55,581
3 to 6 months	1,494	13	532	3,625
6 to 12 months	460	18	786	1,377
Over one year	731	1,235	1,279	489
Total	113,295	104,417	68,018	61,072

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Trade payable turnover days[(1)]	64	76	46	39

(1) Calculated by dividing the arithmetic mean of the opening and ending carrying amount of trade payables in that period by cost of sales for the corresponding period and then multiplying by 365 days or 181 days.

Our trade payables slightly decreased from RMB113.3 million as of December 31, 2019 to RMB104.4 million as of December 31, 2020 as we reduced purchase amount from our brand partners in 2020 during the market low time due to the outbreak of COVID-19. Our trade payables decreased from RMB104.4 million as of December 31, 2020 to RMB68.0 million as of December 31, 2021, primarily because we accelerated the settlement of our trade payables in 2021 in light of the improvement in our revenue. Our trade payables slightly decreased from RMB68.0 million as of December 31, 2021 to RMB61.1 million as of June 30, 2022 primarily because we usually place more orders in the second half of a year due to the increase of orders from our customers. Our trade payable turnover days increased from 64 days in 2019 to 76 days in 2020 as we decelerated the settlement of our payables in light of the outbreak of COVID-19 and decreased to 46 days as of December 31, 2021. Our trade payable turnover days decreased from 46 days in 2021 to 39 days for the six months ended June 30, 2022.

As of September 30, 2022, RMB53.8 million, representing 89.9% of our trade payables as of June 30, 2022 has been subsequently settled.

Other Payables and Accruals

Our other payables and accruals primarily consist of our payroll payable, and other tax payable, as well as other payables. As of December 31, 2019, 2020, 2021 and June 30, 2022, our other payables and accruals was RMB105.6 million, RMB153.1 million, RMB160.7 million and RMB146.7 million, respectively. The following table sets forth the details of our other payables and accruals as of the dates indicated.

	As of December 31,			As of June 30,
	2019	2020	2021	2022
	RMB'000			
Payroll payable	66,285	61,377	53,177	39,980
Other tax payable	16,374	23,986	40,092	41,151
Other payables	15,603	57,983	15,848	10,803
Accruals	7,325	9,782	51,600	54,789
Total	105,587	153,128	160,717	146,723

Our payroll payable mainly depends on the year-end bonus and remuneration of our sales and marketing personnel. Our payroll payable decreased from RMB66.3 million as of December 31, 2019 to RMB61.4 million as of December 31, 2020 as our sales suffered due to the outbreak of COVID-19 in 2020, which in turn affected our employee compensations. On the other hand, we were entitled to defer certain contribution to social insurance in 2020, which contributed to our payroll payable as of the end of the year. Such entitlement did not extend to 2021, and this resulted in our payroll payable as of December 31, 2021 being lower than that as of December 31, 2020. In addition, as the remuneration of our sales and marketing personnel are based on their annual performance and year-end remuneration accounted for considerable portion of their annual packages, our payroll payable as of June 30, 2022 was lower than that as of December 31, 2021. The significant increase in other payables between December 31, 2020 and 2021 was resulted from (1) a borrowing of EUR5 million from Teleon for the payment to the then existing shareholders of Teleon before our acquisition in January 2021 and (2) payables of RMB64 million for our acquisition of Roland. Other payables decreased from RMB15.8 million as of December 31, 2021 to RMB10.8 million as of June 30, 2022 because we record higher other payables at the end of the year as employees' reimbursement accumulated over the entire year. The significant increase of accruals as of December 31, 2021 was primarily attributable to the warranty fees undertaken by Teleon before our acquisition, which was recorded in Euro, and the increase of accruals as of June 30, 2022 was primarily due to the fluctuation of exchange rate between RMB and Euro.

Tax Payable

Our income tax payable decreased from RMB37.4 million as of December 31, 2019 to RMB28.8 million as of December 31, 2020, primarily because of prepaid corporate income tax in 2020. Our income tax payable decreased from RMB28.8 million as of December 31, 2020 to RMB19.8 million as of December 31, 2021 and further to RMB14.5 million as of June 30, 2022, primarily because of the successive increases in our advance payment of income tax during the Track Record Period, which amounted to RMB17 thousand, RMB1.8 million, RMB18.0 million and RMB25.7 million for the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively.

Interest-bearing Bank and Other Borrowings

Our interest-bearing bank and other borrowings represented current and non current secured bank loans and senior facility loans. As of December 31, 2019, 2020, 2021 and June 30, 2022, our current interest-bearing bank and other borrowings was RMB37.5 million, RMB866.2 million, RMB122.5 million and RMB105.0 million, respectively. The significant increase in our interest-bearing bank and other borrowings between December 31, 2019 and 2020 primarily results from the Bridge Facility Loan taken out for the purpose of the acquisition of Teleon, which was later replaced by the Mezzanine Facility Loan amounting to EUR25 million and the Senior Facility Loan amounting to EUR75 million on April 22, 2021. See "— Indebtedness" and Note 29 to the Accountants' Report set out in Appendix I to this Document for details of our interest-bearing bank and other borrowings.

Contract Liabilities

Our contract liabilities represented advances from our customers, which arose as we may require our customers to make payment before we deliver our products. As of December 31, 2019, 2020, 2021 and June 30, 2022, our contract liabilities was RMB133.4 million, RMB150.7 million, RMB123.1 million and RMB141.7 million, respectively. The increase of our contract liabilities in 2020 was primarily attributable to recovery in sales of medical devices as the COVID-19 pandemic showed signs of abating in China in the second half of 2020. The decrease of our contract liabilities in 2021 was primarily attributable to acceleration in delivery and installation of our products. The increase in our contract liabilities for the six months ended June 30, 2022 was primarily attributable to the increase of advance payment by our customers as our technical services grew.

We will recognize the revenue upon performance of such obligations under the relevant contracts.

As of September 30, 2022, the revenue amounting to RMB69.6 million, representing 49.1% of the contract liabilities as of June 30, 2022, has been recognized.

Net current assets/(liabilities)

We recorded net current assets of RMB540.2 million as of December 31, 2019 and net current liabilities of RMB531.5 million as of December 31, 2020, primarily due to (i) an increase of RMB828.7 million in interest-bearing bank and other borrowings; (ii) an decrease of RMB200.2 million in financial assets at fair value through profit or loss; (iii) an increase of RMB47.5 million in other payables and accruals; (iv) a decrease of RMB25.3 million in cash and cash equivalents; and (v) a decrease of RMB22.9 million in trade receivables. The decrease in net current assets was partially offset by (i) an increase of RMB43.8 million in inventories; and (ii) a decrease of RMB8.9 million in trade payables; and (iii) a decrease of RMB8.6 million in tax payable.

We recorded net current liabilities of RMB531.5 million as of December 31, 2020 and net current assets of RMB648.5 million as of December 31, 2021, primarily due to (i) a decrease of RMB743.7 million in interest-bearing bank and other borrowings, as we replaced certain short-term bank loans associated with our acquisition of Teleon with long-term bank loans; (ii) an increase of RMB301.5 million in cash and cash equivalents and (iii) a decrease of RMB36.4 million in trade payables.

We recorded net current assets of RMB648.5 million as of December 31, 2021 and net current assets of RMB654.6 million as of June 30, 2022. The slight increase was primarily due to (i) an increase of RMB25.8 million in inventories; and (ii) a decrease of RMB17.5 million in interest-bearing bank and other borrowings, and was partially offset by (i) a decrease of RMB26.8 million in cash and cash equivalent; and (ii) increase of RMB25.3 million in contract liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash during the Track Record Period were to fund our purchase of Distribution Products from our brand partners and acquisitions of our subsidiaries, including Teleon and Roland, as well as other working capital needs. We primarily finance our operations and other capital requirements through cash generated from our operations and financing activities.

Our anticipated cash needs primarily include costs associated with the research and development of our products and business operations. We expect to fund our future working capital and other cash requirements with cash generated from our operations, the [**REDACTED**] from [**REDACTED**] and, when necessary, bank and other borrowings. As of September 30, 2022, the latest practicable date for determining our indebtedness, we had capital resources of RMB616.4 million, consisting of cash and cash equivalents of RMB606.0 million and pledged deposits of RMB10.4 million. As of the same date, we had unutilized banking facilities of RMB49.2 million, amounting to 91% of the total facility amount. Taking into account our internal resources, our cash flow from operations and the estimated [**REDACTED**] from the [**REDACTED**], our Directors confirm that in their opinion, the working capital available to us is sufficient for the Group's requirements for at least the next 12 months from the date of this Document. Based on the relevant due diligence work carried out by the Joint Sponsors, the Joint Sponsors are satisfied that the Directors' confirmation has been given after due and careful enquiry.

CASH FLOWS

The following table sets forth a summary of our consolidated cash flow statements for the periods indicated.

	As of December 31,			As of June 30,	
	2019	2020	2021	2021	2022
				(Unaudited)	
			RMB'000		
Net cash flows from operating activities	171,064	130,001	164,486	14,051	75,268
Net cash flows (used in)/from investing activities	(136,298)	(998,022)	79,835	98,011	(14,782)
Net cash (used in)/from financing activities	(75,471)	856,356	72,843	78,687	(85,283)
Net (decrease)/increase in cash and cash equivalents	(40,705)	(11,665)	317,164	190,749	(24,797)
Cash and cash equivalents at beginning of year	387,688	332,762	307,490	307,490	608,996
Effect of foreign exchange rate changes, net	(14,221)	(13,607)	(15,658)	(17,010)	(1,973)
Cash and cash equivalents at end of year	332,762	307,490	608,996	481,229	582,226

Operating Activities

For the six months ended June 30, 2022, we had net cash generated from operating activities of RMB75.3 million, consisting of RMB139.0 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB20.0 million relating to changes in working capital, income tax paid of RMB43.8 million. Our net cash outflows from operating activities relating to changes in working capital of RMB20.0 million were primarily attributable to (i) an increase in contract liabilities of RMB18.6 million; and (ii) a decrease in trade receivables of RMB8.2 million. Such inflows were partially offset by (i) an increase in inventories of RMB25.8 million; (ii) a decrease in other payables and accruals of RMB17.5 million, and (iii) a decrease in trade payables of RMB6.9 million.

For the year ended December 31, 2021, we had net cash generated from operating activities of RMB164.5 million, consisting of RMB341.7 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB79.7 million relating to changes in working capital, income tax paid of RMB97.4 million. Our net cash outflows from operating activities relating to changes in working capital of RMB79.7 million were primarily attributable to (i) a decrease in inventories of RMB38.6 million; (ii) a decrease in trade receivables of RMB19.7 million. Such inflows were partially offset by (i) an increase in prepayments, other receivables, and other assets of RMB30.6 million; (ii) a decrease in trade payables of RMB42.6 million; (iii) a decrease in other payables and accruals of RMB37.5 million; and (iv) a decrease in contract liabilities of RMB27.6 million.

For the year ended December 31, 2020, we had net cash generated from operating activities of RMB130.0 million, consisting of RMB179.1 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB13.4 million relating to changes in working capital, income tax paid of RMB62.5 million. Our net cash outflows from operating activities relating to changes in working capital of RMB13.4 million were primarily attributable to (i) a decrease in trade receivables of RMB29.4 million, and (ii) an increase in contract liabilities of RMB17.4 million. Such cash inflows were partially offset by (i) an increase in inventory of RMB38.2 million, and (ii) a decrease in trade payables of RMB10.6 million.

For the year ended December 31, 2019, we had net cash generated from operating activities of RMB171.1 million, consisting of RMB197.0 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB4.9 million relating to changes in working capital, income tax paid of RMB21.0 million. Our net cash outflows from operating activities relating to changes in working capital of RMB4.9 million were primarily attributable to an increase in other payables and accruals of RMB28.4 million. Such cash inflows were partially offset by (i) an increase in inventory of RMB4.5 million, and (ii) an increase in trade receivables of RMB28.1 million.

Investing Activities

For the six months ended June 30, 2022, our net cash used in investing activities was RMB14.8 million. This net cash outflow was primarily attributable to (i) the cash we used in purchasing property, plant and equipment and other long-term assets of RMB14.8 million; and (ii) additions of intangible assets of RMB1.7 million. This net cash outflow was partially offset by interest received of RMB1.8 million.

For the year ended December 31, 2021, our net cash from investing activities was RMB79.8 million. This net cash inflow was primarily attributable to (i) the cash we received for the acquisitions of Teleon of RMB105.8 million, which represented the excessive amount in our prepayment for the acquisition of Teleon; and (ii) interest received of RMB2.0 million. This net cash inflow was partially offset by cash payment for purchase of property, plant and equipment and other long-term assets of RMB26.5 million.

For the year ended December 31, 2020, our net cash used in investing activities was RMB998.0 million. This net cash outflow was primarily attributable to (i) the cash we prepaid for the acquisition of subsidiaries of RMB1,182.6 million and (ii) purchase of wealth management products of RMB407.9 million. This net cash inflow was partially offset by cash received as the proceeds from disposal of wealth management products of RMB607.5 million.

For the year ended December 31, 2019, our net cash used in investing activities was RMB136.3 million. This net cash outflow was primarily attributable to the purchase of wealth management products of RMB565.6 million. This net cash inflow was partially offset by cash received as the proceeds from disposal of wealth management products of RMB427.0 million.

Financing Activities

For the six months ended June 30, 2022, our net cash flows used in financing activities was RMB85.3 million. The net cash outflow was primarily attributable to (i) repayment of interest-bearing borrowings of RMB68.8 million; (ii) interest paid of RMB19.0 million; and (iii) payments of lease liabilities of RMB11.6 million. This net outflow was partially offset by the proceeds from bank borrowings of RMB15.0 million.

For the year ended December 31, 2021, our net cash flows generated from financing activities was RMB72.8 million. The net cash inflow was primarily attributable to (i) proceeds from bank borrowings of RMB66.1 million; (ii) proceeds of issuance of Preferred Shares of RMB659.1 million; and (iii) proceeds of issuance of Shares of RMB29.1 million. This net inflow was partially offset by (i) repurchase of shares of RMB489.7 million; (ii) interest paid of RMB76.1 million; (iii) pledged bank deposit for loans of RMB6.4 million; (iv) payments of lease liabilities of RMB14.4 million; and (v) repayment of bank borrowings of RMB90.6 million.

For the year ended December 31, 2020, our net cash flows generated from financing activities was RMB856.4 million. The net cash inflow was primarily attributable to (i) proceeds from bank borrowings of RMB897.3 million; and (ii) proceeds from loan provided by Teleon of RMB40.1 million. This net inflow was partially offset by (i) repayment of bank borrowings of RMB68.6 million; and (ii) payments of lease liabilities of RMB10.3 million.

For the year ended December 31, 2019, our net cash flows used in financing activities was RMB75.5 million. The net cash out was primarily attributable to (i) repayment of bank borrowings of RMB45.2 million; (ii) repurchase of Shares of RMB67.9 million; and (iii) payment of lease liabilities of RMB8.9 million. This net outflow was partially offset by proceeds from bank borrowings of RMB47.4 million.

INDEBTEDNESS

As of December 31, 2019, 2020, 2021 and June 30, 2022 and September 30, 2022, our indebtedness was RMB705.0 million, RMB1,744.9 million, RMB2,621.7 million, RMB2,681.1 million and RMB2,828.0 million, respectively. As of June 30, 2022, being the latest practicable date to determine our indebtedness, we had indebtedness of our convertible redeemable Preferred Shares, long term and short term interest-bearing bank and other borrowings, long term and short term lease liabilities, and loan at fair value through profit or loss. As of June 30, 2022, except as disclosed in this section, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities. Since September 30, 2022, the latest practicable date for the purpose of the indebtedness statement, and up to the Latest Practicable Date, there had been no material adverse change to our indebtedness.

	As of December 31,			As of June 30,	As of September 30,
	2019	2020	2021	2022	2022
					(unaudited)
			RMB'000		
Interest-Bearing Bank and Other Borrowings	37,502	1,061,089	757,798	682,320	662,263
Loan at Fair Value through Profit or Loss	–	–	159,099	154,382	162,877
Lease Liabilities	23,339	20,123	44,379	59,146	54,941
Convertible redeemable Preferred Shares*	644,182	663,648	1,660,424	1,785,232	1,947,901
Total	705,023	1,744,860	2,621,700	2,681,080	2,827,982

* Our convertible redeemable Preferred Shares will be converted into Shares and recorded as our share capital upon the [**REDACTED**] and we expect that we will no longer record convertible redeemable Preferred Shares after the [**REDACTED**].

Interest-Bearing Bank and Other Borrowings

Our bank loans and other borrowings were primarily used for our acquisition of Teleon and to supplement our working capital during the Track Record Period. The following tables set forth the breakdown of our bank and other borrowings as of the dates indicated.

	December 31, 2019		
	Effective interest rate	**Maturity**	**RMB'000**
	(%)		
Current			
Bank loans – secured	4.0–5.4	2020	37,502

	December 31, 2020		
	Effective interest rate	**Maturity**	**RMB'000**
	(%)		
Current			
Bank loans – secured	2.85–4.00	2021	63,049
Bridge Facility Loan – secured	2.85	2021	803,135
			866,184
Non-current			
Vendor Loan – secured	7.00	2024–2025	194,905

	December 31, 2021		
	Effective interest rate	**Maturity**	**RMB'000**
	(%)		
Current			
Bank loans – secured	3.40-4.00	2022	38,242
Senior Facility Loan – secured	2.85-3.00	2022	84,222
			122,464
Non-current			
Senior Facility Loan – secured	3.00-3.15	2023-2024	460,256
Vendor Loan – secured	7.00	2024-2025	175,078
			635,334

	June 30, 2022		
	Effective interest rate	**Maturity**	**RMB'000**
Current			
Bank loans – secured	1.50-3.75	2022	23,363
Senior Facility Loan – secured	3.00	2022-2023	81,640
			105,003
Non-current			
Senior Facility Loan – secured	3.15	2023-2024	407,363
Vendor loans – secured	7.00	2024-2025	169,954
			577,317

Bank Borrowings

As of December 31, 2019 and 2020, certain of our bank borrowings were guaranteed by Gao Tieta, as our Controlling Shareholder, and our wholly owned subsidiaries and secured by the mortgages over the properties owned by Gao Tieta. As of December 31, 2019, certain of our bank borrowings were guaranteed by Gao Fan. For details, see Note 29 and Note 31 to the Accountants' Report in Appendix I to this Document. As of the date of this Document, the guarantee and mortgages provided by Gao Tieta and Gao Fan in favor of the lenders of our bank borrowings have been released.

For the purpose of funding the acquisition of Teleon, we have entered into a series of secured bank and vendor financing, a summary of which is set forth below:

(a) *Bridge Facility Loan.* On December 18, 2020, we entered into a bridge facility agreement with, among other lenders, Credit Suisse, to obtain a bridge loan of no more than EUR100 million. The Bridge Facility Loan was pledged by 100% shares of Gaush Netherlands, 100% shares of Gaush Medical Corporation and 100% shares of Teleon Holding B.V. The Bridge Facility Loan was fully repaid on April 22, 2021 using proceeds from the Senior Facility Loan and the Mezzanine Facility Loan. Its corresponding security was released accordingly.

(b) *Vendor Loan.* On December 23, 2020, we entered into a vendor loan agreement with Stichting Administratiekantoor OPM, one of the vendors of Teleon, pursuant to which Stichting Administratiekantoor OPM, as the lender, granted us a five-year vendor loan amounting to EUR24.25 million, and such proceeds shall be used to partially fund our acquisition of Teleon. The Vendor Loan was secured by 100% of the equity interest of Gaush HK and GMC HK, although it was agreed that such security shall be subordinated to the security granted in favor of the Mezzanie Facility Loan. For details of the repayment schedule, please see "History, Reorganization and Development — Our Major Subsidiaries in Germany and the Netherlands — Acquisition of Teleon."

(c) *Senior Facility Loan.* On December 30, 2020, we entered into a senior facility loan with Credit Suisse, Shanghai Pudong Development Bank Co., Ltd., SPD Silicon Valley Bank Co., Ltd. and UOB Kay Hian Credit Pte., Ltd. as the lenders, pursuant to which the lenders granted to us a three-year senior facility of EUR75 million. The Senior Facility Loan was secured by 100% of the equity interest of Gaush Netherlands, Teleon Holding B.V. and Gaush Medical Corporation as well as our debt service reserve account balance in Credit Suisse AG, Singapore Branch amounting to RMB4,029,000 (equivalent to EUR558,125) as of December 31, 2021. Gaush HK's right to receive repayment of an intercompany loan amounting to EUR3 million was also conditionally assigned to Credit Suisse to secure the Senior Facility Loan. The Senior Facility Loan was drawn down on April 22, 2021 and was utilized to partially repay the Bridge Facility Loan. For details of the repayment schedule, please see "History, Reorganization and Development — Our Major Subsidiaries in Germany and the Netherlands — Acquisition of Teleon."

(d) *Mezzanine Facility Loan.* On December 31, 2020, we entered into a mezzanine facility agreement with Credit Suisse to obtain the Mezzanine Facility Loan. The Mezzanine Facility Loan carries an interest rate of 5% per annum and will rise to 12% per annum if a recognised [**REDACTED**] of the Company has not occurred. It was secured by 100% of the equity interest of Global Vision HK, Gaush HK, GMC HK, GMC BVI, Gaush BVI, as well as our debt service reserve account balance in Credit Suisse AG, Singapore Branch amounting to RMB2,356,000 (equivalent to EUR326,364) as of December 31, 2021. As security for the Mezzanine Facility Loan, we also conditionally assigned the Company's right to receive repayment of an intercompany loan amounting to EUR25 million from Gaush HK to Credit Suisse to secure the Mezzanine Facility Loan. The Mezzanine Facility Loan was drawn down on April 22, 2021 and was utilized to partially repay the Bridge Facility Loan. For details of the repayment schedule, please see "History, Reorganization and Development — Our Major Subsidiaries in Germany and the Netherlands — Acquisition of Teleon."

Loan at Fair Value through Profit or Loss and Warrants

As of December 31, 2021 and June 30, 2022, we had loan at fair value through profit or loss amounting to RMB159.1 million and RMB154.4 million, respectively. This represented the Mezzanine Facility Loan we obtained from Credit Suisse.

In connection with the Mezzanine Facility Loan, we granted Credit Suisse the CS Warrants, pursuant to which we agreed to issue up to 1,335,252 Shares at par value. On October 20, 2021, Credit Suisse issued an exercise notice to us in respect of the CS Warrants and it settled the exercise price in the total amount of US$133.53 on October 22, 2021. On October 25, 2021, we issued and allotted 1,335,252 Shares to Credit Suisse to settle the exercise of the CS Warrants. As of December 31, 2021 and June 30, 2022, there are no CS Warrants outstanding.

Lease Liabilities

Our lease liabilities are in relation to our office premises and manufacturing facilities. As of December 31, 2019, 2020 and 2021 and June 30, 2022, we recorded current lease liabilities of RMB7.3 million, RMB6.2 million, RMB12.6 million and RMB20.7 million, respectively. As of the same dates, we recorded non-current lease liabilities of RMB16.1 million, RMB13.9 million, RMB31.8 million and RMB38.4 million, respectively.

Convertible redeemable Preferred Shares

As of December 31, 2019, 2020 and 2021 and June 30, 2022, our Preferred Shares (unsecured and unguaranteed, presented as convertible redeemable Preferred Shares in the Accountants' Report) had fair values of RMB644.2 million, RMB663.6 million, RMB1,660.4 million and RMB1,785.2 million, respectively. For further information regarding the Preferred Shares, see Note 32 to the Accountant's Report in Appendix I to this Document.

CAPITAL EXPENDITURE

We regularly make capital expenditures to expand our operations and increase our operating efficiency. Our capital expenditure during the Track Record Period primarily construction and upgrade of our manufacturing plant. The following table sets forth our capital expenditure for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,	
	2019	**2020**	**2021**	**2021**	**2022**
				(Unaudited)	
			RMB'000		
Payment for properties plants and equipment	4,063	1,769	26,545	8,132	14,828
Payment for intangible assets	261	47	1,503	275	1,736
Total	4,324	1,816	28,048	8,407	16,564

We plan to finance such expenditure primarily through cash flow from operating activities and the [**REDACTED**] from the [**REDACTED**].

CONTINGENT LIABILITIES

As of December 31, 2019, 2020, 2021 and June 30, 2022, we did not have any contingent liabilities. We confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

RELATED PARTY TRANSACTIONS

Except for transactions with related parties as disclosed in Note 37 to the Accountants' Report set out in Appendix I to this Document, during the Track Record Period, our Company did not have any other related party transactions.

KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates or for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2019	2020	2021	2022
Gross profit margin (%)(1)	41.9	45.3	46.9	48.7
Current ratio(2)	2.3	0.6	2.5	2.5
Quick ratio(3)	1.8	0.4	1.9	1.9
Gearing ratio (%)(4)	(87.2)(5)	2,261.5	(151.8)(5)	(128.3)(5)

(1) Equals gross profit for the year divided by revenue for the year and multiplied by 100%.

(2) Current ratio represents current assets divided by current liabilities as of the same date.

(3) Quick ratio represents current assets less inventories and divided by current liabilities as of the same date.

(4) Gearing ratio represents total interest-bearing borrowings (including interest-bearing bank borrowings and other borrowings, lease liabilities, and loan at fair value through profit and loss) divided by net assets or liabilities as of the ends of the period and multiplied by 100%.

(5) The gearing ratios as of December 31, 2019 and December 31, 2021 and June 30, 2022 were negative because the Company recorded net liabilities under the IFRS as of December 31, 2019 and December 31, 2021 and June 30, 2022.

The significant decrease of the current ratio and the quick ratio (together, "**liquidity ratios**") as of December 31, 2020 reflected our utilization of cash resources and the short-term borrowing we obtained to fund the acquisition of Teleon. On December 18, 2020, we entered into a bridge facility agreement with, among other lenders, Credit Suisse, to obtain a bridge loan of no more than EUR100 million, which was fully repaid on April 22, 2021 using proceeds from the Senior Facility Loan and the Mezzanine Facility Loan. See "History, Reorganization and Development — Our Major Subsidiaries in Germany and the Netherlands — Acquisition of Teleon." and "Financial Information — Indebtedness — Bank Borrowings" for more details. In addition, the gearing ratio fluctuated during the years of 2019, 2020 and 2021, which is mainly caused by the significant increase of interest-bearing bank borrowings in 2020.

Gross Profit Margin

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2021 and 2022, our gross profit margin was 41.9%, 45.3%, 46.9%, 46.6% and 48.7%, respectively, and our adjusted net profit margin (Non-IFRS measure) was 13.0%, 12.3%, 13.2%, 8.3% and 15.7%, respectively. For details, see "— Results of Operations."

Current Ratio and Quick Ratio

Our current ratio decreased from 2.3 as of December 31, 2019 to 0.6 as of December 31, 2020, and our quick ratio decreased from 1.8 as of December 31, 2019 to 0.4 as of December 31, 2020, primarily because our current liabilities increased significantly, primarily due to an increase of RMB828.7 million of the interest-bearing bank and other borrowings.

Our current ratio increased from 0.6 as of December 31, 2020 to 2.5 as of December 31, 2021, and our quick ratio increased from 0.4 as of December 31, 2020 to 1.9 as of December 31, 2021, primarily due to the increase in our cash and cash equivalents as the result of our operating activities in 2021 and receipt of investment proceeds from Series B financing and also the short-term interest-bearing bank and other borrowings being replaced by long-term interest-bearing bank and other borrowings.

Our current ratio and quick ratio as of June 30, 2022 remain stable at 2.5 and 1.9, respectively, compared to those as of December 31, 2021.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of market risks, including foreign currency risk, credit risk and liquidity risk as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, including relevant sensitivity analysis, see Note 40 in the Accountants' Report set out in Appendix I to this Document.

Foreign Currency Risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between Renminbi and other currencies in which we conduct business may affect our financial condition and results of operations. We seek to limit our exposure to foreign currency risk by minimizing its net foreign currency position.

Exchange differences on translation of foreign operations represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency of Euro, which is different from the functional currency of RMB for the financial statements of the Company. Our exchange differences on translation of foreign operations differences amounted to loss of RMB0.4 million, gains of RMB7.6 million and loss of RMB58.6 million for the year ended December 31, 2019, 2020 and 2021, respectively.

For details and the sensitivity analysis of our profit before tax and our equity to a reasonably possible change in the US$ exchange rate for each year during the Track Record Period, with all other variables held constant, see Note 40 in the Accountants' Report set out in Appendix I to this Document.

Credit Risk

We trade on credit terms only with recognized and creditworthy third parties. It is our policy that all traders who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

For details and the analysis of credit quality and the maximum exposure to credit risk based on our credit policy at the end of each year during the Track Record Period, see Note 40 in the Accountants' Report set out in Appendix I to this Document.

Liquidity Risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. For details and the maturity profile of our financial liabilities as of the end of each year during the Track Record Period, see Note 40 in the Accountants' Report set out in Appendix I to this Document.

DIVIDENDS

We do not have a specific dividend policy or a predetermined dividend payout ratio. The decision to pay dividends in the future will be made at the direction of our Board and will be based on our profits, cash flows, financial condition, capital requirements and other conditions that our Board deems relevant. The payment of dividends may be limited by other legal restrictions and agreements that we may enter into in the future.

DISTRIBUTABLE RESERVE

As of December 31, 2021, our distributable reserve was nil.

[REDACTED]

[**REDACTED**] to be borne by us are estimated to be approximately HK$[**REDACTED**] (including [**REDACTED**] with respect to the [**REDACTED**] and other expenses), assuming that the [**REDACTED**] is not exercised and an [**REDACTED**] of HK$[**REDACTED**]. Approximately HK$[**REDACTED**] is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately HK$[**REDACTED**] is expected to be accounted for as a deduction from equity upon the [**REDACTED**]. The [**REDACTED**] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. The table below sets forth the breakdown of our [**REDACTED**].

[**REDACTED**]

The [**REDACTED**] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. The [**REDACTED**] is expected to bear the [**REDACTED**], with respect to the [**REDACTED**].

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of our Group has been prepared in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for illustration purpose only, and is set out below to illustrate the effect of the [**REDACTED**] on the consolidated net tangible liabilities of the Group attributable to owners of the Company as of June 30, 2022 as if it had taken place on that date.

The unaudited pro forma adjusted consolidated net tangible assets attributed to the owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the [**REDACTED**] been completed as of June 30, 2022 or any future date. It is prepared based on the consolidated net tangible liabilities as of June 30, 2022, the text of which is set forth in Appendix I to this Document, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report, the text of which is set out in Appendix II to this Document.

	Consolidated net tangible liabilities of the Group attributable to the owners of the Company as of June 30, 2022	Estimated [REDACTED] from the [REDACTED]	Automatic conversion of convertible redeemable Preferred Shares upon [REDACTED]	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as of June 30, 2022	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share as of June 30, 2022	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	(1,851,938)	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

(1) The consolidated net tangible liabilities of the Group in the amount of RMB(1,851,938,000) as at June 30, 2022 is arrived at after (i) deducting goodwill attributable to the owners of the Company in the amount of RMB857,563,000, (ii) deducting intangible assets in the amount of RMB279,961,000 and (iii) adding the share of this intangible asset attributable to non-controlling interests of RMB5,174,000 from the audited consolidated equity attributable to owners of the Company of RMB(719,588,000) as at June 30, 2022, as set out in the Accountants' Report in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on the [**REDACTED**] of HK$[**REDACTED**] per Share, after deduction of the [**REDACTED**] and other related expenses payable by the Company (excluding expenses of [**REDACTED**] already incurred and recognised in our Company's consolidated financial statements as of June 30, 2022) and do not take into account any Shares which may be issued upon exercise of the [**REDACTED**].

(3) Upon the [**REDACTED**] and the completion of the [**REDACTED**], all the Preferred Shares will be automatically converted into Shares. These Preferred Shares will be converted from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets of the Group attributable to the owners of the Company as set out in the above table will be increased by RMB[**REDACTED**] being the carrying amounts of the Preferred Shares as at June 30, 2022.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs (note (2) and (3) above) and on the basis that [**REDACTED**] Shares were in issue assuming that the [**REDACTED**] had been completed on June 30, 2022 and the [**REDACTED**] of HK$[**REDACTED**] per Share.

(5) In connection with the preparation of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share are converted into Hong Kong dollars at a rate of HK$1 = RMB0.90449. No representation is made that the RMB amounts have been, could have been or may be converted into Hong Kong dollar, or vice versa at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to June 30, 2022.

Our Preferred Shares will be converted into Shares upon the [**REDACTED**] and we expect that we will no longer record further fair value loss on Preferred Shares. However, the fair value loss on Preferred Shares accrued during the year ending December 31, 2022 is expected to substantially increase when compared to the fair value loss on Preferred Shares during the year ended December 31, 2021, which is primarily resulted from the improving valuation of the Company, assuming an [**REDACTED**] of HK$[**REDACTED**] per Share. Such increase in the fair value loss on Preferred Shares is expected to result in substantial increase in our net loss for the year ending December 31, 2022.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as far as they are aware, there had been no material adverse change in our financial, trading position or prospects since June 30, 2022, being the latest date of our consolidated financial statements as set out in "Appendix I — Accountants' Report" to this Document, up to the date of this Document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

FINANCIAL INFORMATION OF TELEON

The following table sets forth the statements of profit or loss of Teleon for the periods indicated, which represented the pre-acquisition financial information disclosed pursuant to Rule 4.05A of the Listing Rules is derived from the statements of profit or loss of Teleon set out in Note III. 1 to the Accountant's Report included in Appendix I to this document:

	For the year ended December 31,	
	2019	**2020**
	RMB'000	
Revenue	289,142	245,412
Cost of sales	(107,670)	(121,889)
Gross profit	181,472	123,523
Other income	301	314
Selling and distribution costs	(26,128)	(51,114)
Administrative expenses	(16,116)	(17,688)
Research and development costs	(12,623)	(11,307)
Other expenses	(5,199)	(7,716)
Finance costs	(479)	(668)
Profit before tax	121,228	35,344
Income tax expense	(22,659)	(9,979)
Profit for the year	98,569	25,365
Attributable to:		
Owners of the parent	98,569	25,365
Non-controlling interests	–	–
	98,569	25,365

Revenue

For the years ended December 31, 2019 and 2020, the revenue of Teleon amounted to RMB289.1 million and RMB245.4 million, respectively. In 2019 and 2020, Teleon generated revenue primarily from the sales of its proprietary intraocular lens products, as well as the sales of ophthalmic medical equipment and consumables products for its brand partners and provision of certain after-sale services. The after-sale services represented the annual maintenance contracts for certain equipment sold and installed, and such services were invoiced on an annual basis. The decrease in Teleon's revenue between the years was primarily attributable to the decrease in the sales of Teleon's proprietary intraocular lens products from RMB217.3 million in 2019 to RMB156.2 million in 2020, which was negatively impacted by the disruption in supply chain caused by the global outbreak of COVID-19 in 2020, Teleon also generates royalties revenue from the license-out of its intellectual properties. The table below sets forth the breakdown of Teleon's revenue by product types or services and geographical areas for the years indicated.

	For the year ended December 31,	
	2019	2020
	RMB'000	
Sale of proprietary intraocular lens products	217,295	156,157
Sale of other ophthalmic medical consumables	59,386	66,366
Sale of ophthalmic medical equipment	4,944	5,084
After-sales services	3,376	5,013
Others*(Note)*	4,141	12,792
	289,142	245,412

Note: Others primarily represented the royalties Teleon charged for licensing-out its certain intellectual properties to a reputable Japanese specialized pharmaceutical company focusing on ophthalmic treatment.

	For the year ended December 31,	
	2019	2020
	RMB'000	
Germany	103,447	101,537
Asia Pacific (excluding Greater China)	82,028	63,608
Europe (excluding Germany and Netherlands)	34,756	31,014
Greater China	37,338	22,685
Oceania	10,971	12,557
Americas (including Canada)	11,824	7,944
Netherlands	7,377	5,131
Others	1,401	936
	289,142	245,412

Cost of Sales

For the years ended December 31, 2019 and 2020, the cost of sales of Teleon amounted to RMB107.7 million and RMB121.9 million, respectively. The increase in the cost of sales of Teleon was driven by the increase in its labor costs from RMB39.4 million to RMB57.9 million, which was in turn primarily attributable to the retention bonus and compensation to its manufacturing and other staff in 2020, aiming at ensuring a smooth transition following the acquisition by Gaush. Such increase in cost of sales of Teleon was partially offset by the decrease in the cost of sales driven by the drop in the sales of Teleon's proprietary intraocular lens and other products discussed above.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2019 and 2020, the gross profit of Teleon was RMB181.5 million and RMB123.5 million, respectively, and its gross profit margin was 62.8% and 50.3%, respectively. This was primarily attributable to (i) the rise in labor costs due to retention bonus and compensation to manufacturing and other staff in 2020, and (ii) lower portion of revenue contributed by products of higher gross margin. The revenue contribution of such products decreased from RMB217.3 million and 75.2% of the total revenue in 2019 to RMB156.2 million and 63.6% of the total revenue in 2020.

Other Income

For the years ended December 31, 2019 and 2020, the other income of Teleon was RMB0.3 million and RMB0.3 million, respectively. This primarily represented bank interest income of Teleon.

Selling and Distribution Expenses

For the years ended December 31, 2019 and 2020, the selling and distribution expenses of Teleon was RMB26.1 million and RMB51.1 million, respectively. This primarily represented the marketing expenses and labor costs incurred for selling and distribution purposes, as well as expenses incurred to maintain stable relationship with Teleon's existing distribution channel in light of the changes in its corporate structure in 2020.

Administrative Expenses

For the years ended December 31, 2019 and 2020, the administrative expense of Teleon were RMB16.1 million and RMB17.7 million, respectively. This primarily represented the labor costs for administrative purposes as well as audit and professional fees.

Research and Development Costs

For the years ended December 31, 2019 and 2020, the research and development costs of Teleon amounted to RMB12.6 million and RMB11.3 million, respectively. The decrease was primarily due to global outbreak of COVID-19 in 2020 which limited the scale of clinical research activities that Teleon carried out for its proprietary products.

Other Expenses

For the years ended December 31, 2019 and 2020, the other expenses of Teleon were RMB5.2 million and RMB7.7 million, respectively. Teleon's other expenses primarily represented the impairment provision of its inventories, which increased in 2020 as Teleon terminated the sales of certain products in the year.

Finance Costs

For the years ended December 31, 2019 and 2020, the finance costs of Teleon amounted to RMB0.5 million and RMB0.7 million, respectively, and represented the interest of lease liabilities.

Income Tax Expenses

For the years ended December 31, 2019 and 2020, the income tax expenses of Teleon amounted to RMB22.7 million and RMB10.0 million. Teleon was subject to corporate income tax at the rate of 15% if the taxable income is EUR245,000 or less and the corporate income tax rate is 25% for the portion exceeding EUR245,000. We believe Teleon's Dutch subsidiaries to qualify for the innovation box, which provides tax relief to encourage innovative research, and a reduced rate of 7% applies to the activities covered by the innovation box. For details of the innovation box, see Note III.7 to the Accountants' Report set forth in Appendix I to this document.

The following table sets forth the selected information from our consolidated balance sheets of Teleon for the periods indicated. The information has been extracted from, and should be read together with our consolidated balance sheets of Teleon set out in Note III. 1 to the Accountant's Report included in Appendix I to this document:

	As of December 31,	
	2019	**2020**
	RMB'000	
Total non-current assets	70,316	84,447
Total current assets	193,036	216,498
Total non-current liabilities	109,128	70,347
Total current liabilities	25,034	72,040
Net assets	129,190	158,558
Equity attributable to owners of the parent		
Share capital	8	8
Other reserves	129,182	158,550
Non-controlling interests	–	–
Total equity	129,190	158,558

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

	As of December 31,	
	2019	2020
	RMB'000	
Current assets		
Inventories	40,797	43,544
Trade receivables	30,637	23,256
Tax receivables	13,068	1,019
Prepayments and other receivables	4,056	42,701
Cash and cash equivalents	104,478	105,978
Total current assets	193,036	216,498
Current liabilities		
Trade payables	2,978	6,187
Other payables and accruals	13,303	42,725
Tax payable	–	17,262
Amounts due to related parties	3,079	–
Lease liability	5,674	5,866
Total current liabilities	25,034	72,040
Net current assets	168,002	144,458

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

	As of December 31,	
	2019	2020
	RMB'000	
Non-current assets		
Property, plant and equipment	21,672	24,492
Right-of-use assets	38,398	33,641
Intangible assets	7,167	6,998
Deferred tax assets	3,079	19,316
Total non-current assets	70,316	84,447
Non-current liabilities		
Other payables and accruals	75,889	41,882
Lease liability	33,239	28,465
Total non-current liabilities	109,128	70,347

Property, Plant and Equipment

The property, plant and equipment of Teleon consist of machinery and equipment, transportation equipment, leasehold improvements, office equipment and construction in progress. The property, plant and equipment of Teleon was RMB21.7 million and RMB24.5 million as of December 31, 2019 and 2020, respectively. The increase between Teleon's property, plant and equipment as of December 31, 2019 and December 31, 2020 were primarily attributable to machinery and equipment purchased as well as the leasehold improvement for the expansion of manufacturing facilities.

Right-of-use Assets

For the years ended December 31, 2019 and 2020, the right-of-use assets of Teleon was RMB38.4 million and RMB33.6 million, respectively. The decreases in the right-of-use assets of Teleon in 2019 and 2020 were primarily attributable to their depreciation.

Intangible Assets

The intangible assets mainly represented the software Teleon purchased and used in its ordinary course of business as well as its patents and its internal development of intangible assets. For the years ended December 31, 2019 and 2020, the intangible assets of Teleon was RMB7.2 million and RMB7.0 million, respectively.

Inventories

The inventories of Teleon consist of trade goods, finished goods, raw materials and work-in-progress. The following table sets forth the details of Teleon's inventories as of the dates indicated and inventory turnover days for the periods indicated.

	As of December 31,	
	2019	**2020**
	RMB'000	
Trade goods	10,715	8,675
Finished goods	26,393	31,097
Raw materials	5,799	5,850
Work in progress	2,720	1,100
Provisions for inventories	(4,830)	(3,178)
Total	40,797	43,544

	For the year ended December 31,	
	2019	**2020**
Inventory turnover days(1)	150	138

(1) The inventories turnover days are calculated by dividing the arithmetic mean of the opening and ending carrying amount of inventories in that period by cost of sales for the corresponding period and then multiplying by 365 days.

For the years ended December 31, 2019 and 2020, the inventories of Teleon remained stable and was RMB40.8 million and RMB43.5 million, respectively. Teleon made provision for its inventories as their use life comes to expire. The inventory turnover days of Teleon improved slightly in 2020 as compared to 2019.

Trade Receivables

The trade receivables of Teleon represented outstanding amounts due from other third parties and a related party. The following table sets forth the details of the trade receivables of Teleon as of the dates indicated, trade receivables turnover days and breakdown of Teleon's receivables for the periods indicated.

	For the year December 31,	
	2019	2020
	RMB'000	
Trade receivables	30,832	23,313
Impairment	(195)	(57)
Total	30,637	23,256

	For the year December 31,	
	2019	2020
Trade receivable turnover days(1)	42	40

(1) Calculated by dividing the arithmetic mean of the opening and ending carrying amount of trade receivables in that period by revenue for the corresponding period and then multiplying by 365 days.

As of December 31, 2019 and 2020, the trade receivables of Teleon was RMB30.6 million and RMB23.3 million, respectively. The trade receivables of Teleon decreased in 2020 generally in line with the decrease in its revenue.

The trade receivable turnover days of Teleon were 42 days and 40 days in 2019 and 2020, respectively.

The following table sets forth an aging analysis, based on the invoice date of our trade receivables as of the dates indicated of the trade receivables of Teleon outstanding as of December 31, 2020.

	For the year ended December 31,	
	2019	2020
	RMB'000	
Within one year	30,832	23,313
Over one year	–	–
Total	30,832	23,313

Prepayments and Other Receivables

The prepayments and other receivables of Teleon primarily consist of its (i) prepayments; and (ii) deposits and other receivables from third parties. The following table sets forth the details of the prepayments and other receivables of Teleon as of the dates indicated.

	As of December 31,	
	2019	2020
	RMB'000	*RMB'000*
Prepayments	289	257
Deposits and other receivables	3,767	42,444
Less: Impairment allowance	–	–
	4,056	42,701

For the years ended December 31, 2019 and 2020, the prepayments and other receivables of Teleon was RMB4.1 million and RMB42.7 million, respectively. The increase in deposits and other receivables in 2020 was primarily attributable to a loan of EUR5 million provided to Gaush for its payment of acquisition proceeds to the then existing shareholders of Teleon.

Cash and Cash Equivalents

The cash and cash equivalents of Teleon represented its cash and bank deposits. For the years ended December 31, 2019 and 2020, the cash and cash equivalents of Teleon remained relatively stable and was RMB104.5 million and RMB106.0 million, respectively.

Trade Payables

The trade payables primarily represent payments due to the suppliers. The following table sets forth an aging analysis of trade payables based on the invoice dates as of the dates indicated and trade payable turnover days for the periods indicated.

	For the year ended December 31,	
	2019	2020
	RMB'000	
Within three months	2,978	6,187
Three to six months	–	–
Total	2,978	6,187

	For the year ended December 31,	
	2019	2020
Trade payable turnover days(1)	17	14

(1) Calculated by dividing the arithmetic mean of the opening and ending carrying amount of trade payables in that period by cost of sales for the corresponding period and then multiplying by 365 days.

The trade payables of Teleon increased from RMB3.0 million as of December 31, 2019 to RMB6.2 million as of December 31, 2020 and such increase was in line with the increase in cost of sales. The trade payable turnover days remained relatively stable between 2019 and 2020.

Other Payables and Accruals

The other payables and accruals of Teleon primarily consist of payroll payable, other payables, other tax payable and accruals. For the years ended December 31, 2019 and 2020, other payables and accruals of Teleon amounted to RMB89.2 million and RMB84.6 million, respectively. The following table sets forth the details of the other payables and accruals of Teleon as of the dates indicated.

	As of December 31,	
	2019	2020
	RMB'000	*RMB'000*
Payroll payable	6,987	22,663
Other payables	2,526	1,147
Other tax payable	2,837	18,273
Accruals	76,842	42,524
	89,192	84,607
Portion classified as:		
non-current portion	75,889	41,882
current portion	13,303	42,725

The payroll payable of Teleon significantly increased from RMB7.0 million as of December 31, 2019 to RMB22.7 million as of December 31, 2020 due to Teleon granted retention bonus and compensation to its staff in 2020, aiming at ensuring a smooth transition following the acquisition by Gaush. Such retention bonus and compensation also resulted in the significant increase of the other tax payable of Teleon, as Teleon was obliged to withhold for the relevant employees their tax payable in respect of such bonus and compensation. The decrease in accruals was attributable to the disposal of a subsidiary. For details of the disposal, please see Note III 21 to the Accountants' Report in Appendix I to this document.

Lease Liabilities

Lease liabilities primarily consist of leases on plant and buildings and motor vehicles. The carrying amounts of Teleon's lease liabilities and the movements for the year ended December 31, 2019 and 2020 are as follows. The new leases recorded in 2019 was primarily attributable to the expansion of business premises in 2019.

	As of December 31,	
	2019	**2020**
	RMB'000	*RMB'000*
Carrying amount at 1 January	7,408	38,913
New leases	35,630–	
Accretion of interest recognised during the year	479	668
Payments	(4,952)	(6,215)
Exchange Realignment	348	965
Carrying amount at year end	38,913	34,331
Analysed into:		
Current portion	5,674	5,866
Non-current portion	33,239	28,465

Net Current Assets/(Liabilities)

Teleon recorded net current assets of RMB168.0 million as of December 31, 2019 and net current assets of RMB144.5 million as of December 31, 2020, primarily due to (i) an increase of RMB38.6 million in prepayments and other receivables; (ii) an increase of RMB17.3 million in tax payables; (iii) a decrease of RMB12.0 million in tax receivables; (iv) a decrease of RMB7.4 million in trade receivables; and (v) an increase of RMB29.4 million in other payables and accruals.

The following table sets forth a summary of the consolidated cash flow statements of Teleon for the years indicated:

	For the year ended December 31,	
	2019	**2020**
	RMB'000	
Net cash flows from operating activities	78,395	86,857
Net cash flows (used in) investing activities	(16,394)	(80,550)
Net cash flows (used in) financing activities	(4,952)	(6,215)
Net increase in cash and cash equivalents	57,049	92
Cash and cash equivalents at beginning of year	48,724	104,478
Effect of foreign exchange rate changes, net	(1,295)	1,408
Cash and cash equivalents at end of the year	104,478	105,978

Operating Activities

For the years ended December 31, 2020, Teleon had net cash flows generated from operating activities of RMB86.9 million, consisting of RMB42.6 million in net cash inflows generated from operating activities before changes in working capital, net cash inflows of RMB38.3 million relating to changes in working capital and income tax received of RMB6.0 million. Teleon's net cash inflows from operating activities relating to changes in working capital of RMB38.3 million were primarily attributable to (i) decrease in trade receivables of RMB7.5 million; (ii) increase in trade payables of RMB3.2 million; and (iii) increase in other payables and accruals of RMB28.1 million. Such inflows were partially offset by increase in inventories of RMB1.1 million.

For the years ended December 31, 2019, Teleon had net cash flows generated from operating activities of RMB78.4 million, consisting of RMB130.3 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB29.3 million relating to changes in working capital and income tax paid of RMB22.7 million. Teleon's net cash outflows from operating activities relating to changes in working capital of RMB29.3 million were primarily attributable to (i) increase in prepayments and other receivables of RMB30.8 million; and (ii) decrease in trade payables of RMB3.8 million. Such outflows from operating activities relating to changes in working capital were partially offset by increase in other payables and accruals of RMB9.9 million.

Investing Activities

For the year ended December 31, 2020, Teleon had net cash flows used in investing activities of RMB80.6 million. This net cash outflow was primarily attributable to (i) company loan provided to Gaush of RMB39.3 million and (ii) the disposal of a subsidiary of RMB35.7 million, which resulted in the disposal of the cash and bank deposits equivalent of such subsidiary. For details of the disposal of the subsidiary, see Note III21 to the Accountants' Report set forth in Appendix I to this document.

For the year ended December 31, 2019, Teleon had net cash flows used in investing activities of RMB16.4 million. This net cash outflow was attributable to (i) purchase of property, plant and equipment of RMB15.2 million; and (ii) additions of intangible assets of RMB1.2 million.

Financing Activities

For the years ended December 31, 2019 and 2020, Teleon had net cash flows used in financing activities of RMB5.0 million and RMB6.2 million, respectively, which represented the payments of lease liabilities in the year.