



# MicroTech Medical (Hangzhou) Co., Ltd. 微泰醫療器械(杭州)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 2235)

## ANNUAL REPORT 2023



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)  
Dr. Yu Fei  
Dr. Shi Yonghui  
Ms. Liu Xiu

### Non-executive Directors

Mr. Mao Shuo (*appointed on December 27, 2023*)  
Ms. Gao Yun  
Mr. Hu Xubo (*retired on December 27, 2023*)

### Independent Non-executive Directors

Dr. Li Lihua  
Ms. Wang Chunfeng  
Mr. Ho Kin Cheong Kelvin  
Dr. Cheng Hua

## SUPERVISORS

Mr. Li Zhenhua  
Mr. Lyu Cheng  
Mr. Zhao Zhiheng

## JOINT COMPANY SECRETARIES

Dr. Shi Yonghui  
Ms. Chu Pik Man

## AUTHORIZED REPRESENTATIVES

Dr. Zheng Pan  
Ms. Chu Pik Man

## AUDIT COMMITTEE

Mr. Ho Kin Cheong Kelvin (*Chairperson*)  
Ms. Gao Yun  
Ms. Wang Chunfeng

## REMUNERATION AND ASSESSMENT COMMITTEE

Ms. Wang Chunfeng (*Chairperson*)  
Mr. Ho Kin Cheong Kelvin  
Dr. Shi Yonghui

## NOMINATION COMMITTEE

Dr. Li Lihua (*Chairperson*)  
Dr. Cheng Hua  
Dr. Zheng Pan

## STRATEGY COMMITTEE

Dr. Zheng Pan (*Chairperson*)  
Dr. Shi Yonghui  
Dr. Li Lihua

## REGISTERED OFFICE

No. 108 Liuze Street  
Cangqian Street  
Yuhang District, Hangzhou  
Zhejiang, China

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 108 Liuze Street  
Cangqian Street  
Yuhang District, Hangzhou  
Zhejiang, China

# CORPORATE INFORMATION

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre  
No. 248 Queen's Road East  
Wanchai, Hong Kong

## H SHARE REGISTRAR

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

## HONG KONG LEGAL ADVISER

Jingtian & Gongcheng LLP  
Suites 3203-3207, 32/F  
Edinburgh Tower, The Landmark  
15 Queen's Road Central  
Hong Kong

## PRINCIPAL BANKS

Industrial and Commercial Bank of China  
Hangzhou Yuhang Branch  
No. 998 Wenyi West Road  
Yuhang District, Hangzhou  
Zhejiang, China

Agricultural Bank of China  
Hangzhou Xixi Branch  
No. 1500 Wenyi West Road  
Yuhang District, Hangzhou  
Zhejiang, China

Bank of China  
Hangzhou Chengxi Kechuang Branch  
Block 4, No. 998 Wenyi West Road  
Wuchang Street  
Yuhang District, Hangzhou  
Zhejiang, China

## AUDITOR

Pan-China Certified Public Accountants LLP  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*  
Tower B, China Resources Building  
1366 Qianjiang Road, Shangcheng District  
Hangzhou, China

## STOCK CODE

2235

## COMPANY'S WEBSITE

[www.microtechmd.com](http://www.microtechmd.com)

# CHAIRMAN'S STATEMENT

Dear Shareholders,

The past year of 2023 was the first year of the recovery of the pandemic. All MicroTech employees actively responded to various challenges in the market and the macro economy, worked hard, laid a solid foundation for the Company's sustainable development in the future, and fully implemented the Company's mission of "providing a healthier and better life for diabetic patients".

In 2023, all MicroTech employees made unremitting efforts to promote the R&D pipeline as scheduled and increase the production capacity of core products, resulting in rapid growth in both business revenue and gross profit. During the year, MicroTech Medical steadily expanded its presence in the hospital professional market, made significant progress in overseas business, and achieved a series of achievements in the field of e-commerce and brand building.

In 2023, we achieved several remarkable results and milestones in product development and registration. As at the date of the report, AiDEX X, a new generation of CGM product, has been approved in Mainland China and has been successfully registered in the European Union; Pancare closed-loop artificial pancreas has entered the Special Examination Procedure for Innovative Medical Device of the NMPA and has completed clinical enrollment; the expansion of indications for children of CGM and insulin pumps has also been submitted for registration and completed clinical trials, respectively. We have also conducted post-marketing clinical studies in Europe, the Middle East and China to facilitate insurance approvals and hospital access for our Core Products in overseas countries. In addition, we have established a post-doctoral workstation and commenced the construction of an advanced manufacturing base. In 2023, our R&D investment increased by 14.8% compared with the same period in 2022, and we were recognized as a specialized and innovative "Small Giant" enterprise at national-level.

In terms of commercialization, as of the date of the report, AiDEX has accumulated a user base of more than 200,000 worldwide, Equil has entered more than 1,000 professional hospitals, and the "Jiantang System (檢棠系統)" has been used by more than 1,400 hospitals and 7,000 medical staff. In the e-commerce channel, we have carried out in-depth cooperation with several mainstream e-commerce platforms to directly reach our end users, and continued to empower traditional agent channels with platforms such as new media. In the international market, we continued to attend international and local exhibitions for medical devices in Europe, the Middle East, Asia and the Americas. Equil and AiDEX have been sold in more than 20 countries and regions, and have successively entered local medical insurance and commercial insurance. With the efforts of various marketing teams of MicroTech, we have achieved a significantly higher business growth rate than the industry with our advantageous product portfolio and steadily increased our market share.

Looking forward to 2024, we will continue to promote the R&D and registration of major innovative products, including the international registration of new generation CGM, the expansion of children's indications of core products, and the clinical registration of closed-loop artificial pancreas; we will continue to carry out patient education and public welfare trial campaigns, and equip with the 400 hotline customer service team 7×24 hour to provide all-round support for the business and increase the market share of core products. In the overseas market, we will strengthen cooperation with dealer partners, deeply cultivate the local market, and use social media platforms to build and accumulate user reputation and enhance brand awareness. The Company will continue to introduce professional talents in R&D, production and marketing, further optimize the efficiency of R&D and production operation, improve the efficiency of sales organization, improve the gross profit margin of products and reduce the management expense ratio, so as to improve the profitability.

The treatment and management of diabetes is an unexplored market with huge opportunities. At present, the Company is in a stage of rapid development. We will continue to invest in product R&D, clinical research, marketing expansion and brand building to achieve the Company's vision of becoming a leader in diabetes treatment and monitoring products. We will also continue to adhere to the cultural values of being user-oriented, pursuing excellent quality, adhering to result-oriented, self-driven and enterprising, and integrity, so as to build a long-term competitive and cohesive corporate organization.

Finally, on behalf of the board of directors and all employees of MicroTech Medical, I would like to express my sincere gratitude to all customers, partners, shareholders and investors for their long-term support and trust. I look forward to working together with all of us at MicroTech to continuously invest in innovation and R&D, actively improve operational efficiency, bring superior and affordable medical products to patients, and cooperate with all customer partners to achieve win-win results, so as to bring satisfactory long-term returns to shareholders and investors.

**Dr. Zheng Pan**

*Chairman and Chief Executive Officer*

# FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last five\* financial years, as extracted from the audited financial information and financial statements, is set out below:

	For the year ended December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	<b>253,228</b>	173,607	151,404	75,277	51,863
Gross profit	<b>125,734</b>	81,936	70,883	36,544	24,083
Net loss	<b>(125,016)</b>	(35,043)	(48,153)	(121,250)	(78,614)
Loss attributable to owners of the parent	<b>(125,016)</b>	(35,043)	(48,153)	(121,009)	(78,614)
Loss per share attributable to ordinary equity holders of the parent					
Basic and diluted	<b>RMB(0.29)</b>	RMB(0.08)	RMB(0.13)	RMB(0.39)	RMB(0.28)
	As at December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	<b>2,158,782</b>	2,294,097	2,329,139	777,274	264,743
Total liabilities	<b>97,697</b>	82,065	82,478	48,757	47,953
Net assets	<b>2,061,085</b>	2,212,032	2,246,661	728,517	216,790
Total Equity	<b>2,061,085</b>	2,212,032	2,246,661	728,517	216,790

\* The H Shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on October 19, 2021.

\* Figures in financial highlights for 2019, 2020 and 2021 are prepared using Hong Kong Financial Reporting Standards



# MANAGEMENT DISCUSSION AND ANALYSIS

## Equil Patch Insulin Pump System

Patch Insulin Pump System (“Equil”), our Core Product, is a semi-disposable patch insulin pump. Compared to traditional tubed pumps, Equil features a tubeless and lightweight design, enabling users to manage diabetes in a private, convenient and safe manner. Compared to the available commercialized patch insulin pumps in the global market, Equil’s pump has a longer reusable lifespan, rechargeable battery, and a unique pump vibration alarm design. In September 2017, Equil received the marketing approval for adult use from the NMPA in China. Equil also received CE marking in the EU in the same year. In 2018, Equil Patch Insulin Pump System was successfully selected into the “Innovative Medical Device Product Catalog (2018)” issued by the Ministry of Science and Technology. It is the only product in the field of diabetes in the catalog, and the innovation type is “domestic first”. The product was included in the “China Insulin Pump Treatment Guidelines” in 2021. We have successfully sold Equil in more than 20 countries and regions in Europe, the Middle East, Asia Pacific, Africa and Latin America, etc.

As of December 31, 2023, we have completed a pivotal clinical trial in China to register Equil for use in children and adolescents (aged 3 to 18). Our expectations for the progress of Equil (for use in children and adolescents (aged 3 to 18)) in 2024 are as follows: we expect to submit registration information to the NMPA and the EU in 2024, which will in turn lead to the launch of the product into the market, depending on the status of registration.

Meanwhile, we are developing our second-generation patch insulin pump system, featuring higher waterproof level, better adaptability to insulin reservoirs with larger capacity, and user-friendly operation. We have equipped our second-generation patch insulin pump system with internal control algorithms, which, together with our CGMS, will form the bedrock of our closed-loop artificial pancreas system.

## CGMS

Compared to traditional blood glucose monitoring methods, continuous glucose monitoring (clinically referred to as dynamic blood glucose monitoring) can provide continuous, comprehensive and reliable blood glucose information throughout the whole day, helping users understand the trends and characteristics of blood glucose fluctuations and eliminating the pain of frequent blood sampling.

Our AiDEX CGMS is the second commercialized calibration-free real-time CGMS in the world. Since its launch, AiDEX has demonstrated various advantages over traditional BGMS products, featuring real-time monitoring, lowering the diabetes patients’ risk of hyper/hypoglycemia, and increasing their compliance to treatment regimen without taking routine finger prick blood glucose measurements. As at December 31, 2023, we have completed the extension of AiDEX to the clinical trial for children and adolescents with diabetes (aged 2 to 18 years) and have submitted an application for registration with NMPA and the European Union. We have successfully sold AiDEX in more than 20 countries and regions in Europe, the Middle East, Asia Pacific, Africa and Latin America, etc.

Utilizing proprietary technology, our new product, AiDEX X, is the Company’s new generation of CGMS, which is smaller in size, better in performance and more user-friendly with a fully disposable design. As at the date of this annual report, AiDEX X has been granted with the listing license by the NMPA. Meanwhile, AiDEX X has been submitted to the European Union for registration in 2023.

AiDEX and AiDEX X complement each other in meeting the needs of different target groups through synergistic channels, enabling us to rapidly penetrate the market and reach out to a wide range of user segments with our product portfolio pipeline.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Closed-loop Artificial Pancreas System

PanCares closed-loop artificial pancreas system, featuring the intelligent functions in diabetes treatment and monitoring, comprises a closed-loop control algorithm to simulate the feedback regulation mechanism of the human pancreas, so as to realize the automation of treatment and monitoring functions, allow a dynamic management of blood glucose levels of patients and keep the patients' blood glucose fluctuation rates within a normal or near-normal range.

The system consists of three major components: insulin delivery system (the patch insulin pump system), CGMS and closed-loop control algorithm. The product was admitted for the Special Procedures for Examination and Approval of Innovative Medical Devices promulgated by the NMPA in May 2023, and as at the date of this annual report, it has completed clinical trial. The Company is also in the process of designing and developing a cloud-based AI-powered artificial pancreas. As an integral part of the Company's closed loop solutions, the product will synthesize advanced analytical tools, providing continuous personalized blood glucose management solutions to users through AI-powered algorithms.

## IVD Products

### BGMS

Since the establishment of the Company, we developed and commercialized 15 types of blood glucose meters and 7 types of test strips in China. In addition, our BGMS products have obtained launch approvals in major overseas markets, including FDA and CE marking of the EU. We have developed and commercialized 12 types of blood glucose meters and 6 types of test strips abroad. By using the BGMS, the Company can reach a wider range of diabetic patients, expand sales channels, accumulate customer resources, and support the promotion of the Company's innovative medical devices such as patch insulin pump system, CGMS, and closed-loop artificial pancreas system in the market.

As at December 31, 2023, the clinical trial of the blood glucose meter with an expanded indication to newborns (within 30 days of birth) has been completed and an application for registration has been submitted to the NMPA.

### Exactive Pro – Blood Glucose, Blood Ketone, Uric Acid Monitory System

The Exactive Pro blood glucose, blood ketone and uric acid monitoring system can detect blood glucose, blood ketones and uric acid concentration simultaneously, meeting the needs of diabetes, ketoacidosis, hyperuricemia and gout patients for self-monitoring of various health indicators. The system has obtained CE certification in 2022 and launch approval from the NMPA in 2023, making it the first integrated product in China to provide monitoring of the above three indicators without requiring code adjustment.

## Diabetes Digital Management Software

The Company has also made breakthroughs in the digital blood glucose management field. With the "Jiantang Hospital-wide Blood Glucose Management System" and the cloud-based diabetes platform, the Company has achieved real-time docking and remote data sharing of blood glucose monitoring and treatment, such as BGMS, CGMS, and patch insulin pump systems. Through the system, doctors and nurses can monitor the blood glucose data and insulin infusion status of patients of various departments on a real-time basis, intervene in high or low blood glucose events promptly, and handle low drug dosage/low battery alarms of equipment, and equipment malfunctions. Patients can independently view their blood glucose and insulin infusion status during hospitalization and home care, increasing their participation in blood glucose management. Patients can also authorize medical personnel to view and intervene in patients' treatment and management programs in a timely manner through the outpatient management function.

# MANAGEMENT DISCUSSION AND ANALYSIS

The “Jiantang Hospital-wide Blood Glucose Management System” has been employed in more than 1,400 hospitals. Currently, more than 7,000 doctors and nurses are using the system. The “Digital Diabetes Management Centre based on Jiantang Doctor System” jointly built by us and primary hospitals, was selected as a typical case of grassroots health informatization construction and won the honorary award of “Digital Empowerment Health”.

At the same time, we have also developed the “Jiantang OTC Blood Glucose Management System”, which is designed for OTC channel users.

The Company is developing a cloud-based diabetes management platform incorporating the “Jiantang Hospital-wide Blood Glucose Management System”, which can provide comprehensive blood glucose management solutions for hospitals and integrate blood glucose management both inside and outside the hospital, to optimize the effectiveness of blood glucose management for diabetes patients. Such product is currently in the registration stage.

**We cannot ensure that we will ultimately be able to successfully develop and market our Core Product and other products. Shareholders and potential investors of the Company are advised to exercise caution when dealing in shares of the Company.**

## OUR PLATFORM

We have established a strong platform of R&D, manufacturing and commercialization capabilities in the field of diabetes monitoring and treatment devices.

### R&D

Our R&D team consists of scientists, as well as elite engineers and seasoned experts who graduated from world renowned universities and served top international medical device companies. Our R&D team has outstanding interdisciplinary capabilities in the relevant fields, such as biomedical science, materials science, mechanical engineering, electrical engineering, software engineering, communication engineering and signal processing, electrochemistry, mathematics (algorithm) and artificial intelligence. Our key R&D staff have, on average, over 16 years of relevant R&D experience.

We have built long-standing relationships with industry key opinion leaders, including well-known medical professionals and clinical experts. We leverage their meaningful insights and recommendations to steer our R&D process towards the unmet clinical needs.

With strong independent innovation and R&D capabilities, we were recognised as a national-level Specialized, Refined, Differential and Innovative “Little Giants” Enterprise, and designated as the Key Diabetes Research Center in Zhejiang Province, China. In particular, our Core Product, Equil, was designated as an Innovative Medical Device Product by the PRC Ministry of Science and Technology, and our AiDEX and the closed loop artificial pancreas system “Hybrid Closed Loop Insulin Delivery System” have been certified and approved by the NMPA to be applicable to the Special Procedures for Examination and Approval of Innovative Medical Devices issued by the NMPA. With our technological innovation and R&D capabilities in the field of medical devices, we have successfully been selected as one of “2023 Hangzhou Headquarters Enterprises”. Our team, focusing on the R&D of an intelligent cognitive computed based closed-loop artificial pancreas system, was also awarded as “Leading Innovative Team” by the Science and Technology Department of Zhejiang Province. In addition, the establishment and application of our artificial intelligence cloud-based management platform for children and adolescents with diabetes was selected as a National Major Scientific Research Program under the 13th Five-Year Plan and has passed the acceptance inspection. The innovation team’s program of “an intelligent cognitive computed based closed-loop artificial pancreas system” undertaken by us has passed the acceptance inspection as a program under the Science and Technology Plan of Zhejiang Province.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Manufacturing

The Company is located in Hangzhou, Zhejiang Province, China and owns a manufacturing facility with an aggregate area of approximately 15,000 sq.m., for the manufacturing of our products and product candidates. Our manufacturing facility complies with GMP regulations in the U.S., the EU and China and adheres to strict production and quality control standards to ensure high product output, quality and safety. We conduct all the key manufacturing procedures in-house, accumulating a wealth of expertise and skills. In recent years, we accumulated significant breakthrough in the production of diabetes monitoring medical devices, providing us with a solid foundation for rapid growth. We gradually introduced automated production lines for CGMS and optimized the manufacturing process through efficient production throughout all production links, such as material transfer and product production, so as to improve production efficiency, further enhance product quality and reduce production costs.

To meet the Company's growing business demand, the Company plans to construct an advanced production manufacturing base in Yuhang District, Hangzhou, Zhejiang Province, China. The base, which commenced construction in 2023, will mainly be used to expand the production capacity of its Core Product. The new production base will be equipped with advanced production equipment and technology to increase capacity and production efficiency. Meanwhile, we will continue to follow strict quality control standards to ensure the quality and safety of our products. This initiative will further enhance the Company's production capabilities to meet the growing market demand and lay a more solid foundation for the Company's future development.

## Commercialization

In respect of commercialization, our product AiDEX CGMS achieved sales revenue of RMB75.7 million for the year ended December 31, 2023, representing an increase of 123.7% from RMB33.8 million for the year ended December 31, 2022, and has accumulated more than 200,000 users worldwide. Our Core Product, the Equil Patch Insulin Pump System, is currently used in over 1,000 professional hospitals, and has maintained continuous sales growth over the years and remains a leading brand among domestic insulin pumps.

In the domestic market, the Company cooperates with professional organizations such as the Diabetes Branch of the Chinese Medical Association, the Endocrine Branch of the Chinese Medical Association, and the Diabetes Specialized Committee of the Chinese Nursing Association in order to enhance doctors' and patients' understanding of the full range of MicroTech products and the system management platform. The Company has established a dedicated customer operation and maintenance team to provide standardized user care services for users of MicroTech products and to enhance the efficiency and effectiveness of after-sales services. The Company has also implemented a fine-tuned tiered operation strategy to provide personalized patient education content for users with different disease types and treatment modalities, so as to enable diabetic patients to better manage their blood glucose and achieve a comprehensive improvement in their quality of life. Our diabetes management platform, "Jiantang system" (檢棠系統), bridges the "in-service - out-of-service" and "in-hospital - out-of-hospital" data barriers, synchronizes the display of monitoring and treatment data, and combines the strengths of the product portfolio of "pump+CGM+glucosemeter+software" to achieve closed-loop management of diabetes patients in a full course of disease and in all scenarios. As at the date of this annual report, the system has been utilized in over 1,400 hospitals, serving over 7,000 healthcare professionals. At the same time, we have also initiated the R&D of AI large-scale model based on user behavioral data, and built a smart doctor consultation and diabetes patients social platform, so as to realize the purpose of smarter and more automated management of blood glucose for diabetes patients.

# MANAGEMENT DISCUSSION AND ANALYSIS

In the area of e-commerce, our Company actively developed multi-channel sales, covering mainstream e-commerce platforms and social media platforms. We reach out to end-users directly through e-commerce platforms such as JD, Alibaba and Douyin. At the same time, we also provide relevant content through social media platforms such as Douyin, WeChat video, Kuaishou, Xiaohongshu and Weibo in order to serve users more accurately and efficiently. In 2023, our Company won a number of awards such as the “Best Growth Partner of the Year” and the “Innovative Marketing Award” presented by JD and Douyin platforms. In the future, we will continue to expand more online channels and explore innovative ways to serve our users, so as to drive the rapid growth of our products through e-commerce.

In the international market, our revenue for the year ended December 31, 2023 amounted to RMB78.4 million, representing an increase of 85.6% over the same period of the previous year. Our Core Product, Equil Patch Insulin Pump System, and AiDEX CGMS products, have both been marketed in over 20 countries and regions, and have been entering into the local medical and commercial insurances gradually. We will continue to promote the Company’s innovations in blood glucose management and digital technology, as well as explore emerging markets such as Europe, the Middle East, Russia, Southeast Asia and Latin America in conjunction with our local partners. We continue to recruit marketing, training and customer service teams to accelerate healthcare access in local markets, and actively engage the local media to continue to increase our market share and brand awareness.

In 2023, we initiated a number of post-marketing clinical studies. Currently, a multi-center study on the “Role of Supervised Short-Term Insulin Intensive Therapy for the Reversal of Newly Diagnosed Type 2 Diabetes Mellitus Based on a Patch Insulin Pump and Real-Time Dynamic Glucose Monitoring Technology” has been initiated in Mainland China; a post-marketing clinical trial of the Equil Patch Insulin Pump System has been launched in Europe to study its effectiveness and safety; a clinical trial of the effectiveness and satisfaction of using a calibration-free real-time CGMS versus a conventional glucose meter was initiated in the Middle East. Relevant academic papers were published at the American Association of Clinical Endocrinology Annual Meeting (AACE).

# MANAGEMENT DISCUSSION AND ANALYSIS

We continue to actively advocate the concept of dynamic blood glucose management and strive to be the “popularizer of dynamic blood glucose management in China”. Year 2023 saw us collaborate with the People’s Daily Health Client, JD Health and other platforms to launch the first “China Glucose Stabilization Day”; the “No Finger Tied, Full Care” public service initiative with the China Primary Healthcare Foundation and Hangzhou Yuhang Charity Association; and the “Taikang Dongtai Glucose Control Health Program” with Taikang Insurance. In the future, we will continue to work on the “Taikang Dyna-Thai Sugar Control Health Program” and continue to promote public interest initiatives to provide support to more diabetic patients and raise the importance of dynamic glucose management to the community and the public.

## FINANCIAL REVIEW

### Overview

The following discussion is based on and should be read in conjunction with the financial information and accompanying notes included elsewhere in this annual report.

### Operating Income

During the Reporting Period, we generated most of our operating income from sales of medical devices, including insulin pump system, BGMS, CGMS and others.

For the year ended December 31, 2023, the Group’s operating income was RMB253.23 million, representing an increase of 45.9% from RMB173.61 million for the year ended December 31, 2022. Revenue growth was primarily driven by the high growth rate of the AiDEX CGMS, the solid growth of the Equil Patch Insulin Pump System, and the rapid growth of the BGMS, which benefited from further expansion of our offshore customers, domestic specialty markets and online pipeline.

The following table sets forth a breakdown of our revenue:

Item	For the year ended December 31,			
	2023		2022	
	RMB'000	%	RMB'000	%
BGMS	96,789	38	67,847	39
Equil	74,668	30	67,273	39
CGMS	75,714	30	33,843	19
Others	6,057	2	4,644	3
Total	253,228	100	173,607	100

# MANAGEMENT DISCUSSION AND ANALYSIS

## Operating Cost

Our operating cost primarily consists of material costs, staff costs and others.

For the year ended December 31, 2023, the Group's operating cost was RMB127.49 million, representing an increase of 39.1% from RMB91.67 million for the year ended December 31, 2022. The increase in operating cost was mainly due to the increase in staff costs and raw material costs as a result of an increase in sales volume.

## Gross Profit and Gross Profit Margin

For the year ended December 31, 2023, the Group's gross profit was RMB125.73 million, representing an increase of 53.5% from RMB81.94 million for the year ended December 31, 2022. Our gross profit margin increased from 47.2% for the year ended December 31, 2022 to 49.7% for the year ended December 31, 2023, mainly due to the increase in the share of sales of CGMS and improvement in overall economies of scale.

## Selling Expenses

For the year ended December 31, 2023, the Group's selling expenses were RMB210.09 million, representing an increase of 80.0% from RMB116.70 million for the year ended December 31, 2022, mainly due to the expansion of online sales channels and increased brand investment.

## Administrative Expenses

Our administrative expenses increased by 9.8% from RMB41.53 million for the year ended December 31, 2022 to RMB45.60 million for the year ended December 31, 2023, mainly due to increased personnel costs.

## Research and Development Expenses

Our R&D expenses increased by 14.8% from RMB61.09 million for the year ended December 31, 2022 to RMB70.10 million for the year ended December 31, 2023, mainly due to the increase in personnel costs and material expenditures.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of our R&D expenses:

	For the year ended December 31,			
	2023		2022	
	RMB'000	%	RMB'000	%
Staff costs	<b>33,733</b>	<b>48</b>	26,563	43
Service fees	<b>17,159</b>	<b>25</b>	17,934	29
Raw material costs	<b>13,282</b>	<b>19</b>	10,907	18
Depreciation and amortization	<b>3,029</b>	<b>4</b>	3,443	6
Others	<b>2,895</b>	<b>4</b>	2,239	4
Total	<b>70,098</b>	<b>100</b>	61,086	100

## Income Tax Expense

Our income tax expense was RMB0.16 million for the year ended December 31, 2023.

## Net Profit

As a result of the foregoing, we incurred losses of RMB35.04 million and RMB125.02 million for the years ended December 31, 2022 and December 31, 2023, respectively.

## Loans and Gearing Ratio

As at December 31, 2023, the Group had no interest-bearing bank and other borrowings. The gearing ratio is calculated by dividing the Group's debts with the Group's assets. As at December 31, 2023, the Group's gearing ratio was 4.5%.

## Liquidity and Financial Resources

As at December 31, 2023, the Group had current liabilities of RMB93,378,700.41, and current assets of RMB2,023,170,690.22, details of which are set out in the consolidated balance sheet of the Group from page 103 to page 106. As mentioned above, the Group had no interest-bearing bank or other borrowings for the year ended December 31, 2023. Further details of the Group's adoption of going concern basis in preparing the Consolidated Financial Statement is set out in Note 2 to the Consolidated Financial Statement.

## Significant Investment held

The Group had no significant investment held for the year ended December 31, 2023.

## Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group had no material acquisition or disposal of subsidiaries, associates and joint ventures for the year ended December 31, 2023.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Contingent Event

As at December 31, 2023, the Group (i) was not involved in any material legal proceeding, nor aware of any pending or potential material legal proceedings involving us; and (ii) had no contingent liabilities.

## Charge of Assets

For the year ended December 31, 2023, details of the Group's charge of assets are set out in note V(l) 15 to the consolidated financial statements.

## Future Plans for Material Investments and Capital Assets

As at December 31, 2023, the Group did not have any specific plan for material investments and capital assets.

## Foreign Exchange Risks

We are exposed to foreign exchange rate risks. Certain of our bank balances, trade receivables and other payables are denominated in foreign currencies and are thus exposed to foreign exchange risks.

We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arise.

## Employees and Remuneration

As at December 31, 2023, we had 760 employees (excluding non-regular employees).

To maintain the quality, knowledge and skill levels of our workforce, the Group provides continuing education and training programs, including internal and external training, for our employees to improve their technical, professional or management skills, and to ensure their awareness and compliance with our policies in various aspects.

We provide various incentives and benefits to our employees. We offer competitive salaries, bonuses and share-based compensation to our employees, especially key employees. We provide social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds and other benefits for our employees in accordance with applicable PRC laws.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FUTURE PROSPECTS AND OUTLOOK

### Expanding market share and brand reputation of Core Product

According to CIC in 2021, China has 130 million diabetic patients, of which millions are still suitable for insulin pump therapy but have not yet learned about or received insulin-enhanced therapies. The penetration rate of continuous glucose monitoring system in China is much lower than that in Europe and the United States, and is growing at a rate of more than 20% per year. As recognition of the clinical efficacy of insulin pumps and patient awareness of continuous glucose monitoring systems continue to grow, we expect sales of the Company's Equil Patch Insulin Pump System, AiDEX CGMS, and New Generation CGMS (AiDEX X) to continue to grow rapidly.

We will strengthen our training, service and marketing teams to focus on promoting our products in the hospital specialty market, retail channels, e-commerce and health management platforms, with a view to providing quality treatment and blood glucose management services to diabetes patients of all types. Meanwhile, the Company will continue to collaborate with diabetes professional societies and medical institutions to launch public welfare trial campaigns to advocate internationally recognized standards of diabetes management (managing blood glucose levels within the “target range”) and to remind diabetes patients in China to pay attention to their daily blood glucose management, to control the progress of their disease and to improve their quality of life.

We have set up a 7 x 24 hour responsive 400 hotline customer service team to support end-users to utilize the consultation and answering of questions, which has been honored with the “Outstanding Service Brand Award (Top 100)” in the 5th China Customer Service Festival. We have more than 50 customer service and support staff and provide comprehensive after-sales service system for products such as stick-on insulin pump system, continuous glucose monitoring system and blood glucose monitoring system. Through regular customer satisfaction surveys, we continuously optimize the content and form of our services in a data-driven manner.

### Continuing to expand our international marketing initiatives and deepen our international operations

Our long-term strategic goal is to become the leading brand of diabetes treatment and monitoring devices in the international market, with a strategic focus on expanding into Europe and emerging markets. With our product strengths, combined with our market expansion capabilities, we will continue to benefit from the higher levels of healthcare costs and insurance coverage in these regions, as well as the high level of recognition of intensive diabetes treatment and continuous monitoring and management therapies by local physicians and patients.

Currently, we have successfully expanded our market access and product sales in more than 70 countries and regions in Europe, the Middle East, Africa, Asia and Latin America. Our Equil brand has been sold in Italy, the Netherlands, Poland, Israel and many other countries, and has been well received by local doctors and patients. Meanwhile, our AiDEX CGMS has entered the UK, Italy, South Africa and other markets. We have expanded our international user base by building online communities on social media, organizing new product launches, and launching free clinics, eco-friendly, offline education classes, and lucky draws through our diversified social media platforms. We closely monitor the development trend of business areas related to the new mode of cross-border e-commerce and have gradually begun to lay out our cross-border e-commerce business, taking into account the current situation of the local market.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **Continuing to promote R&D of advanced diabetes products to strengthen our Core Product portfolio**

As the only company in the PRC that owns both a patch insulin pump system and a real-time calibration-free continuous glucose monitoring system product, the Company will continue to invest in technology innovation and product R&D, and is committed to providing a closed-loop solution of “monitoring+treatment+management” for diabetes patients. In 2024, we will continue to advance the development and clinical registration of our R&D product pipeline as planned. This includes completing the international registration of AiDEX X, a next-generation CGMS, advancing the expansion of the Equil Patch Insulin Pump System and AiDEX CGMS for children and adolescent indications, and clinical registration of the PanCares Artificial Pancreas System. In addition, through collaboration with opinion leaders and research on the needs of diabetes patients, the Company will continue to research and develop new products, continuously invest in the upgrading and optimization of existing products, as well as the development and optimization of digital management platforms, to strengthen the advantages of the product portfolio, so as to ensure that healthcare professionals and diabetes patients will be provided with products and diabetes management tools that are clinically more effective, easier to use, and more cost-effective.

## **Promoting Cost Reduction and Efficiency Initiatives to Enhance Profitability**

The Company is at a stage of rapid development and still needs to invest actively in product R&D, clinical research, marketing expansion and branding in order to enhance its market position and competitiveness. As at the date of this annual report, the Core Product is still in the early stage of market development and the Company is in a strategic loss-making position. With the expansion of our business scale, we will take a series of vigorous measures to enhance operational efficiency, increase per capita sales, and continue to reduce operating costs. Our R&D expense ratio and management expense ratio have been decreasing steadily in line with the increase in business revenue. The performance evaluation of all employees is an important measure for us to improve the effectiveness of our organization. We will enhance the competitiveness of our team in accordance with the principles of promotion by merit and elimination, and further improve the long-term incentive mechanism by linking the personal returns of our core employees to the development and performance of the Company and its share price. At the same time, we will continue to optimize the efficiency of our R&D and production operations, expand our automated production capacity, optimize our supply chain and costs, and promote the continuous improvement of the gross profit margin of our Core Product as well as the reduction of our overhead rates, in order to move forward at a steady pace towards profitability in the future.

The Company’s business objective for 2024 is to maintain rapid revenue growth and enhance profitability.

## **EVENTS AFTER THE REPORTING PERIOD**

From January 1, 2024 to the date of this report, pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on May 18, 2023, the Company repurchased a total of 1,300,800 ordinary shares of the Company with a par value of RMB1.0 each from the open market, and such shares have not been cancelled as at the date of this annual report.

Save as disclosed above, there was no other significant event that might affect the Group after the Reporting Period and up to the date of this annual report.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

Our Board comprises ten Directors, including four executive Directors, two non-executive Directors and four independent non-executive Directors. Our Directors serve a term of three years and may be re-elected for successive reappointments.

### Executive Directors

**Dr. Zheng Pan (鄭攀)**, aged 52, is the chairman of our Board, an executive Director and the Chief Executive Officer. Dr. Zheng founded our Company in January 2011 and has been the chairman of the Board since March 2016 and the Chief Executive Officer since January 2011, respectively. He was re-designated as an executive Director of our Company in April 2021. He is primarily responsible for the overall strategic planning, business direction and operational management of our Company.

Dr. Zheng has nearly 20 years of experience in the healthcare industry. Prior to founding our Company, he successively served as a research assistant and a postdoc in Florida State University from 1999 to September 2004 in the United States. From October 2004 to July 2010, Dr. Zheng successively served as a senior mechanical engineer at Centurion Wireless Technologies and a manager at Flextronics San Jose Medical Products Center (美國偉創力聖荷西醫療產品中心), a medical solution provider company.

Dr. Zheng obtained the qualification of professorate senior engineer (教授級高級工程師) from Zhejiang Provincial Department of Human Resources and Social Security (浙江省人力資源和社會保障廳) in July 2012. Dr. Zheng was selected into the first batch of “521” Talents for Global Talents Introduction (杭州市第一批全球引才“521”人才) by Municipal Party Committee Organization Department (Talent Office) (杭州市委人才工作領導小組辦公室) in August 2011, and he won the Innovation Achievement Award of Overseas Returnee Contributions Awards (中國僑界貢獻獎(創新成果)) from All-China Federation of Returned Overseas Chinese in September 2014.

Dr. Zheng received a bachelor’s degree from Zhejiang Institute of Technology (浙江工學院) in the PRC with a major in Machine Design and Production Engineering in July 1993, a master’s degree from Zhejiang University (浙江大學) in the PRC with a major in Mechanics in March 1996 and a Ph.D. degree with a major in Mechanical Engineering from Florida State University in the United States in August 2004.

**Dr. Yu Fei (于非)**, aged 42, is an executive Director and the director of R&D department of our Company. Dr. Yu joined our Group in July 2016 and was re-designated as our executive Director in April 2021. He is primarily responsible for the formulation of product development plans and management of R&D matters in respect of technology, project management and intellectual properties.

Prior to joining our Group, Dr. Yu served as a senior biomedical engineer in the Diabetes Division of Medtronic PLC. (美國美敦力公司), a medical technology company, from May 2013 to July 2016, where he was responsible for researching, developing, deploying and validating new electrochemical biosensor system. He has been serving as the R&D director and a director of our Company since August 2016 and October 2020, respectively.

Dr. Yu received a bachelor’s degree in Bioengineering from National University of Singapore in Singapore on June 30, 2007 and a Ph.D. degree in biomedical engineering from University of Southern California in the United States in May 2013. Dr. Yu was recognized as an overseas high-level talent in Zhejiang Province in April 2020.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Dr. Shi Yonghui (施永輝)**, aged 44, is an executive Director, the chief strategy & development officer and the senior vice president, the secretary to the Board and the joint company secretary of our Group. Mr. Shi joined our Group in May 2021 and was appointed as our executive Director in June 2021 and the secretary to the Board in August 2022. He was appointed as the joint company secretary on March 27, 2024. He is primarily responsible for and participating in strategic planning, corporate development and promotion of internationalization and other matters of the Group and is also responsible for information disclosure and organizing Board and Shareholders' meetings.

Prior to joining our Group, Dr. Shi successively served as the research scientist from July 2007 to October 2008 and New Business Development Manager from November 2008 to June 2011 at Procter & Gamble Technology (Beijing) Co., Ltd. (北京寶潔技術有限公司). From July 2013 to May 2021, he successively served as the senior manager and the senior director of Medtronic (Shanghai) Management Co., Ltd. (美敦力(上海)管理有限公司), head of corporate development, venture capital and innovation incubation department of Medtronic Greater China, and member of Medtronic Greater China Management Board, during which time he also served as an investment committee member of Medtronic China Venture Capital Fund, the chairman and general manager of Suzhou Meizhong Venture Capital Management Co., Ltd. (蘇州美眾創業投資管理有限公司), the director of Suzhou Medtronic Sequoia Venture Capital Management Co., Ltd. (蘇州美敦力紅杉創業投資管理有限公司), and the general manager of Shanghai Meiji Entrepreneurship Incubator Management Co., Ltd (上海美濟創業孵化器管理有限公司). Dr. Shi has been serving as the independent director of Scivita Medical Technology Co.,Ltd (新光維醫療科技(蘇州)控股有限公司) since November 2022. He has been serving as an executive Director and the chief strategy & development officer of our Company since June and May, 2021 respectively. Since August 2022, Dr. Shi has also served as the secretary to the Board of the Company.

Dr. Shi received a bachelor's degree with a major in biochemistry and molecular biology and a Ph.D. degree from Peking University in the PRC in July 2002 and July 2007, respectively. He also obtained a master's degree in business administration from the Wharton School of the University of Pennsylvania in the United States in 2013. Dr. Shi was the co-recipient of the first prize of Natural Science of the Ministry of Education (教育部自然科學一等獎) granted by Ministry of Education, PRC in 2009, and he was also recognized as the co-recipient of the second prize of National Natural Science (國家自然科學二等獎) granted by the State Council, PRC in 2011.

**Ms. Liu Xiu (劉秀)**, aged 44, is an executive Director and the financial controller of our Group. Ms. Liu joined our Group in August 2020 and was re-designated as our executive Director in April 2021. She is primarily responsible for the financial matters management of the Company.

Prior to joining our Group, Ms. Liu served in multiple companies and has over 18 years of experience in financial and investment areas. From July 2003 to September 2012, Ms. Liu served various positions in Pan-China Certified Public Accountants LLP (天健會計師事務所), including, among others, senior project manager and manager. She then served as the financial director in Zhejiang University Dajing Venture Capital Co., Ltd. (浙江浙大大晶創業投資有限公司), formerly known as Zhejiang University Venture Capital Co., Ltd. (浙江大學創業投資有限公司) from September 2012 to June 2017. During June 2017 to April 2020, she served successively as the risk control director of Investment Department of Wanma United Holding Group Co., Ltd. (浙江萬馬智能科技集團有限公司) and the partner of Hangzhou Silicon Valley True Stone Asset Management Co., Ltd. (杭州矽谷真石資產管理有限公司). Ms. Liu has been serving as an independent director of Ningbo Jiangfeng Electronic Materials Co., Ltd. (寧波江豐電子材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300666), since December 2020. She has been serving as the financial controller, the secretary to the Board and a director of our Company since August 2020 and October 2020, respectively. Since August 2022, Ms. Liu has been serving as an executive Director and the financial controller of the Company.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Liu received a bachelor's degree in economics from Central China Normal University (華中師範大學) in the PRC in June 2003 and a graduation certificate in Economics from Zhejiang University (浙江大學) in the PRC in October 2012. She was qualified as a certified public accountant in April 2003 by Ministry of Finance of the People's Republic of China, an internal auditor in November 2004 by Institute of Internal Auditors, the senior accountant in April 2015 by Zhejiang Provincial Department of Human Resources and Social Security with authorization from the Provincial Senior Accountant Qualification Review Committee.

## Non-executive Directors

**Mr. Mao Shuo (毛碩)**, aged 36, was appointed as a non-executive Director of our Company in December 2023. He is primarily responsible for overseeing Board affairs and giving strategic advice and guidance on the business operation of the Group. He worked as a strategic consultant in the healthcare industry from January 2013 to November 2015 at IQVIA (艾昆緯), a healthcare company. He joined Qiming Venture Partners, a company engaging in venture capital investments, in November 2015 and served as an investment manager, vice president of investment and executive director.

Mr. Mao received a bachelor's degree in biomedical engineering from Tsing Hua University in June 2009, and a master's degree in technology entrepreneurship and management and a master's degree in electrical engineering in December 2011 from the University of Rochester.

**Ms. Gao Yun (高韻)**, aged 36, has been a Director of our Company since May 2020. Ms. Gao joined our Group in May 2020 and was re-designated as our non-executive Director in April 2021. She is primarily responsible for overseeing Board affairs and giving strategic advice and guidance on the business operation of the Group.

Between August 2011 and January 2014, Ms. Gao served successively as an analyst and then senior analyst in IMS Health. In February 2014, she joined the Medtronic PLC. (美國美敦力公司), a medical technology company, as the specialist in the Strategy and Business Development Department for a certain period of time. After that, Ms. Gao also worked at SBCVC (HK) Ltd. (軟銀中國資本有限公司) as the investment manager. She has been successively serving as the investment manager, the senior investment manager, the vice president and executive director at Lilly Asia Ventures (禮來亞洲基金), an investment fund since October 2018.

Ms. Gao received a bachelor's degree in medicine from Fudan University in the PRC in June 2011 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in the PRC in December 2016.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

**Dr. Li Lihua** (厲力華), aged 59, was appointed as an independent director of the Company in October 2020 and re-designated as an independent non-executive Director in April 2021. His main responsibility is to participate in the decision making of major events of the company and to provide advice on corporate governance, audit and remuneration and evaluation of Directors, Supervisors and senior management.

Dr. Li served as an assistant professor and associate professor at the University of South Florida School of Medicine from 1994 to 2006. Since June 2006, He has served as the director of The Institute of Biomedical Engineering and Instrument, the Dean of the School of Life Information and Instrument Engineering, and the Dean of the Institute of Intelligent Health of Hangzhou Dianzi University (杭州電子科技大學).

Dr. Li is well-known in the field of science. In December 2006, he was selected as the first level of “The New Century 151 Talent Project” (新世紀151人才工程) of Zhejiang Province. In August 2006, he was appointed as “Qianjiang Scholar” Distinguished Professor of Zhejiang Higher Education Institution (浙江省高等學校“錢江學者”特聘教授). In September 2007, he was awarded the National Science Fund for Outstanding Young Scholars by the National Natural Science Foundation of China (國家自然科學基金委員會). In 2009, he was selected as the national talent of “New Century Millions of Talents Project”. Dr. Li is currently a member of the Science and Technology Development Advisory Committee of Zhejiang Province (浙江省科技發展諮詢委員會委員), a member of the Academic Advisory Committee of Zhijiang Laboratory (之江實驗室學術諮詢委員會), chairman of the Image Information and Control Professional Committee of the Chinese Society of Biomedical Engineering (中國生物醫學工程學會圖像信息與控制專業委員會), and vice chairman of the Medical Imaging Professional Committee of the Chinese Society of Image and Graphics (中國圖象圖形學會醫學影像專業委員會). Dr. Li plays a leading role in several programs, such as the Key Program under the National Natural Science Foundation of China, the Key Program of Joint Fund for Regional Innovation under the National Natural Science Foundation of China, and the Special Program for Strategic Science and Technology Innovation cooperation under China’s National Key R&D Programs.

Dr. Li received his ph. D. degree in Signal and Information Processing from Southeast University (東南大學) in China in November 1990.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Mr. Ho Kin Cheong Kelvin (何建昌)**, aged 56, was appointed as an independent non-executive Director on April 21, 2021. He is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

Mr. Ho has over 20 years of experience in finance and accounting, company secretary, initial public offering and debt restructuring areas. Mr. Ho worked at Grand Orient Holdings Limited (偉東集團有限公司) (stock code: 0106.HK) from June 1999 to October 2000, serving as the company secretary and chief financial officer. From December 2000 to November 2003, he worked for Hanny Magnetics Limited, a subsidiary of Hanny Holdings Limited (錦興集團有限公司) (currently known as Master Glory Group Limited) (stock code: 0275.HK) at which his last position was financial analyst. From January 2004 to September 2005, he worked for Friedmann Pacific Greater China Investments Limited (富泰大中華投資有限公司) (stock code: 1226.HK) as the company secretary and chief financial officer. From August 2006 to August 2008, he worked for Anhui Tianda Oil Pipes Company Limited (安徽天大石油管材有限公司) (stock code: 0839.HK) as company secretary and chief financial officer. From August 2008 to January 2010, he worked for FU JI Food and Catering Services Holdings Limited (福記食品服務控股有限公司) (currently known as Fresh Express Delivery Holdings Group Co., Limited) (stock code: 1175.HK) as company secretary and chief financial officer. From April 2010 to March 2012 and from May 2012 to December 2014, he worked for Greens Holdings Limited (格菱控股有限公司) (stock code: 1318.HK) at which his last position was company secretary and chief financial officer. From January 2016 to December 2017, he worked for Sand River Golf Club Limited (沙河高爾夫球會有限公司) as the company secretary and chief financial officer. From March 2019 to May 2020, he worked for Richly Field China Development Limited (裕田中國發展有限公司) (stock code: 0313.HK) as the company secretary and chief financial officer. From August 2020 to January 2022, Mr. Ho has been the company secretary and chief financial officer of China Wood International Holding Co., Limited (中木國際控股有限公司) (stock code: 1822.HK).

Mr. Ho was an independent non-executive director of Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) (祥泰行集團有限公司) (stock code: 0199.HK) from October 2001 to May 2003 and a non-executive director of HongDa Financial Holding Limited (弘達金融控股有限公司) (currently known as China Wood International Holding Co., Limited) (stock code: 1822.HK) from April 2016 to April 2017. From August 2018 to February 2022, Mr. Ho has been an independent non-executive director of CECEP COSTIN New Materials Group Limited (In Provisional Liquidation) (中國節能海東青新材料集團有限公司) ("CECEP COSTIN") (stock code: 2228.HK). Based on published information, CECEP COSTIN received a winding up petition and a summons for the appointment of joint provisional liquidators dated October 2017. Mr. Ho's appointment was made subsequent to the winding up petition against CECEP COSTIN and he was appointed by the joint provisional liquidators to meet the relevant requirements under the Listing Rules. In February 2022, The listing status of CECEP COSTIN was cancelled by the Hong Kong Stock Exchange. From July 2020 to November 2022, Mr. Ho was an independent non-executive director of Rosan Resources Holdings Limited (融信資源控股有限公司) (stock code: 0578.HK). Since August 2020, he has been an independent non-executive director of Green Leader Holdings Group Limited (綠領控股集團有限公司) (stock code: 0061.HK). Since October 2020, he has been an independent non-executive director of Yadong Group Holdings Limited (亞東集團控股有限公司) (stock code: 1795.HK) and JW (Cayman) Therapeutics Company., Limited (藥明巨諾(開曼)有限公司) (stock code: 2126.HK). Notwithstanding the above appointments as independent non-executive director, Mr. Ho confirmed that he will devote sufficient time to act as an independent non-executive Director of our Company. In addition, Mr. Ho acting as independent non-executive director is neither a full-time member of the above-mentioned listed companies nor involved in day-to-day operations or management of the above-mentioned listed companies, and as such he has no executive or management responsibility.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ho was admitted as an associate member of the Hong Kong Society of Accountants (currently known as The Hong Kong Institute of Certified Public Accountants) in June 1997 and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom in April 2002. He has passed the Securities Broker Examination of The Stock Exchange of Hong Kong Limited in March 2000. Mr. Ho obtained a bachelor degree of business administration from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in Hong Kong in November 1990.

**Ms. Wang Chunfeng (王春鳳)**, aged 42, was appointed as an independent director of our Company in October 2020 and re-designated as an independent non-executive Director in April 2021. She is primarily responsible for participating in the decision making for our Company's significant events and advising on issues relating to corporate governance, audit and the remuneration and assessment of our Directors, Supervisors and senior management.

Ms. Wang served successively as the supervisor, securities affairs representative and the director of the administrative management center of Enjoyor Co., Ltd. (銀江股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 300020) from September 2007 to July 2010. Since 2010, she has been working at Yinjiang Incubator Co., Ltd. (銀江孵化器股份有限公司) where she previously served as the chief executive officer and vice chairperson and she currently serves as director of Yinchuangxiang Entrepreneurship Services Co., Ltd. (銀創享創業服務股份有限公司) and president of Zhejiang Yinjiang Entrepreneurship Service Research Institute Co., Ltd (浙江銀江創業服務研究院有限公司).

Ms. Wang received a master's degree in business administration from Lanzhou University of Technology (蘭州理工大學) in the PRC in December 2015. She was granted the third prize of Hangzhou Science and Technology Progress Award (杭州市科技進步三等獎) by Hangzhou Science and Technology Bureau (杭州市科學技術局) in October 2011.

**Dr. Cheng Hua (程華)**, aged 60, was appointed as an independent non-executive Director in December 2022. His main responsibility is to participate in the decision making of major events of the company and to provide advice on corporate governance, audit and remuneration and evaluation of Directors, Supervisors and senior management.

Dr. Cheng acted as the deputy director of Institute of Science and Technology, Zhejiang Sci-Tech University from November 2005 to November 2016, the director of School of Economics and Management, Zhejiang Sci-Tech University from December 2016 to December 2020, and an instructor of Department of Business Management, Zhejiang Sci-Tech University from December 2020. Since December 2020, Dr. Cheng has been working as an independent director of Zhejiang Xingxing Refrigeration Co., Ltd.

Dr. Cheng was awarded a bachelor's degree in management engineering in July 1986 by Donghua University (formerly known as China Textile University), a master's degree in business management in March 1992 by Shanghai University of Finance and Economics, and a doctoral degree in agricultural economics and management in March 2004 by School of Management, Zhejiang University.

## SUPERVISORY COMMITTEE

The Supervisory Committee currently consists of three Supervisors as of the Latest Practicable Date. The Supervisors include two shareholders' representative Supervisors and one employee Supervisor. The shareholder Supervisors and the employee Supervisor are elected at the Shareholders' meetings and the staff representative assembly, respectively, for a term of three years, subject to re-election upon their retirement or resignation.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Supervisors

**Mr. Li Zhenhua (李振華)**, aged 36, is the chairman of our Supervisory Committee and an employee Supervisor. Mr. Li joined our Group in September 2012 as the senior production manager of production department and was appointed as the Supervisor of our Company in October 2020. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Prior to joining the Group, Mr. Li worked in Hangzhou Tingyi Food Co., Ltd. (杭州頂益食品有限公司) from July 2009 to September 2012. Mr. Li served as the senior manager of the production department of the Company from September 2012 to October 2020. Since October 30, 2020, Mr. Li has been serving as the chairman of the Supervisory Committee, an employee representative Supervisor and the deputy director of the production center of the Company.

Mr. Li graduated from Quzhou University (衢州學院) (formerly known as Zhejiang University of Technology, West Zhejiang Branch (浙江工業大學浙西分校)) in the PRC in June 2009 with a major in mechanical manufacturing and automation. He obtained his bachelor's degree in mechanical manufacturing and automation from China University of Petroleum (中國石油大學) in the PRC in January 2018.

**Mr. Lyu Cheng (呂承)**, aged 35, is a shareholders' representative Supervisor. Mr. Lyu joined our Group in October 2020 as a Supervisor. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Mr. Lyu has been successively serving as the investment manager and investment director of LYZZ Capital (上海體澤投資管理有限公司), an investment company, since February 2017, where he was responsible for investment matters.

Mr. Lyu received a bachelor's degree in business administration from Glion Institute of Higher Education in Switzerland in May 2012 and a master's degree in tourism administration from George Washington University in the United States in May 2015.

**Mr. Zhao Zhiheng (趙志恒)**, aged 40, is a shareholders' representative Supervisor. Mr. Zhao joined our Group in August 2013 as the manager of purchasing department. He is primarily responsible for supervising the performance of our Directors and members of senior management and performing other supervisory duties as a Supervisor.

Prior to joining our Group, he was the sole proprietor of Hangzhou Shangcheng District Xiuyushanju Handicraft Shop (杭州市上城區秀玉山居工藝品店) from January 2010 to December 2012. Mr. Zhao served as the purchasing manager of the Company from August 2013 to October 2020. Since October 2020, he has been serving as a Supervisor and the purchasing manager of the Company. Mr. Zhao has been serving as the Supervisor of Hangzhou Jienuotong Technology Materials Co., Ltd. (杭州捷諾通科技材料有限公司) (a wholly-owned subsidiary of the Company) from November 2021. Since February 2023, he has been serving as the Supervisor of Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司) (a wholly-owned subsidiary of the Company).

Mr. Zhao graduated from Zhejiang University City College (浙江大學城市學院) in the PRC with a major in financial analysis in February 2007. He obtained his bachelor's degree in logistics management from Huazhong University of Science and Technology (華中科技大學) in the PRC in July 2019.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Senior Management

**Dr. Zheng Pan (鄭攀)**, aged 52, is the chairman of our Board, an executive Director and the Chief Executive Officer. For details of his biography, see “—Executive Directors.”

**Dr. Shi Yonghui (施永輝)**, aged 44, is an executive Director, the chief strategy & development officer and the senior vice president of our Group, the secretary to the Board and a joint company secretary. For details of his biography, see “—Executive Directors.”

**Mr. Lan Yi (蘭毅)**, aged 52, is the vice president of marketing of our Company. Mr. Lan joined our Group in July 2016. He is primarily responsible for the management of domestic sales and customer service and assisting the Chief Executive Officer to manage the work of the marketing department.

Mr. Lan has more than 20 years of experience in the pharmaceutical and medical device industries. Prior to joining our Group, Mr. Lan served as the regional manager of the Diabetes Division of United States Eli Lilly (Asia) Co., Ltd. (美國禮來(亞洲)有限公司) from September 1996 to February 2004. He then joined the Medtronic (Shanghai) Management Co., Ltd. (美敦力(上海)管理有限公司), successively serving as the regional sales manager, the SFE manager, and the national sales manager of the Diabetes Division from March 2004 to June 2013. He served as the national sales manager of Luye Pharma Group Ltd. (綠葉製藥集團有限公司) from July 2013 to June 2016. From July 2016 to September 2019, Mr. Lan served as the national director of the medical devices department of the Company. He then served as the deputy general manager of marketing from September 2019 to October 2020. Since October 2020, Mr. Lan has been serving as the deputy general manager of the Company.

Mr. Lan received a bachelor’s degree in science and technology English from West China University of Medical Sciences (華西醫科大學) in the PRC in July 1994 and a master’s degree in business administration from Washington University (St. Louis) in the United States in December 2009.

**Ms. Liu Xiu (劉秀)**, aged 44, is an executive Director and the financial controller of our Company. For details of her biography, see “—Executive Directors.”

**Ms. Xu Fangling (徐方玲)**, aged 39, is the vice president and the head of administration department of our Company. Ms. Xu joined our Group in December 2013 and was appointed as the vice president of our Company in June 2021. She is primarily responsible for the management of public relations and administrative commerce matters.

Prior to joining our Group, Ms. Xu served as the financial supervisor of Hangzhou Shidai Zhifeng Technology Co., Ltd. (杭州時代之峰科技有限公司), from March 2007 to December 2013. From December 2013 to December 2018, Ms. Xu served as the manager of the administration department of the Company. From December 2018 to October 2020, she served as a Director and the manager of the administration department of the Company. She then served as a Director and the head of the administration department of the Company from October 2020 to May 2021. Since June 2021, Ms. Xu has been serving as the vice president and the head of the administration department of the Company.

Ms. Xu graduated from Henan Vocational College of Information and Statistics (河南信息統計職業學院) (previously known as Henan Planning and Statistics School (河南省計劃統計學校)) in the PRC in July 2003 with a major in Accounting Statistics. Ms. Xu graduated from Zhejiang University of Technology (浙江工業大學) with the specialist qualifications in the PRC in June 2015 with a major in accounting. She received a bachelor’s degree in Zhejiang University of Technology in the PRC in June 2021.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## JOINT COMPANY SECRETARIES

**Dr. Shi Yonghui** (施永輝), aged 44, is an executive Director, the chief strategy & development officer and the senior vice president of our Group, the secretary to the Board and a joint company secretary. For details of his biography, see “—Executive Directors.”

**Ms. Chu Pik Man** (朱璧敏), aged 27, was appointed as a joint company secretary on September 26, 2023. She is currently an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited. Ms. Chu has over 5 years of experience in the corporate secretarial field. She is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. Ms. Chu holds a bachelor’s degree of Business Administration (Honours) in Corporate Governance from Hong Kong Shue Yan University.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report for the Company for the year ended December 31, 2023.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, enhance its transparency and accountability, and support the creation of a positive corporate governance culture.

The Company's corporate governance practices are based on the principles as set out in the CG Code.

In the opinion of the Directors, for the year ended December 31, 2023, the Company has complied with all the code provisions as set out in the CG Code in all material respects with the exception of code provision C.2.1.

Code provision C.2.1 of the CG Code provides that the roles of the chairman of the Board and chief executive officer should be separated and should not be performed by the same individual. During the Reporting Period and the roles of the Chairman and the CEO of the Company were held by Dr. Zheng. Details in relation to the roles of the Chairman and CEO are set out on page 28 under the section headed "Board of Directors — Chairman and CEO" of this Corporate Governance Report.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules. Having made specific enquiry by the Company, all Directors and Supervisors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended December 31, 2023. The Company will continue to ensure the compliance with the corresponding provisions set out in the Model Code.

The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are also subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company during the Reporting Period.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

The Company is headed by a highly effective Board which oversees the Group's businesses, strategic decisions and performance and makes decisions objectively in the best interests of the Company. The Board regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing such responsibilities.

### Board Composition

The Directors, during the Reporting Period and up to the Latest Practicable Date, are:

#### Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)

Dr. Yu Fei

Dr. Shi Yonghui

Ms. Liu Xiu

#### Non-executive Directors

Mr. Mao Shuo (*appointed on December 27, 2023*)

Ms. Gao Yun

Mr. Hu Xubo (*retired on December 27, 2023*)

#### Independent Non-executive Directors

Dr. Li Lihua

Ms. Wang Chunfeng

Mr. Ho Kin Cheong Kelvin

Dr. Cheng Hua

The biographical information of the Directors is set out in the section headed "Directors, Supervisors and Senior Management" on pages 18 to 26 of this report.

Save as disclosed in the section headed "Directors, Supervisors and Senior Management", to the best knowledge of the Company, there has been no other financial, business, family or other material/relevant relationships among members of the Board.

### Chairman and CEO

Code provision C.2.1 of the CG Code provides that the roles of the Chairman and the CEO should be separated and should not be performed by the same individual. As at the Latest Practicable Date, the roles of the Chairman and the CEO are held by Dr. Zheng.

The Board believes that, in view of his experience, personal profile and his roles in our Company, Dr. Zheng is the Director best suited to identify strategic opportunities and focus of the Board due to his extensive understanding of our business as the CEO. The Board also believes that vesting the roles of both the Chairman and the CEO in the same person has the benefit of (i) ensuring consistent leadership within the Group, (ii) enabling more effective and efficient overall strategic planning and execution of strategic initiatives of the Board, and (iii) facilitating the flow of information between the management and the Board for the Group.

# CORPORATE GOVERNANCE REPORT

The Board considers that the balance of power and authority for the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and effectively. Under the current Articles of Association, the decisions to be made by the Board require approval by at least a majority of our Directors and that the Board comprises two non-executive Directors and four independent non-executive Directors, which the Company believes that there are sufficient checks and balances in the Board. Dr. Zheng and other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they shall act for the benefit and in the best interest of the Company and will make decisions for the Group accordingly.

However, the Board will continue to review and consider splitting the roles of the Chairman and the CEO at the time when it is appropriate by taking into account the circumstances of the Group as a whole.

## Independent Non-executive Directors

For the year ended December 31, 2023, the Board at all times met the requirements set out in Rules 3.10 and 3.10(A) of the Listing Rules relating to the appointment of at least three independent non-executive directors representing at least one-third of the board with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

## Independent View to the Board

The Board has established mechanisms to ensure independent views and input are available to the Board. The Board ensures the appointment of at least three independent non-executive Directors and at least one-third of its members being independent non-executive Directors. Further, independent non-executive Directors will be appointed to committees of the Board as required under the Listing Rules and as far as practicable to ensure independent views and input are presented. The Nomination Committee strictly adheres to the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive Directors, and is mandated to assess annually the independence of independent non-executive Directors to ensure that they can continually exercise independent judgement. The Board has reviewed the implementation and effectiveness of the mechanism as such on an annual basis.

## Appointment and Re-election of Directors

Each of the Directors has entered into a service contract or an appointment letter with the Company. The principal particulars of these service contracts or appointment letters comprise (a) a term with effect from the date of the approval of election at the Shareholders' general meeting and until the expiry date of the term of second session of the Board; and (b) termination provisions in accordance with their respective terms. The Directors may be re-appointed subject to Shareholders' approval. The service contracts and appointment letters can be renewed pursuant to our Articles of Association and applicable rules. Directors (including non-executive Directors) are appointed for a specific term of three years, and any eligible person shall be eligible for re-election at the end of the term in accordance with the Articles of Association.

Each of the Supervisors has entered into a contract with the Company. Each contract contains provisions relating to compliance with relevant laws and regulations, observation of our Articles of Association and resolution of disputes by means of arbitration.

In addition, the Company or its subsidiaries did not enter into any service contract with the Directors and Supervisors which is not determinable within one year without payment of compensation.

# CORPORATE GOVERNANCE REPORT

## **Responsibilities, Accountabilities and Contributions of the Board and Management**

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs. The Board is also responsible for determining the mission and value of the Company, promoting the corporate culture among its operations and all the staff and incorporating them into business decisions and operations to ensure that the value and business strategies of the Company are in line with the corporate culture.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board also serves to upholding the corporate value of the Company, such that the Company shall continue to strive to fully implement the corporate development strategies under a professional and rational operational model in pursuit of continual and efficient return on values.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

The Directors shall disclose any changes, the number and nature of offices held in public companies or organisations and other significant commitments held by them, including the identity of any such public companies or organisations and an indication of the time involved.

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

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal action taken against them arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

The management of our Company is responsible for daily management, administration and operation of the Group. It oversees the production, operation and management of our Company, organising and implementing the resolutions of the Board and other duties specified in the Articles of Association. The Board shall discuss the authorization function and duty periodically. Management shall obtain approval from the Board before any significant transaction is entered into.

# CORPORATE GOVERNANCE REPORT

## Continuous Professional Development of Directors

CG Code code provision C.1.4 requires that all Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by regular meetings with senior management of the Company to understand the Group's businesses, governance policies and regulatory environment.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors when appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The training records of the Directors during the year ended December 31, 2023 are summarized as follows:

<b>Directors</b>	<b>Participated in continuous professional development<sup>Note</sup></b>
<b>Executive Directors</b>	
Dr. Zheng Pan	✓
Dr. Yu Fei	✓
Dr. Shi Yonghui	✓
Ms. Liu Xiu	✓
<b>Non-executive Directors</b>	
Mr. Mao Shuo ( <i>appointed on December 27, 2023</i> )	✓
Ms. Gao Yun	✓
Mr. Hu Xubo ( <i>retired on December 27, 2023</i> )	✓
<b>Independent Non-executive Directors</b>	
Dr. Li Lihua	✓
Ms. Wang Chunfeng	✓
Mr. Ho Kin Cheong Kelvin	✓
Dr. Cheng Hua	✓

Note: Attended training/seminar/conference arranged by the Company or other external parties or read relevant materials.

# CORPORATE GOVERNANCE REPORT

## Board Activity

The Board has met 7 times during the Reporting Period. The attendance of each Director at Board and Committee meetings and general meetings of the Company, whether in person by means of electronic communications, is detailed in the table below:

Name of Director	Attendance/No. of Meetings Held during the Reporting Period					General Meeting of the Company
	Board	Audit Committee	Assessment Committee	Nomination Committee	Strategy Committee	
<b>Executive Directors</b>						
Dr. Zheng Pan	7/7	N/A	N/A	1/1	2/2	2/2
Dr. Yu Fei	7/7	N/A	N/A	N/A	N/A	2/2
Dr. Shi Yonghui	7/7	N/A	1/1	N/A	(Note 1)	2/2
Ms. Liu Xiu	7/7	N/A	N/A	N/A	N/A	2/2
<b>Non-executive Directors</b>						
Mr. Hu Xubo (retired on December 27, 2023)	6/6 (Note 2)	N/A	N/A	N/A	2/2	2/2
Mr. Mao Shuo (appointed on December 27, 2023)	1/1 (Note 3)	N/A	N/A	N/A	N/A	N/A (Note 3)
Ms. Gao Yun	7/7	5/5	N/A	N/A	N/A	2/2
<b>Independent Non-executive Directors</b>						
Dr. Li Lihua	7/7	N/A	N/A	1/1	2/2	2/2
Ms. Wang Chunfeng	7/7	5/5	1/1	N/A	N/A	2/2
Mr. Ho Kin Cheong Kelvin	7/7	5/5	1/1	N/A	N/A	2/2
Dr. Cheng Hua	7/7	N/A	N/A	1/1	N/A	2/2

Notes:

1. Dr. Shi Yonghui has been serving as a member of the Strategy Committee from December 27, 2023.
2. There was a total of six board meetings held during the year ended December 31, 2023 prior to the retirement of Mr. Hu Xubo.
3. There was a total of one board meeting held during the year ended December 31, 2023 after the appointment of Mr. Mao Shuo. No general meetings were held after the appointment of Mr. Mao Shuo.

At the Board meetings held during the Reporting Period, the Board discussed a wide range of matters, including the Company's financial and operational performances, approving the annual and interim results of the Company, business prospectus and other significant matters.

## BOARD COMMITTEES

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

The list of the chairman and members of each Board committee is set out under the section headed "Corporate Information" on page 2 of this report.

# CORPORATE GOVERNANCE REPORT

## Audit Committee

The terms of reference of the Audit Committee are of no less exacting terms than those set out in code provisions A.2 and D.3 of the CG Code. The main duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, and the internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

During the Reporting Period and up to the Latest Practicable Date, the Audit Committee consists of three members, including one non-executive Director, namely Ms. Gao Yun and two independent non-executive Directors, namely Ms. Wang Chunfeng and Mr. Ho Kin Cheong Kelvin. Mr. Ho Kin Cheong Kelvin, who holds the appropriate professional qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules, serves as chairperson of the Audit Committee.

During the Reporting Period, the Audit Committee has reviewed the financial results and report for the year ended December 31, 2023 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors, engagement of non-audit services and relevant scope of works and arrangements for employees to raise concerns about possible improprieties. The risk management and internal control systems are reviewed on an annual basis by the Audit Committee.

The attendance records of the Audit Committee during the year ended December 31, 2023 are set out under “Board Activity”.

During the year ended December 31, 2023, the Board had not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of external auditor.

## Remuneration and Assessment Committee

The terms of reference of the Remuneration and Assessment Committee are of no less exacting terms than those set out in paragraph E.1 of the CG Code. The primary functions of the Remuneration and Assessment Committee include, without limitation, (i) making recommendations to the Board on the overall remuneration policies and structures for the directors and senior management of the Company and the proper and transparent procedures for the formulation of remuneration policies; (ii) reviewing and approving the management’s proposal on remuneration based on the corporate goals and objectives set by the Board; (iii) making recommendations to the Board on remuneration package of individual executive Directors and senior management members; (iv) making recommendations to the Board on remuneration of individual non-executive Directors (including independent non-executive Directors); and (v) reviewing and/or approving matters relating share schemes as set out in Chapter 17 of the Listing Rules.

During the Reporting Period and as of the Latest Practicable Date, the Remuneration and Assessment Committee consists of three members, including one executive Director, namely, Dr. Shi Yonghui, and two independent non-executive Directors, namely, Ms. Wang Chunfeng and Mr. Ho Kin Cheong Kelvin. Ms. Wang Chunfeng is the chairperson of the Remuneration and Assessment Committee.

The Remuneration and Assessment Committee’s major work during the Reporting Period includes reviewing the remuneration policy for Directors and senior management of the Company, and reviewing the term and remuneration of the newly appointed Directors.

# CORPORATE GOVERNANCE REPORT

The attendance records of the Remuneration and Assessment Committee during the year ended December 31, 2023 are set out under “Board Activity”.

The remuneration payable to the senior management of the Company (who are not the Directors) for the year ended December 31, 2023, is shown in the following table by band:

<b>Remuneration</b>	<b>Number of Individual(s)</b>
HKD1,000,000 and below	1
HKD1,000,001 to HKD1,500,000	1
<b>TOTAL</b>	<b>2</b>

Further details of the remuneration payable to the Directors and the five highest paid individuals for the year ended December 31, 2023 are set out in note XI (II) 3 and note XI (II) 4, respectively, to the Consolidated Financial Statements in this report.

## Nomination Committee

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in paragraph B.3 of the CG Code. During the Reporting Period and up to the Latest Practicable Date, the Nomination Committee consists of three members, including one executive Director, namely, Dr. Zheng, and two independent non-executive Directors, namely Dr. Li Lihua and Dr. Cheng Hua, with Dr. Li Lihua serving as the chairperson of the Nomination Committee.

The principal duties of the Nomination Committee include, without limitation, (i) reviewing the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, and length of service) of the Board at least annually according to the Company’s business activities, asset size and equity structure, and making recommendations on any proposed changes to the Board to complement the Company’s corporate strategy; (ii) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; (iii) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of, individuals nominated for directorships; and (iv) assessing the independence of independent non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company’s board diversity policy (the “**Board Diversity Policy**”). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, when necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate’s relevant criteria as set out in the Company’s director nomination policy (the “**Director Nomination Policy**”) that are necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board.

# CORPORATE GOVERNANCE REPORT

The structure, size and composition of the Board and the independence of the independent non-executive Directors have been reviewed by the Board and the Board considered that an appropriate balance of diversity perspectives of the Board was maintained for the year ended December 31, 2023.

During the Reporting Period, the Nomination Committee held one meeting. Its major tasks during the Reporting Period included reviewing the board diversity policy and reviewing the independence of independent non-executive directors, considering the structure, size and composition of the Board, and considering and recommending candidates for new appointments.

## Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance the effectiveness of the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, skills, age, professional experience, knowledge, cultural, education background, ethnicity and length of service. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board.

The Directors have a balanced mix of knowledge and skills, including overall management and strategic development, quality assurance and control, finance and accounting and corporate governance experience in addition to industry experience in healthcare and biotechnology. They obtained degrees in various majors including science, engineering and finance. We have four independent non-executive Directors with different industry backgrounds, representing more than one-third of the members of our Board. Furthermore, our Board has a diverse age and gender representation. Among the ten members of the Board, seven Directors are male and three are female.

The Nomination Committee and the Board are of the view that the current composition of the Board is in line with and has achieved the gender diversity. We will implement policies to ensure gender diversity when recruiting staff to develop a pipeline of female potential successors to the Board. Furthermore, we will implement comprehensive programs aimed at identifying and training our female staff who display leadership and potentials, with the goal of promoting them to the Board.

Taking into account the Company's existing business model and specific needs as well as the different background of the Directors, the composition of the Board satisfies the Board Diversity Policy.

The Company is also committed to adopting a similar approach to promote diversity within the management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

The Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the CG Code. The Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

At present, the Nomination Committee considered that the Board is sufficiently diverse and the Board has not set any further measurable objective.

# CORPORATE GOVERNANCE REPORT

## Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Reputation for integrity
- Commitment in respect of available time and relevant interest
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. The Nomination Committee will recommend to the Board for the appointment of a Directors including independent non-executive Directors in accordance with the following selection criteria and nomination procedures:

- (a) identify individuals who are suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the Board Diversity Policy, the requirements in the Company's constitution, the Listing Rules and applicable laws and regulations, and the relevant candidates' contributions to the Board in terms of qualifications, skills, experiences, independence and gender diversity;
- (b) assess the independence of independent non-executive Directors to determine their eligibility with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by Nomination Committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, to assess his/her ability to devote sufficient time to the Board matters; and
- (c) develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship, including but not limited to evaluating the balance of skills, knowledge and experience on the Board, and in the light of this evaluation prepared a description of the role and capabilities required for a particular appointment.

The Nomination Committee will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

# CORPORATE GOVERNANCE REPORT

## Strategy Committee

From January 1, 2023 to December 27, 2023, the Strategy Committee consists of three members, including one executive Director, namely Dr. Zheng, one non-executive Director, namely Mr. Hu Xubo and one independent non-executive Director, namely Dr. Li Lihua, with Dr. Zheng serving as the chairperson of the Strategy Committee. As Mr. Hu Xubo ceased to be a Director from December 27, 2023, from December 27, 2023 to the Latest Practicable Date, the Strategy Committee consists of three members, including two executive Directors, namely Dr. Zheng and Dr. Shi Yonghui and one independent non-executive, namely Dr. Li Lihua, with Dr. Zheng serving as the chairperson of the Strategy Committee.

The primary duties of the Strategy Committee include, but not limited to, the following:

- researching and making recommendations on the Company's long-term development strategy plan;
- researching and making recommendations on the major investment and financing plans, and major capital operation and asset management projects required by the Articles of Association to be approved by our Board or the general meeting of the Company;
- making recommendations on other major issues that shall affect the Company's development, and examining relevant matters accordingly;
- inspecting the implementation of the above matters approved by the Board or the general meeting of the Company; and
- dealing with other matters that are authorized by the Board.

The Strategy Committee's major work during the Reporting Period includes providing recommendations for the establishment of overseas subsidiaries and A share offering plans of the Company.

The attendance records of the Strategy Committee during the year ended December 31, 2023 are set out under "Board Activity".

## Corporate Governance Functions

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

During the year ended December 31, 2023, the Board together with the Nomination Committee had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

# CORPORATE GOVERNANCE REPORT

## Risk Management

The Board recognizes that risk management is critical to the success of the Group's business. Key operational risks faced by the Group include changes in the general market conditions and the regulatory environment of the Chinese and global medical devices markets, the Group's ability to develop, manufacture and commercialize its products and product candidates, and the Group's ability to compete with other medical device companies. We also face various financial risks. In particular, we are exposed to credit, liquidity, and foreign exchange risks that may arise in the normal course of our business.

The Company has adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an on-going basis. The Audit Committee and ultimately the Board supervise the implementation of the Company's risk management policies. Risks identified by the management will be analyzed on the basis of likelihood and impact and will be properly followed up and mitigated and rectified by the Group and reported to the Board.

The following key principles outline the Group's approach to risk management and internal control:

The senior management of the Company oversees and manages the overall risks associated with our business operations, including (i) reviewing and approving the Group's risk management policy to ensure that it is consistent with its corporate objectives; (ii) monitoring the most significant risks associated with the Group's business operations and the management's handling of such risks; and (iii) ensuring the appropriate application of the risk management framework across the Group.

The legal and internal audit personnel are responsible for developing and implementing our risk management policy and carrying out our day-to-day risk management practice, such as assessing risks on key business operations, advising risk responses and optimizing risk management policies. In order to formalize risk management across the Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operation or function; (iv) implement appropriate risk responses where necessary; and (v) develop and maintain an appropriate mechanism to facilitate the application of the risk management framework.

The Board considers that the Directors and members of the Company's senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

# CORPORATE GOVERNANCE REPORT

## Internal Control

The Board is responsible for establishing the Group's internal control system and reviewing its effectiveness. Below is a summary of the internal control policies, measures and procedures which have been implemented:

- The Group has adopted various measures and procedures regarding each aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. The Group provides periodic training on these measures and procedures to its employees as part of its employee training program. The Group also regularly monitors the implementation of those measures and procedures through its on-site internal audit team for each stage of the produce development process.
- The Group maintains strict anti-corruption policies among its sales personnel and distributors in its sales and marketing activities. In particular, the Group requires its distributors to provide written commitments to the Group which stipulates the Group's requirements for various aspects of distributors' operations, such as prohibiting distributors from providing any form of improper benefits and require distributors to enter into distributorship agreements with any sub-distributors they engage to have such sub-distributors abide by the Group's policies. The Group also monitors its sales and marketing personnel to ensure their compliance with applicable promotion and advertising requirements, which include restrictions on promoting the Group's products for unapproved uses or patient populations, also known as off-label use, and limitations on industry-sponsored scientific and educational activities. In particular, each of sales and marketing personnel is required to undertake to us in writing that they will restrain themselves from any bribery and/or any other improper business practices.
- The Directors (who are responsible for monitoring the corporate governance of the Group), with help from the Company's legal advisors, also periodically review its compliance status with all relevant laws and regulations. The Audit Committee (i) makes recommendations to the Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures of the Group.
- The Group maintains a comprehensive treasury policy, detailing specific functions and internal control measures for capital use. These functions and measures include but are not limited to procedures of capital management, separation of capital management responsibilities, liquidity management and follow-up and analysis of the implementation of capital plan.
- The Company has established internal audit function and risk management and internal control systems with relevant policies and procedures that we believe are appropriate for our business operations.
- The Group has adopted internal protocols governing both the confidentiality and privacy for patient sample and data. There is written operation procedures in place for sample/data collection, test procedures, data storage as well as data access. Such data access is on an as-needed basis for internal employees, and external access is not allowed and requires written approvals from the head of the quality control/compliance department.

# CORPORATE GOVERNANCE REPORT

## **Policy on the Disclosure of Inside Information**

The Company has put in place an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management, and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

During the Reporting Period, the Company has regularly reviewed and enhanced its risk management, internal control systems and inside information disclosure policy. The Board considers that the Directors and members of the Company's senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. The risk management and internal control systems of the Company are reviewed on an annual basis. Arrangements are in place to identify, evaluate and manage significant risks including facilitating employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The Board is of the view that the risk management and internal control systems in respect of the year ended December 31, 2023 are effective and adequate. The Company has established risk management and internal control systems with relevant policies and procedures that we believe are appropriated for our business operations.

## **DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS**

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2023.

The management has provided sufficient explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 97 to 102 of this report.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

As the term of appointment for Ernst & Young as the auditor of the Company expired on the date of the 2022 Annual General Meeting, and in the first extraordinary general meeting in 2022, Pan-China Certified Public Accountants LLP has been approved as the auditor for the Company's Proposed A Share Offering, in order to save information disclosure costs and improve efficiency, Pan-China Certified Public Accountants LLP was engaged by the Company to audit the Company's financial statements under the CASBE and assume the duties of the auditor of the Company as required under the Hong Kong Listing Rules. The engagement period commenced from the date of approval at the 2022 Annual General Meeting of the Company and will end upon the conclusion of the 2023 Annual General Meeting.

The remuneration paid to the external auditors of the Company, Pan-China Certified Public Accountants LLP, in respect of audit services for the year ended December 31, 2023 is set out below:

<b>Service Category</b>	<b>Fees Paid/Payable RMB'000</b>
Audit services	641.51
<b>Total</b>	<b>641.51</b>

Note: During the year ended December 31, 2023, the auditors did not provide non-audit service to the Company.

## JOINT COMPANY SECRETARIES

Mr. Duo Bo was a joint company secretary of the Company from the Listing Date until his resignation with effect from February 29, 2024.

Dr. Shi Yonghui, who is also an executive Director, was appointed as the joint company secretary of the Company on March 27, 2024 in place of Mr. Duo Bo. For details of Dr. Shi Yonghui's biography, please see in the section headed "Directors, Supervisors and Senior Management" of this annual report.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also appointed, externally, Ms. Chu Pik Man as the joint company secretary of the Company with effect from September 26, 2023 and in place of Mr. Zhang Mengchi who resigned as the joint company secretary of the Company with effect from September 26, 2023, to assist Dr. Shi Yonghui to discharge his duties as company secretary of the Company. Ms. Chu Pik Man currently serves as an assistant manager of SWCS Corporate Services Group (Hong Kong) Limited. She is mainly responsible for managing the company secretarial and compliance work for companies listed on the Stock Exchange. Dr. Shi Yonghui is the primary contact person at the Company.

In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Ms. Chu Pik Man contacts Dr. Shi Yonghui, and Dr. Shi Yonghui, is responsible for reporting to the Board and/or the Chairman. The relevant professional trainings that Ms. Chu Pik Man participated in during the year ended December 31, 2023 has reached 15 hours, which is in compliance with the requirements of Rule 3.29 of the Listing Rules. Dr. Shi Yonghui was appointed as the joint company secretary of the Company on March 27, 2024 which is after the Reporting Period thus Rule 3.29 of the Listing Rules is not applicable.

# CORPORATE GOVERNANCE REPORT

## CONSTITUTIONAL DOCUMENTS

A set of proposed further amendments to the Articles of Association were also approved by the Shareholders on May 18, 2023, which will take effect upon completion of the proposed A Share Offering, to comply with relevant CSRC and Shanghai Stock Exchange rule, and to satisfy the relevant requirements of laws, administrative regulations and regulatory documents, including the Company Law of the PRC, the Guidelines for Articles of Association of Listed Companies and the Rules Governing the Listing of Securities on the STAR Market of the Shanghai Stock Exchange. Upon the Shareholders' approval on December 27, 2023, certain changes were made to the Articles of Association in order to remove provisions that are obsolete as a result of the repeal of the Special Regulations and the Mandatory Provisions, to reflect the New PRC Regulations, to embody certain requirements of the PRC Guidelines on the Articles of Association and to comply with the requirements of the Listing Rules. For more details, please refer to circulars of the Company dated April 26, 2023 and December 8, 2023.

Save as disclosed above, there has not been any changes to the Articles of Association during the Reporting Period and up to the date of this annual report.

## SHAREHOLDERS' RIGHTS

The Company engages with the Shareholders through various communication channels. Information of the Company is disseminated to the Shareholders in the following manner:

- Delivery of annual and interim results and reports to the Shareholders;
- Publication of announcements on the annual and interim results and issue of other announcements and circulars on the websites of the Stock Exchange and the Company in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and the Shareholders.

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

### Convening Shareholders' General Meetings

A shareholders' annual general meeting is required to be held once every year within six months after the end of the previous fiscal year.

Pursuant to Article 95 of the Articles of Association, Independent non-executive Directors have the right to propose to the Board to convene an extraordinary general meeting. Independent non-executive Directors shall obtain at least half of all independent non-executive Directors' consent when exercising the above-mentioned powers.

For independent non-executive Directors' proposal to convene an extraordinary general meeting, the Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of the Articles of Association, propose to agree or disagree to convene an extraordinary general meeting within 10 days after receiving the proposal.

# CORPORATE GOVERNANCE REPORT

If the Board agrees to convene an extraordinary general meeting, it shall issue a notice of convening the general meeting within 5 days after the resolution of the Board is made; if the Board does not agree, it shall explain the reasons and make an announcement.

Pursuant to Article 43 of the Articles of Association, the board of Supervisors has the right to propose in writing to the Board to convene an extraordinary general meeting. The Board shall, in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of the Articles of Association, provide written feedback on whether or not it agrees to convene an extraordinary general meeting within 10 days after receiving the proposal.

If the Board agrees to convene an extraordinary general meeting, a notice of convening the general meeting shall be issued within 5 days after the resolution of the Board is made. Any changes to the original proposal in the notice shall be approved by the Board.

If the Board does not agree, or fails to provide feedback within 10 days after receiving the proposal, it is deemed that the Board cannot perform or fails to perform its duties of convening the general meeting, and the board of Supervisors may convene and preside over it by itself.

Pursuant to Article 39 of the Articles of Association, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting have the right to request in writing the Board to convene an extraordinary general meeting or a class meeting, in which they should also list the topic of the meeting. The Board shall, in accordance with the laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, and the provisions of the Articles of Association, convene an extraordinary general meeting or a class meeting within two months after receiving the written request.

If the Board does not issue a notice of convening within 30 days after receiving the original request, Shareholders who individually or collectively hold more than 10% of the voting Shares at the proposed meeting shall have the right to propose to the board of Supervisors, in writing, to convene an extraordinary general meeting or a class meeting within 4 months after the Board receives the written request.

## Putting Forward Proposals at General Meetings

When the Company convenes a general meeting, the Board, Supervisors and Shareholders who individually or collectively hold more than 3% of the Company's Shares have the right to make proposals to the Company.

Shareholders who individually or collectively hold more than 3% of the Company's Shares may submit an interim proposal 10 days before the general meeting to the convener in writing. The convener shall issue a supplementary notice of the general meeting within 2 days after receiving the proposal to announce the content of the temporary proposal. The content of the interim proposal should fall within the scope of the Shareholders' general meeting, and have clear topics and specific resolutions.

Except for the circumstances specified in the preceding paragraph, the convener may not modify the proposals listed in the notice of the Shareholders meeting or add new proposals after issuing the notice of the Shareholders meeting.

For proposals that are not listed in the notice of the general meeting or that do not meet the requirements of Article 71 of these Articles of Association, the general meeting shall not vote and make resolutions.

# CORPORATE GOVERNANCE REPORT

## Putting Forward Enquiries to the Board

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

## Contact Details

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

Address: No. 108 Liuze Street  
Cangqian Street  
Yuhang District, Hangzhou  
Zhejiang, China

Email: ir@microtechmd.com

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

## Communication Policy

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website ([www.microtechmd.com](http://www.microtechmd.com)), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public. Information uploaded by the Company to the Stock Exchange's website is also posted on the Company's website immediately thereafter.

The Company also endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings where information about the Company, including its latest strategic plan, products, profit distribution scheme etc. will be communicated. At the annual general meetings, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries,

The Company has set out channels of communication by Shareholders and investors. The implementation and effectiveness of these channels has been reviewed by the Board during the year ended December 31, 2023 and the Board considered that it is adequate and effective, having considered the communication channels in place provided Shareholders and investment community with information about the latest development of the Group in a timely manner, and the Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders to allow the Company to receive feedback effectively.

# CORPORATE GOVERNANCE REPORT

## Dividend Policy

The Company has adopted a dividend policy on payment of dividends. Under the dividend policy, we intend to provide our Shareholders with interim or annual dividends as appropriate. The Board is required to consider, among other things, the following factors when proposing dividends and determining the amount of dividends: (i) our actual and projected financial performance; (ii) our estimated working capital requirements, capital expenditure requirements and future business expansion plan; (iii) our present and future cash flow; (iv) other internal and external factors that may have an impact on our business operations or financial performance and position; and (v) other factors that our Board deem relevant.

As at December 31, 2023, no arrangement was reached pursuant to which the Shareholders waived or agreed to waive their dividends.

## DIVERSITY

As of December 31, 2023, we had 760 full-time employees, of which 321 were male and 439 were female. The gender ratio in the workforce (including senior management) was approximately 7 males to 10 females. The Company is aiming to achieve a more balanced gender ratio in the workforce and targets to achieve a gender ratio in the workforce of not less than 3 males to 2 females. The Company will continue to monitor and evaluate the diversity policy from time to time to ensure its continued effectiveness. The Company is not aware of any mitigating factor or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT

MicroTech Medical (Hangzhou) Co., Ltd. (the “**Company**”) and its subsidiaries (the “**Group**” or “**We**”) are pleased to present our environmental, social and governance (“**ESG**”) report (the “**Report**”), which describes the policies, actions and performance relating to the ESG issues of the Group.

### 1.1 REPORTING STANDARD

The Report is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” (the “**Guide**”) under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Report is prepared on the basis of four reporting principles, namely: materiality, quantitative, balance and consistency, and it has complied with the “Comply or Explain” provisions in the Guide.

**Materiality:** We have carried out stakeholder engagement and material issue identification to ensure that the identified sustainability issues are relevant and material to business operations and stakeholders.

**Quantitative:** The Report contains all the key performance indicators required by the Guide, and has disclosed the corresponding calculation methods and adopted standards.

**Balance:** The Report shall provide an unbiased picture of the ESG performance of the Company during the reporting period. It should avoid selections, omissions, or presentation formats that may inappropriately influence the decision or judgment by the report readers.

**Consistency:** The statistical methods for disclosures in this report are consistent with those adopted in the 2021 ESG Report (to ensure comparability of information, the number of employees used in the subject area headed “social” in this report and the subsequent ESG reports will exclude non-regular employees).

Readers may refer to Appendix II of the Report: Index of the Hong Kong Stock Exchange’s Environmental, Social and Governance Reporting Guidelines for quick inquiries. This report should be read in conjunction with the “Corporate Governance Report” section of this annual report for a comprehensive understanding of the Group’s ESG performance.

### 1.2 REPORTING SCOPE

Unless otherwise specified, the Report focuses on the Group’s ESG performance from January 1, 2023 to December 31, 2023 (the “**Year**”). The disclosure scope of environmental key performance indicators (KPIs) covers the Group’s headquarters office in Hangzhou, and the social key performance indicators cover the Group in a whole.

### 1.3 REPORTING LANGUAGES

The Report is published in traditional Chinese and English versions. In case of discrepancies, the traditional Chinese version shall prevail.

### 1.4 APPROVAL AND CONFIRMATION

The Report was considered and confirmed by the Board after being confirmed by the management of the Company.

### 1.5 REPORT FEEDBACK

We highly value your views and suggestions on the Report. Please feel free to contact us via email (ir@microtechmd.com).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. SUSTAINABILITY MANAGEMENT

The Group is deeply concerned about the coordination and unification of economic and social benefits. We integrate social responsibility into business development strategies and human resource management, to create useful value for society.

### 2.1 STATEMENT OF THE BOARD OF DIRECTORS

The Company understands that the leadership and engagement of the board of directors (the “**Board**”) is essential to the implementation of the sustainable development strategy, therefore, the Board assumes full responsibility for the Group’s ESG strategy and reporting, leads and supervises ESG work, and is responsible for leading and responding to the opportunities and risks brought about by sustainable development. The board of directors decides and supervises the ESG policies and strategies regularly, including approving and confirming the ESG-related target setting, reviewing the progress of the target, evaluation and priority ranking, etc. At the same time, the board of directors has approved the establishment of the ESG Supervisory Committee of the Company and authorized it to supervise and promote the implementation of various ESG matters, so as to further improve the effectiveness of sustainable development governance.

### 2.2 ESG Governance Structure

We have established the ESG Supervisory Committee, which is composed of the chief financial officer, the securities commissioner, the legal affairs officer and the head of Administration Department of the Company for the first term. The ESG Supervisory Committee is responsible for assessing and determining ESG-related risks at the governance level, ensuring the establishment of a suitable and effective ESG risk management and internal control system, and supervising the implementation performance of relevant measures at the executive level. The members of the Supervisory Committee may be adjusted by the board of directors from time to time according to the business and management needs of the Company. The ESG-related goals can demonstrate the achievements from ESG management, and will improve the relevant measures according to the progress.

### 2.3 COMMUNICATION WITH STAKEHOLDERS

We deeply value the expectations and demands of our stakeholders, and maintain close contact with customers, shareholders/investors, employees, suppliers and business partners, retailers, regulators, media, communities/non-governmental organizations, industry peers and those that have a significant impact on the Group and on which the Group’s success depends, to fully understand their concerns and expectations. The expectations and demands of the stakeholders, communication channels and the responses of management are as follows:

Major Stakeholders	Expectations and Demands	Communication Channels and Response Methods
Customers	Product quality and safety Information and privacy protection	Customer satisfaction surveys and opinion forms Customer service center Daily operation/communication Telephone Email WeChat

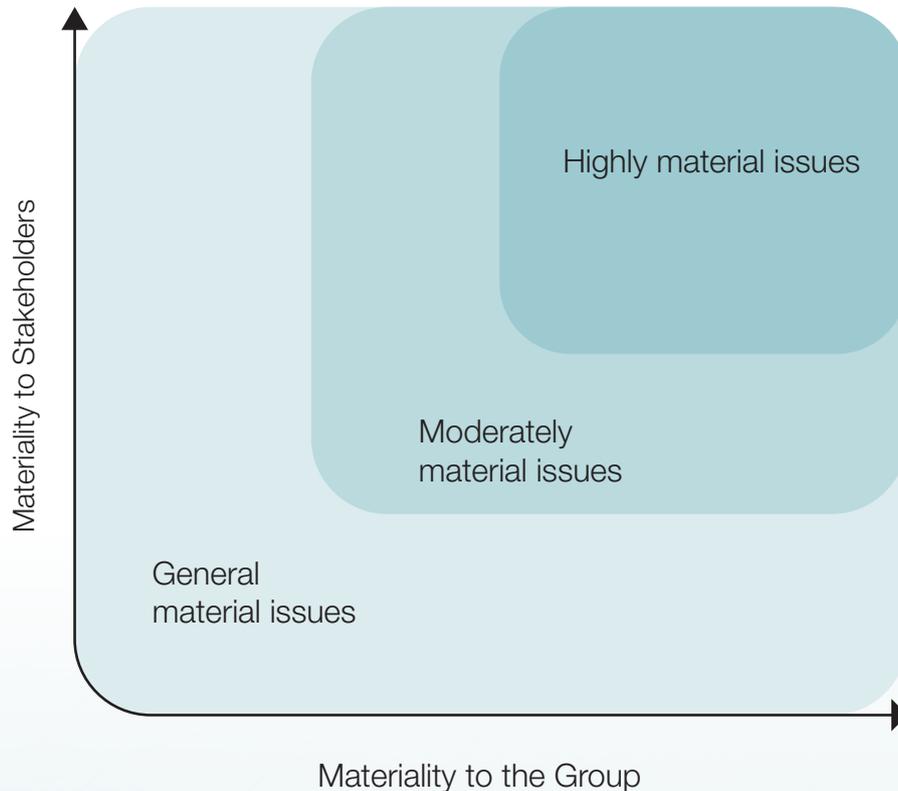
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major Stakeholders	Expectations and Demands	Communication Channels and Response Methods
<b>Shareholders/investors</b>	Performance growth Steady operation Information disclosure	Annual general meeting and other general meetings Interim reports and annual reports Corporate correspondence (such as letters/ circulars to shareholders and meeting notices) Regular announcements Company website Investor meeting Instant communication with some investors over the telephone or WeChat
<b>Employees</b>	Protection of legitimate rights and interests Employee health and safety Employee compensation and benefits	Employee opinion survey Performance interviews and appraisals Face-to-face meetings Seminars/workshops/talks WeChat group, employee sports meeting, birthday party
<b>Suppliers and business partners</b>	Responsible supply chain Product quality	Suppliers management procedures Suppliers/contractors evaluation system On-site visits Communication of quality issues
<b>Retailors</b>	Responsible supply chain	Retailers management procedures Retailers evaluation system On-site visits Dealer training session Industry Exhibition
<b>Regulators</b>	Comply with laws and regulations Responsible marketing	Written responses to public consultation Meetings Visit and communicate the latest policy developments
<b>Media</b>	Contribution to society Promote industry progress	Press release conferences Press releases Interviews with senior management Attend academic conferences
<b>Communities/ non-governmental organizations</b>	Community environment protection Social welfare engagement	Public benefit activities Community activities Paired up to help
<b>Peers</b>	Fair competition	Strategic cooperation projects Industry conferences, forums or exchange activities

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.4 MATERIAL ISSUES

The Group is committed to improving the performance of sustainable development in a targeted manner. Therefore, we conducted an assessment of material issues during the Year. Based on the Group's development strategy, we tracked the development trend of the industry, learned about the latest national regulations, and referred to international standards in accordance with the requirements of the Stock Exchange, thereby identifying 23 material issues. All material issues will be disclosed accordingly according to their materiality.



Highly material issues: Supply chain management, information security, product quality and safety, customer service, intellectual property protection, innovative R&D

Moderately material issues: Compliance employment, employee training and development, equality and diversity, remuneration and welfare, occupational safety and health, anti- corruption, wastewater discharge management, contribution to society

General material issues: Sales methods and product labels, labor standards, greenhouse gas emissions, exhaust gas emission management, energy management, water resources management, waste management, packaging materials management, and climate change response

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. COMPLIANCE OPERATION

### 3.1 ANTI-MONEY LAUNDERING AND ANTI-CORRUPTION

The Group strictly abides by relevant laws and regulations such as the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Supervision Law of the People's Republic of China (《中華人民共和國監察法》) and the Criminal Law of the People's Republic of China (《中華人民共和國刑法》). We resolutely resist any form of fraud, including but not limited to bribery, misappropriation of public funds, extortion, fraud, money laundering and so on. To this end, we have formulated the Anti-fraud, Anti-money laundering and Anti-bribery Management System (《反舞弊、反洗錢、反賄賂管理制度》), the Interest Conflict and Professional Ethics Management System (《利益衝突與職業道德管理制度》), the Mutual Supervision and Management Requirements (《相互監督管理要求》), the Administrative Rules for Conflict of Interest and Occupational Ethos (《利益衝突與職業道德管理制度》), the Internal Audit Work System (《內部審計工作制度》), the Misconduct Reporting Mechanism and Handling Measures (《不當行為舉報機制與處理辦法》) and other internal rules and regulations.

In terms of customer selection, we only establish business relationships with customers with good reputation and legal business activities. Following the "Know Your Customer (KYC)" principle, we take corresponding measures for customers, business relationships or transactions with different money laundering or terrorist financing risk characteristics, and strictly implement the collection and verification of customer identity information, to understand the customer and its transaction purpose and nature, and the real source and purpose of the funds, and to understand and identify the natural persons who actually control the customer and the actual beneficiaries of the transaction.

Our internal audit department and legal department, as the standing body of anti-fraud work, are responsible for the implementation of anti-fraud work. We continue to carry out anti-bribery training and publicity work to enhance the anti-money laundering awareness and capability of all employees and customers. The content of anti-money laundering training should include the basic knowledge of anti-money laundering, anti-money laundering laws and regulations, the latest anti-money laundering regulatory policies and requirements, anti-money laundering internal control system and operating procedures, etc. The basic knowledge of anti-bribery and training on laws and regulations are also essential contents of induction training for new employees. During the Year, our legal department prepared anti-graft and anti-corruption promotion materials, which were provided to the Directors, supervisors, senior management and employees in key positions for online anti-corruption training.

In order to facilitate people in the know to report suspicious incidents timely, we have opened various channels such as telephone calls, emails, letters, and interviews. After receiving and registering the report, we will conduct an investigation in accordance with internal procedures. Once the suspicious incident is confirmed, we will deal with it in accordance with the various circumstances set out in the rules and regulations. We will hand over those who are in violation of the laws to the judiciary authorities for handling. In order to protect the whistleblower, we require the anti-fraud staff to take strict confidentiality measures on the whistleblower's identity information and reporting materials, so as to effectively protect the whistleblower's legitimate rights and interests.

During the Year, the Group did not receive any lawsuits related to corruption, bribery, extortion, fraud, money laundering and terrorist financing against the Group or its employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.2 SUPPLY CHAIN MANAGEMENT

The Group's collaboration with its suppliers complies with the Civil Code of the People's Republic of China (《中華人民共和國民法典》) and relevant laws and regulations. In order to standardize material supply procedures and strengthen supplier management, and ensure that suppliers can continuously provide products of qualified quality and reasonable prices, we have formulated the Supplier Evaluation and Control Procedures (《供應商評價控制程序》), the Raw Material Procurement Contract (《原料採購合同》), the Procurement Control Procedures (《採購控制程序》), the Procurement Contract Template (《採購合同模板》), the Product Protection and Delivery Control Procedures (《產品防護和交付控制程序》), the Contract Management System (《合同管理制度》) and other internal rules and regulations.

Our supplier selection and assessment are jointly carried out by our procurement department, quality department and process technology department/R&D department. The procurement department is responsible for selecting new suppliers, collecting supplier information and annual auditing of important suppliers. The quality department is responsible for evaluating the quality of the products and services of existing suppliers, while the process technology department/R&D department is responsible for the technical confirmation of the first sample, and technical evaluation and confirmation of materials purchased for the first time after the change of new suppliers or suppliers' key processes.

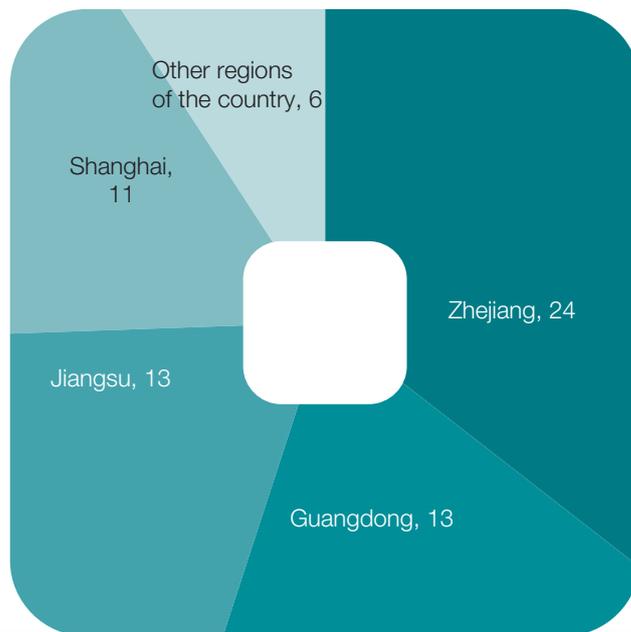
When selecting new suppliers, our procurement department will not only consider the supplier's business status, technology, quality, price and delivery capacity of products and services, but also whether the supplier will have a significant negative impact on the environment and provide a healthy and safe working environment for employees. Our procurement department will also conduct on-site inspection on suppliers or invite candidate suppliers to conduct self-evaluation. We will also give priority to suppliers providing green products and services. The Group will assess each supplier from time to time, and conduct unannounced inspections over certain suppliers. We will terminate the cooperation with suppliers who fail to pass the assessment.

We require employees and suppliers responsible for procurement to strictly abide by our integrity provisions, not to engage in any form of commercial bribery, and strictly abide by the Anti Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and other relevant provisions prohibiting commercial bribery. We require any employee or department not to solicit or accept money, items and gifts of any kind from suppliers in the name of Party A or non-Party A. Suppliers are also not allowed to directly or indirectly give gifts, items, securities or take other disguised means to provide illegitimate benefits to any employee of Party A in the name of Party B or personally. If the employees of the Group require the supplier to give them any form of illegitimate benefits, the informed person must complain in time and provide relevant evidence to Party A, which will be dealt with after our verification and kept confidential for the whistleblower. If the supplier violates the integrity provisions, we have the right to deal with the incident accordingly.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Year, the Group had 67 major suppliers, mainly providing us product accessories and raw materials, which are distributed as below:

Supplier geographical distribution



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.3 INFORMATION SECURITY AND PRIVACY POLICY

The Group strictly complies with the Regulations on the Security Protection of Computer Information Systems of the People's Republic of China (《中華人民共和國計算機信息系統安全保護條例》), the Network Security Law of the People's Republic of China (《中華人民共和國網絡安全法》), the Provisions on Technical Measures for Internet Security Protection (《互聯網安全保護技術措施規定》), the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), the Security Protection of Computer Information Network International Networking Management Measures (《計算機信息網絡國際聯網安全保護管理辦法》) and other relevant laws and regulations. At the same time, we have also formulated internal rules and regulations such as the Confidentiality System (《保密制度》), the Subsidiary-Document Control Procedure (《子公司-文件控制程序》), the IT Password Management Regulations (《IT密碼管理規定》), the Management Measures for the Use of Computer Software (《計算機軟件使用管理辦法》), the Business Continuity Plan (《業務連續性計劃》) and the Computer Room Management System (《機房管理制度》).

We require employees, suppliers and partners to strictly abide by our "Confidentiality Policy", and provide hierarchical authorization to manage computer information. No one is allowed to distribute the Company's trade secrets intentionally or unintentionally in any form without authorization. The borrowing, circulation and photocopying of confidential documents and files shall be handled in accordance with the prescribed procedures and shall be properly registered and kept by special personnel. Confidential documents and files shall not be transmitted by fax machine, and confidential documents and materials shall not be copied without permission. For the information of patients and subjects, we only collect the necessary information through legal channels, and ensure the security of their personal information in accordance with the Company's internal rules and regulations. The personal information of patients and subjects can only be accessed by relevant authorized researchers, implementers of research projects, members of the medical ethics committee and relevant personnel of the national/local food and drug administration.

We require strong passwords on all types of office equipment. All kinds of computer office software are uniformly installed by our IT department. Employees are strictly prohibited from installing software that is not authorized and used by unauthorized companies without permission, and are strictly prohibited from uploading unchecked and verified file data in the system at will. When the computer shows signs of virus infection, the finder must immediately notify the IT department to deal with it. Our computer room is managed by special personnel, and non-computer room staff needs to register and enters the computer room accompanied by the administrator.

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## 3.4 PRODUCT QUALITY

We pursue “Quality” as one of our core values, which encourages all employees to embody the spirit of pursuing quality in every moment and throughout the entire process of their work, while focusing on details, and striving for excellence without overlooking any quality issues. We strictly abide by relevant laws and regulations such as the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), the Good Practice for Clinical Trials of Medical Devices (《醫療器械臨床試驗質量管理規範》), and the Regulations on the Quality of Clinical Trials of Medical Devices (《醫療器械臨床試驗質量法規》), and respect the systems and practices of R&D ethics such as the Declaration of Helsinki (such as animal experiment management). At the same time, we have also formulated the Quality Manual (《質量手冊》), the Quality Record Control Procedures (《質量記錄控制程序》), the Management Review Procedures (《管理評審程序》), the Internal Quality Audit Procedures (《內部質量審核程序》), the Quality Control and Product Release Control Procedures (《質量控制與產品放行控制程序》), the Non-conforming Product Control Procedures (《不合格品控制程序》), the Correction and Preventive Measures Control Procedures (《糾正和預防措施控制程序》) and other quality management related rules and regulations, the Working Environment Control Procedures (《工作環境控制程序》), Pest Control Management System (《防蟲鼠管理制度》), the Clean Area Cleaning and Disinfection Management System (《潔淨區域清潔消毒管理制度》), the Clean Area Dressing Room Management System (《潔淨區更衣室管理制度》), the Workwear Management System (《工作服管理制度》) and other related rules and regulations on health management, as well as the Training Management Procedures (《培訓管理程序》), the Facility, Equipment and Process Equipment Management and Control Procedures (《設施、設備及工藝裝備管理控制程序》), and other equipment and personnel management related rules and regulations. We have established a comprehensive quality management system in accordance with relevant medical device regulations, and act upon the requirements of system documents to ensure that raw materials, plant facilities, equipment, sanitation, personnel training, and quality management meet the sanitation, safety, and quality requirements of relevant national regulations.

Our quality management system mainly starts from the needs of customers, manages resources reasonably, measures, analyzes and improves products, and finally realizes the output of products. We will formulate the Annual Internal Quality Audit Plan(《年度內部質量審核計劃》)and hold regular internal quality audit meetings to systematically review our quality management system, learn new standards and regulations, and make necessary improvements.

In the whole quality management, we will firstly inspect and test the raw materials, then set up inspection and testing of key quality control points according to the characteristics of different products, and finally we will inspect the finished products. We make corresponding adjustments and improvements according to the results of inspections and tests in each link to ensure the quality of final products. For unqualified products in any link of the quality inspection process, we will identify them, understand the causes of unqualified products and make corrections in time. All corrective actions will be recorded in the Corrective and Preventive Report(《糾正預防報告單》)as a reference for future system improvement. In case of return, we will judge the quality. If the quality is unqualified, we will scrap it. To prevent product recalls, we take quality control, quality assurance and quality improvements to prevent the substandard products entering the market. We conduct random sampling according to the sampling requirements, and test the appearance, performance, and packaging of the products based on the standards required in the finished product inspection documents. Where there are any abnormalities during the inspection or the test results do not meet the standard requirements, we fill in the “Non-conforming Product Handling Report Form” to describe the reason for the non-conformity and handle it according to the non-conforming control procedure.

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Since we need to produce medical devices, it is particularly important to keep the work area hygienic in ensuring product quality. We will ensure the cleanliness and maintenance of the production workshop, technical laboratory and dressing room, arrange special personnel to maintain and repair the air conditioning and exhaust system, and regularly monitor the environment in the operation area. We also train and manage workers in maintaining an anti-static environment and occupational health and safety. In order to ensure that the equipment is always in normal operation, we will carry out necessary cleaning and lubrication, daily inspections, regular inspections, and regular replacement of parts. Outside the operation area, we regularly remove sludge in the ditch, clear the stagnant water around the factory, prune branches, weeds, and clean up fallen leaves and other accumulations. We will also entrust qualified companies to spray pesticides and insecticides on the green belts around the factory, put bait to trap rats, and put insecticidal and egg killing agents in inspection wells and drainage ditches.

During the Year, the Group had no products returned for health and safety reasons.

## 3.5 INTELLECTUAL PROPERTY PROTECTION

The Group is committed to protecting its own intellectual property rights and not infringing on the intellectual property rights of others by strictly abiding by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Implementation Rules of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) and other laws and regulations.

We require our partners to guarantee that the products or technical solutions they provide to us shall not infringe the intellectual property rights of any third party during the use of the Group or our customers. The partners are required to provide us with the corresponding certificates of intellectual property rights of the products and related ancillary components, materials and information. Where any third-party intellectual property rights are involved, the partners must provide proof of legal authorization for use. For the products customized by the Group, the partners shall keep them strictly confidential and shall not produce or sell them for third parties, or carry out imitation or reverse engineering without the written authorization of the Group.

The Group abides by the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》). For any public information, we will conduct strict review before it can be disclosed to ensure the authenticity and accuracy of such public information.

During the Year, the Group added 16 issued patents and pending patent applications. As of December 31, 2023, the Group owned 132 issued patents and pending patent applications.

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## 3.6 CUSTOMER RIGHTS

“Customer-centric” is our most important core value. We encourage all employees to stay close to the customers so as to gain insights into their reasonable requirements, and to proactively implement product realization from their real requirements. In quick response to customers, we strive to resolve their issues with our sincerity that earns their trust, and to achieve long-term and mutual success with customers.

Prior to each clinical trial, our investigators will submit the clinical trial protocol, informed consent form and other relevant documents to the medical ethics committee of the hospital where the unit responsible for the clinical trial is located, and will not commence until the medical ethics committee has approved the trial. We will also provide a full and complete written explanation of the purpose, procedures and possible risks of the research to each subject prior to acceptance into the clinical trial, and request the subject to sign an informed consent form. The subjects have the right to withdraw from the clinical trial at any time.

In order to better meet the expectations and demands of our customers and other stakeholders, we have established the Customer Complaint Handling Procedures (《顧客投訴處理程序》) and the Customer Service Control Procedures (《顧客服務控制程序》). Upon receipt of a complaint, we will keep a detailed record of the complaint and the relevant responsible person will analyze and develop a solution to the complaint. If the complaint involves adverse events or suspected adverse events, the complaint handler shall immediately forward the information to the adverse event monitoring specialist for processing. The adverse event monitoring specialist shall immediately implement the Adverse Event Monitoring and Re-evaluation Control Procedures (《不良事件監測和再評價控制程序》) or the Alert System Management System (《警戒系統管理制度》) according to the market which the product is involved in, report the information to the regulatory authorities and organize the investigation and handling as required in a timely manner. For the final outcome of customer complaint, the complaint response department shall record the final opinion of the customer; if the customer does not accept the handling opinion, it shall be recorded and further measures shall be taken to ensure the final satisfaction of the customer.

During the Year, the Group did not receive any valid complaints over the services.

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## 4. CARING FOR EMPLOYEES

We strictly comply with the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Implementation Regulations of the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), the Regulations on the Prohibition of Child Labour (《禁止使用童工規定》) and other local laws and regulations governing our operations.

Employees are essential for the improvement of our competitiveness. We are committed to creating an equal, inclusive, healthy, safe and fair working environment without any form of discrimination on the grounds of age, gender, nationality, colour, physical disability, religion, etc. To this end, we have formulated the "Employee Relationship Management System" (《員工關係管理制度》), which sets out our recruitment, resignation, vacation, working hours, overtime arrangements, performance appraisals, rewards and punishments, and other implementation plans.

### 4.1 TALENT EMPLOYMENT

We have developed the Summary Sheet of the Staffing Plan for 2023 (《2023年度編製計劃匯總表》) based on the needs of the employment department. We give priority to internal promotion and all career opportunities are communicated to employees in the form of internal announcements so that all employees enjoy equal opportunities for career development. We will inspect the candidates' academic background, work experience and the extent to which they match the post requirements, and require the candidates to present valid identity certificates recognized by the People's Republic of China in order to screen suitable talents and eliminate child labour. In the event that an employee is found to have provided false information, forced labour or employed child labour, the employment relationship will be terminated immediately in accordance with the law. We will sign the legally effective Employment Contract (《勞動合同書》) and the Intellectual Property Ownership and Confidentiality Agreement (《知識財產權歸屬和保密協議》) with all regular employees on an equal and consensual basis. For non-regular workers, including but not limited to retired employees, temporary workers and interns, we will sign special agreements with them.

We eliminate forced labour, promote efficient work and encourage employees to complete their work during working hours. For overtime required for work purposes, the Company implements a system of shift leave and provide overtime allowances.

Both the employees and the Group have the right to terminate the employment relationship. Employees who have resigned shall go through some resignation handover procedures. Our human resources department will also arrange exit interviews to understand the reasons for resignation, so as to improve the employment management system accordingly.

During the Year, the Group had no incidents of forced labour or employment of child labour. As at December 31, 2023, the Group had a total of 760 regular employees.

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## 4.2 TALENT DEVELOPMENT

In order to strengthen the professional skills of our employees, we have established the Training Management Procedures (《培訓管理程序》) and formulated the Training Plan for 2023 (《2023年度培訓計劃》) based on our business needs and employee expectations. We regard “making self-driven progress” as one of our core values, which encourages our employees to be self-driven, pursue higher goals, and persist in self-learning and personal growth.

We will engage experienced internal staff and external lecturers to conduct targeted training for employees. Our training categories are divided into management and supervisory personnel training, new employee induction training, on-board training, internal department training, qualification training, expatriate training and other trainings. For management and supervisory personnel, we require them to master the ISO13485, YY/T0287 series standards, GMP regulations and the Company’s quality system documents. For new employees, in-service employees and expatriates, we require them to acquire professional knowledge and skills relevant to their positions, understand the Company’s rules, regulations and products, and obtain the corresponding qualification certifications. We also provide training in relation to customers, markets, etc. We held the “MicroTech Cup — QC Skills Competition” to encourage employees to pursue the craftsmanship spirit by improving their skill levels, and inspire their work enthusiasm and creativity. An electronic “training profile” will be created for each employee to track his/her training performance.

In addition, we have also developed the Remuneration and Performance Management System (《薪酬績效管理制度》) to enhance the motivation of our employees. Performance management includes targets, application of performance coaching and appraisal results.

We require our employees to set performance targets in accordance with the SMART principle. The supervisors are required to provide explanation and support to their subordinates in the process of achieving their targets, and adjust the targets in a timely manner according to the actual situation if necessary.

In the performance appraisal, we will take work performance (including appraisal indicators, target values, appraisal criteria, data sources, appraisal weights, actual completion status, department head ratings, etc.), work ability and work attitude as indicators for appraisal. We strive to be fair, just, open and transparent in our appraisal process. Therefore, our human resources department will review the performance appraisal forms and performance improvement forms submitted by each department, and will strictly adopt the accountability mechanism in case of non-objective department scoring or inaccurate data sources. After the appraisal and assessment is completed, the department head or direct supervisor will conduct a performance interview with each employee, which includes feedback on the performance appraisal results, recognition of outstanding or improved behaviours and events of the employee, communication of areas for improvement, and setting and confirming the next targets. After the performance interview, we will pay a performance bonus based on the results of the performance appraisal.

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## 4.3 TALENT BENEFITS

In order to motivate our employees and boost their morale, we provide them with paid annual leave, marriage leave, bereavement leave, maternity leave, sick leave and personal leave, in addition to the statutory five social insurances and one housing provident fund and holidays. Staff salaries are comprised of four components, namely wage, bonuses, allowances and benefits. Among them, the allowances include annual high temperature fee in summer, overtime meal allowance and overtime commuting expenses; the benefits include marriage allowance, newborn baby allowance, consolation money or gifts for illnesses, funeral condolences, employee activity funds, team building fees, birthday celebrations and traditional festival gifts. We prepare birthday gifts, birthday cards, birthday cakes and various activities for the birthday staff at our quarterly birthday parties.

We held employee care activities for International Women's Day and Labor Day, as well as the basketball tournament and a fun sports event for the Group during the Year, with the aim of strengthening our employees' confidence in the development of the Group and increasing the cohesion between each other.

## 4.4 HEALTH AND SAFETY

The Group strictly complies with the requirements of laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Regulations on Supervision and Administration of Occupational Health in the Workplace (《工作場所職業衛生監督管理規定》) and the Regulations on Industrial and Commercial Insurance (《工商保險條例》), and has implemented a series of safety measures.

We provide safety-related orientation training for all employees, such as pre-post training for new employees, training for special operators, training for principal responsible persons, training for safety management personnel, training for changing job types, training for resumption of work, training for occupational hygiene, training for all employees and training for related parties. We provide training for employees on timely response methods and measures for work-related injuries. We also hold regular fire training and fire escape drills to enhance the escape and self-rescue abilities of our employees. In addition, we also purchase team business insurance for our salesmen and employees who travel frequently. During the Year, we were awarded the 2023 Hangzhou Healthy Company (2023年杭州市健康單位).

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For the production workshops, we have also established a strict safety guarantee system, including the formulation of 28 rules and regulations as well as safety protection measures, such as the Safety Management System for Hazardous Operations (《危險作業安全管理制度》), the Accident Emergency Rescue System (《事故應急救援制度》), the Management System for Labour Protection Equipment (《勞動防護用品管理制度》), the Occupational Safety and Health Education System (《職業安全健康教育制度》), the Management System for Safety Protection Equipment (《安全防護設備管理制度》), the Target Management System for Safe Production (《安全生產目標管理制度》), the Hazardous Source Management System (《危險源管理制度》), the Hidden Danger Investigation and Management System (《隱患排查治理制度》), the Hazardous Source Management System (《危險源管理制度》), and the Management System for Changes in Personnel, Processes, Equipment and Environment (《人員、工藝、設備、環境變更管理制度》), and provided necessary protective equipment for employees. Our production department (safety office) is responsible for overseeing the safety of the production workshops, and formulating and supervising the implementation of the “five simultaneous” safety measures (namely planning, arranging, inspecting, summarizing and appraising safety work at the same time as planning, arranging, inspecting, summarizing and appraising production work) by the relevant departments. The production department (safety office) is also responsible for supervising, inspecting and assessing the investigation and management of various hidden accident hazards, and responsible for recommending rewards for those who have merited reporting and managing major hidden accident hazards. In accordance with the principle of “who is in charge, who is responsible”, each department and workshop shall carry out inspection of hidden dangers in their respective jurisdictions in accordance with the time, content and frequency stipulated in the Safety Inspection System (《安全檢查制度》) of the Company, collect, identify and report any hidden accident hazards found in a timely manner, and take active measures to rectify them. For major hidden accident hazards, the principal person in charge of the Company shall organize the formulation and implementation of management plans on hidden accident hazards. In the management process of hidden accident hazards, the hidden accident hazard department shall take appropriate safety precautions to prevent accidents from occurring. The production department (safety office) shall designate personnel to strengthen monitoring. We will classify and register all hidden accident hazards and establish the information files of hidden accident hazards.

During the Year, 0 day was lost due to work injury in the Group. The Group did not have any work-related fatalities in the past three years (including the Year).

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## 5. GREEN OFFICE

The Group strictly complies with the Law of the People's Republic of China on Environmental Protection (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》), the Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) and other relevant laws and regulations. Although the Group's operations do not have a significant negative impact on the environment, we remain committed to enhancing our energy, water and emissions and waste reduction performance. In this regard, we have crafted the "Energy Conservation and Emission Reduction Control Plan", with specific measures formulated to regulate the use of water, electricity, paper, and official vehicles among our employees. We also encourage employees to put forward rational proposals for energy conservation, which, if accepted by the Company, will be awarded appropriate pecuniary incentives.

During the Year, the Group did not violate any laws and regulations relating to environmental protection or receive any notice of penalties and litigation.

### 5.1 ENERGY SAVING AND EMISSION REDUCTION

The Group's emissions are mainly generated from tail gas emissions from the Group's vehicles (including Scope 1 greenhouse gas ("GHG")) and Scope 2 GHG emissions from electricity consumption. To this end, we have established the Energy Saving and Emission Reduction Control Plan (《節約能源減少排放控制計劃》).

We require both offices and production workshops to switch off the electrical equipment in a timely manner; and innovate work methods and improve work processes to increase the utilization efficiency of machinery and equipment. We will reduce the number of lights in areas where brightness is higher than required and use energy efficient lights where possible. We encourage our employees to reduce the frequency of using corporate vehicles, and to take public transport as much as possible. We will also carry out necessary maintenance on our fleet. If our employees make reasonable suggestions for energy saving, we will offer appropriate financial incentives once adopted.

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During the Year, we conducted a GHG inventory in the scope of our Hangzhou headquarters office and MicroTech E-commerce with reference to the Greenhouse Gas Protocol issued by the World Resources Institute and the World Business Council for Sustainable Development and the ISO14064-1 developed by the International Organization for Standardization, the performance of which is set out as follows:

GHG emissions	Unit	Quantitative Value in 2023	Quantitative Value in 2022
Direct GHG emissions (Scope 1)	tonne CO <sub>2</sub> equivalent (tCO <sub>2</sub> e)	8.37	0.82
GHG emissions reduced by tree planting (Scope 1)	tCO <sub>2</sub> e	0.60	0.62
Indirect GHG emissions (Scope 2)	tCO <sub>2</sub> e	1,601.90	1,129.38
Total GHG emissions (Scope 1 and 2)	tCO <sub>2</sub> e	1,609.67	1,129.47
GHG emissions per capita	tCO <sub>2</sub> e/employee	2.65	2.14
GHG emissions per square meter	tCO <sub>2</sub> e/m <sup>2</sup>	0.10	0.06

During the Year, the electricity consumption covered in the environmental aspect in this report was 4,329,450.00 kWh, with the per capita consumption of 7,120.81 kWh.

## 5.2 WATER CONSERVATION

The water of the Group comes from municipal water supply, and there is no water intake problem. In our daily operations, we require employees to use the reclaimed water treated in the production workshop as much as possible for toilet flushing and production, so as to enhance water efficiency and reduce wastewater discharge. We post water conservation stickers in each washroom and require employees to promptly report any water leaks for timely repair. We have also installed a rainwater harvesting system for irrigating plants.

During the Year, the water consumption covered in the environmental aspect in this report was 19,717.00 m<sup>3</sup>, with the per capita consumption of 32.43 m<sup>3</sup>.

## 5.3 WASTE REDUCTION

We have formulated the Office Waste Management Measures (《辦公室廢棄物管理辦法》) and established an office waste disposal inspection team to supervise and inspect the classification, disposal and recycling of waste by all departments, and organize monthly supervision and inspection of the hygiene environment in the office area.

For hazardous wastes, such as medical wastes, discarded toner cartridges, broken and waste cartridge toner, and discarded electronic products, our administration department entrusts the local government to sign a recycling agreement with a qualified recycling unit designated by the environmental administration authorities in accordance with the relevant national laws and regulations, which will collect and dispose of the wastes and conduct operational monitoring. Employees of all departments shall consciously place hazardous wastes in the special hazardous waste bins in the office area. For general waste and recyclable waste, the designated recycling unit will collect them uniformly.

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In order to reduce the generation of wastes, we require employees to use recyclable office supplies wherever possible, and organize paper reduction competitions, plastic bottle-free days and environmental design competitions to enhance their awareness of resource conservation. Our employees are also required to minimize paper usage and implement a paperless office.

During the Year, non-hazardous waste covered in the environmental aspect in this report was 5,830 kg, with 9.59 kg per capita, of which 556 kg was recycled. Hazardous waste generated was 1,850 kg, with 3.04 kg per capita, of which 1,850 kg was recycled.

## 5.4 CLIMATE CHANGE

The Group pays continuous attention to the impact of climate change on its business. During the Year, we identified climate change risks based on the nature of the Group's business, geographical location, development trends in the industry, the latest relevant national laws and regulations, and with reference to the recommendations of the Task Force on Climate-related Financial Disclosures. In particular, the acute risks in terms of physical risks (e.g. super typhoons, storms, extreme rainfall, etc.) and the market risks and policy and regulatory risks in terms of transformation risks were assessed as moderate risks; while the chronic risks in terms of physical risks (e.g. sea level rise, etc.) were assessed as low risks.

In order to address climate change risks, we will continue to track and integrate the latest national laws and regulations into our operational strategies. We will also consider developing contingency plans for extreme weather in the future, as well as exploring the transformation of sustainable products.

## 6. CONTRIBUTION TO SOCIETY

We understand that while operating, we should shoulder the responsibility to society. We popularize knowledge about diabetes and insulin to the public through our official WeChat and Weibo platforms, and we invited endocrinology experts and blood sugar control experts to conduct online livestreaming sessions. In addition, we have established MicroTech Medical trade union to focus on environmental protection and poverty alleviation projects. We formed a pair of assistance with the children in distress in Hangzhou, and took the initiative to care about their living conditions and alleviate their material difficulties. We also organized our employees to participate in the environmental trailwalk, hoping to draw the public's attention to environmental protection. During the Year, the Group's external donations and materials totaled RMB1.98 million. We actively participated in various public welfare activities, organizing our staff and distributors to carry out the "No Finger Tied, Full Care" (不扎手指全程關愛) diabetes charity clinic across the country, and donating 10,000 sets of dynamic blood glucose monitors free of charge. At the same time, we care about the disadvantaged groups, helping Hangchuan Village, Hangtou Town, Jiande City, we combine the situation of MicroTech to explore the experience of new entrepreneurs, calling on employees and members of various associations to actively participate in various public welfare activities to set an example of power.

In the future, we will continue to give full play to our corporate advantages and devote ourselves to the construction and development of public welfare undertakings and communities.

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## APPENDIX I: SUSTAINABILITY DATA SUMMARY

The following is a summary of the environmental sustainability data for the Year:

Environmental Area <sup>1</sup>	Unit	Quantitative Value in 2023	Quantitative Value in 2022
<b>Air emissions</b> <sup>2,3</sup>			
Nitrogen oxides (NO <sub>x</sub> )	kg	202.11	22.91
Sulphur oxides (SO <sub>x</sub> )	kg	0.04	0.007
Particulate matter (PM)	kg	19.99	2.28
<b>GHG emissions</b>			
Direct GHG emissions (Scope 1)	tCO <sub>2</sub> e	8.37	0.82
GHG emissions reduced by tree planting (Scope 1)	tCO <sub>2</sub> e	0.60	0.62
Indirect GHG emissions (Scope 2)	tCO <sub>2</sub> e	1,601.90	1,129.38
Total GHG emissions (Scope 1 & 2)	tCO <sub>2</sub> e	1,609.67	1,129.47
GHG emissions per capita (Scope 1 & 2)	tCO <sub>2</sub> e/employee	2.65	2.14
GHG emissions per square meter (Scope 1 & 2)	tCO <sub>2</sub> e/m <sup>2</sup>	0.10	0.06
<b>Energy consumption</b>			
Total electricity consumption	kWh	4,329,450.00	3,419,790.00
Electricity consumption per capita	kWh/employee	5,696.64	6486.70
Electricity consumption per square meter	kWh/m <sup>2</sup>	256.72	202.78
Vehicle gasoline consumption	L	684	150
Vehicle diesel consumption	L	2,483	300
<b>Water resources consumption</b>			
Total water consumption	m <sup>3</sup>	19,717.00	20,159.00
Water consumption intensity per capita	m <sup>3</sup> /employee	32.43	38.24
<b>Waste</b>			
Hazardous waste	kg	1,850.00	0.00
Hazardous waste generation per capita	kg/employee	3.04	0.00
Total non-hazardous waste	kg	5,830.00	6,200.00
Non-hazardous waste per capita	kg/employee	9.59	11.76
<b>Paper consumption</b>			
Paper consumption	kg	4,674.63	3,960.59
Paper consumption per capita	kg/employee	7.69	7.51
<b>Packaging materials</b>			
Cardboard box	piece	126,200.00	115,560.00
Plastics	kg	47,600.00	45,500.00
Paper	kg	48,500.00	42,000.00

<sup>1</sup> The disclosure scope of environmental key performance indicators (KPIs) is the Hangzhou headquarters office.

<sup>2</sup> Vehicle exhaust emissions of the Company.

<sup>3</sup> We calculated the Group's air pollutant emissions with reference to "How to prepare an ESG report — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The following is a summary of the social sustainability data of the Group for the Year:

<b>Social Area<sup>4</sup></b>	<b>Unit</b>	<b>Quantitative Value in 2023</b>	Quantitative Value in 2022
<b>Number of employees<sup>5</sup></b>			
Total number of employees	Person	<b>760</b>	659
<b>Total number of employees (by gender)</b>			
Female	Person	<b>439</b>	382
Male	Person	<b>321</b>	277
<b>Total number of employees (by employment category)</b>			
Short-term contract/part-time employees	Person	<b>11</b>	0
Full-time junior employees	Person	<b>690</b>	627
Full-time middle management	Person	<b>54</b>	27
Full-time senior management	Person	<b>5</b>	5
<b>Total number of employees (by age group)</b>			
Below 30	Person	<b>251</b>	259
30 to 50	Person	<b>445</b>	386
Above 50	Person	<b>64</b>	14
<b>Total number of employees (by geographical region)</b>			
Regions outside Hangzhou (China)	Person	<b>154</b>	141
Hangzhou region	Person	<b>604</b>	517
Other regions (including Hong Kong, Macau and Taiwan)	Person	<b>2</b>	1
<b>Employee turnover rate<sup>6,7</sup></b>			
Total Employee turnover rate (production)	%	<b>9.12</b>	19.93
Total Employee turnover rate (non-production)	%	<b>17.17</b>	18.64
<b>Employee turnover rate (by gender)</b>			
Female	%	<b>16.59</b>	21.08
Male	%	<b>9.70</b>	17.42

<sup>4</sup> The disclosure scope of social key performance indicators (KPIs) is the entire Group.

<sup>5</sup> This is the number of employees as of December 31 for the respective year.

<sup>6</sup> Employee turnover rate = number of employees lost ÷ (number of employees lost + number of employees at the end of the year) × 100%

<sup>7</sup> Excluding outsourced workers and interns

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Area <sup>4</sup>	Unit	Quantitative Value in 2023	Quantitative Value in 2022
<b>Employee turnover rate (by age group)</b>			
Below 30	%	<b>11.06</b>	21.08
30 to 50	%	<b>13.19</b>	15.40
Above 50	%	<b>2.04</b>	2.80
<b>Employee turnover rate (by geographical region)</b>			
Regions outside Hangzhou (Mainland China)	%	<b>3.88</b>	7.31
Hangzhou region	%	<b>22.41</b>	28.52
Other regions (including Hong Kong, Macau and Taiwan)	%	<b>0.00</b>	0.00
<b>Occupational health and safety</b>			
Number of work-related fatalities (2019, 2020, and 2021)	Person	<b>0</b>	0
Lost days due to work injury	day	<b>0</b>	92
<b>Development and training <sup>8,9</sup></b>			
<b>Percentage of employees trained by gender</b>			
Female	%	<b>57.76</b>	72.49
Male	%	<b>42.24</b>	27.51
<b>Percentage of employees trained by employee category</b>			
Short-term contract/part-time employees	%	<b>1.45</b>	9.83
Full-time junior employees	%	<b>90.79</b>	88.47
Full-time middle management	%	<b>7.11</b>	1.38
Full-time senior management	%	<b>0.66</b>	0.32
<b>Average training hours of employees trained by gender</b>			
Female	hour	<b>12.00</b>	25.00
Male	hour	<b>11.00</b>	23.00
<b>Average training hours of employees trained by employment category</b>			
Average training hours per short-term contract/part-time employee	hour	<b>6.53</b>	5.45
Average training hours per full-time junior employee	hour	<b>10.64</b>	0.93
Average training hours per full-time middle level employee	hour	<b>14.78</b>	3.38
Average training hours per full-time senior employee	hour	<b>3.21</b>	12.11

<sup>8</sup> Percentage of employees trained in the relevant category = number of employees in such category ÷ employees trained × 100%

<sup>9</sup> Average training hours of employees in the relevant category = total training hours of employees in such category ÷ total number of employees in such category

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## APPENDIX II: INDEX OF THE ESG REPORTING GUIDE OF THE STOCK EXCHANGE

Environmental Area		Relevant Sections
A1:		
Emissions Disclosure	General Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	5. Green Office
A1.1	The types of emissions and respective emissions information.	Appendix I: Sustainability Data Summary
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and (if applicable), intensity (e.g. per unit of production, per facility).	5.1 Energy Saving and Emission Reduction Appendix I: Sustainability Data Summary
A1.3	Total hazardous waste produced (in tonnes) and (if applicable) density (e.g. per unit of production, per facility).	5.3 Waste Reduction  Appendix I: Sustainability Data Summary
A1.4	Total non-hazardous waste produced (in tonnes) and (if applicable) density (if calculated per unit of production, per facility).	5.3 Waste Reduction  Appendix I: Sustainability Data Summary
A1.5	Description of emissions targets set and the steps taken to achieve them.	5. Green Office  5.1 Energy Saving and Emission Reduction
A1.6	Description of how hazardous and non-hazardous wastes are handled, and description of waste reduction goals set and the steps taken to achieve them.	5. Green Office  5.3 Waste Reduction

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental Area			Relevant Sections
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5.1 Energy Saving and Emission Reduction  5.2 Water Conservation
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (in thousands of kWh) and intensity (e.g. per unit of production, per facility).	5.1 Energy saving and Emission Reduction  Appendix I: Sustainability Data Summary
	A2.2	Water consumption in total and intensity (e.g. per unit of production, per facility).	5.2 Water Conservation  Appendix I: Sustainability Data Summary
	A2.3	Description of energy use efficiency goals set and the steps taken to achieve them.	5. Green Office;  5.1 Energy Saving and Emission Reduction
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, as well as water efficiency targets set and steps taken to achieve them.	5. Green Office;  5.2 Water Conservation
	A2.5	Total packaging material used for finished products (in tonnes) and (if applicable) with reference to per unit produced.	Appendix I: Sustainability Data Summary

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental Area			Relevant Sections
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	5. Green Office
	A3.1	Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. Green Office
A4: Climate Change	General Disclosure	Policies for identifying and responding to material climate-related matters that have and may have an impact on the issuer.	5.4 Climate Change
	A4.1	Description of material climate-related matters that have and may have an impact on the issuer, and actions to address them.	5.4 Climate Change

Social Area			Relevant Sections
<b>B. Social</b>			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4. Caring for Employees
	B1.1	Total workforce by gender, employment type, age group and geographical region.	Appendix I:Sustainability Data Summary
	B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix I:Sustainability Data Summary

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Area		Relevant Sections	
B2:			
Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.4 Health and Safety
	B2.1	Number and rate of work-related fatalities.	4.4 Health and Safety;  Appendix I: Sustainability Data Summary
	B2.2	Lost days due to work injury.	4.4 Health and Safety;  Appendix I: Sustainability Data Summary
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.4 Health and Safety
B3:			
Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.2 Talent Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Appendix I: Sustainability Data Summary
	B3.2	The average training hours completed per employee by gender and employee category.	Appendix I: Sustainability Data Summary
B4:			
Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	4. Caring for Employees
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.1 Talent Employment
	B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Talent Employment

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Area			Relevant Sections
B5:			
Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.2 Supply Chain Management
	B5.1	Number of suppliers by geographical region.	3.2 Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.2 Supply Chain Management
	B5.3	Description of practices for identifying environmental and social risks at each stage of the supply chain, and how they are implemented and monitored.	3.2 Supply Chain Management
	B5.4	Description of practices that promote the use of environmentally friendly products and services when selecting suppliers, and how they are implemented and monitored.	3.2 Supply Chain Management
B6:			
Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	3.3 Information Security; 3.4 Product Quality; 3.5 Intellectual Property Protection
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	3.4 Product Quality
	B6.2	Number of products and service related complaints received and how they are dealt with.	3.6 Customer Rights
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.5 Intellectual Property Protection
	B6.4	Description of quality assurance process and recall procedures.	3.4 Product Quality
	B6.5	Description of consumer information protection and privacy policies, how they are implemented and monitored.	3.3 Information Security

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Social Area			Relevant Sections
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.1 Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	3.1 Anti-corruption
	B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	3.1 Anti-corruption
	B7.3	Description of anti-corruption training provided to directors and employees.	3.1 Anti-corruption
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6. Contribution to Society
	B8.1	Focus areas of contribution.	6. Contribution to Society
	B8.2	Resources contributed to the focus area.	6. Contribution to Society

# REPORT OF DIRECTORS

## PRINCIPAL ACTIVITIES

Founded in 2011, the Group has been focused on diabetes management, providing both diabetes treatment and diabetes monitoring medical devices to improve the diabetes management in China and globally. The Group operates in a large and fast-growing diabetes monitoring, treatment and management market in China and globally with significant unmet clinical needs.

The H shares of the Company were listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules on October 19, 2021.

There were no significant changes in the nature of the Group's principal activities during the Reporting Period. Please refer to note VII to the Consolidated Financial Statements on page 192 of this report for details of the principal activities of the principal subsidiaries of the Group.

## RESULTS

The results of the Group for the year ended December 31, 2023 are set out in the Consolidated Financial Statements of the Group on pages 103 to 220 of this report.

## FINAL DIVIDEND

No dividend has been declared and paid by the Company for the year ended December 31, 2023 (2022: Nil).

## SHARE CAPITAL

Details of the issued shares of the Company for the year ended December 31, 2023 are set out in note V (I) 28 (1) to the Consolidated Financial Statements.

## CAPITAL RESERVE

Details of the movements in the capital reserve of the Company for the year ended December 31, 2023 are set out in the note V (I) 29 on page 173 of this report.

## RETAINED EARNINGS

Details of the Company's retained earnings as at December 31, 2023 are set out in note V (I) 32 to the Consolidated Financial Statements.

## BANK LOANS AND OTHER BORROWINGS

As at December 31, 2023, the Group had no bank loans or other borrowings.

## FINANCIAL SUMMARY

A summary of the published results and of the assets, liabilities and equity of the Group for the previous financial years since the year ended December 31, 2019, as extracted from the published audited financial information and financial statements, is set out on page 5 of this report.

# REPORT OF DIRECTORS

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group for the year ended December 31, 2023 are set out in note V (I) 8 to the Consolidated Financial Statements.

## SUFFICIENCY OF PUBLIC FLOAT

As at the Latest Practicable Date, based on the information available to the Company and to the knowledge of the Directors, the Company's public float complies with the requirements of Rule 8.08 of the Listing Rules.

## PRE-EMPTIVE RIGHTS

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

## ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on May 17, 2024. The notice of the forthcoming AGM will be published and dispatched in due course in the manner as required by the Listing Rules upon Shareholders' request.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from May 13, 2024 to May 17, 2024, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM meeting, all duly completed share transfer forms accompanied by the relevant share certificates, must be lodged with the Company's H Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on May 10, 2024.

## BUSINESS REVIEW

### Overview and Performance of the Year

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. These discussions form part of this report. Events affecting the Company that have occurred since the end of the year ended December 31, 2023 is set out in the paragraph headed "Events After the End of the Reporting Period" in this report.

### Key Relationship with Stakeholders

The Group recognizes that various stakeholders including employees, medical experts, patients, customers, suppliers and other business associates are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationships with them.

The details of an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company are set out in the "Environmental, Social and Governance Report" of the Company on pages 46 to 72 of this report.

# REPORT OF DIRECTORS

## Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to the community and achieving sustainable growth.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix C2 of the Listing Rules, the “Environmental, Social and Governance Report” of the Company is set out on pages 46 to 72 and forms a part of this annual report.

## Compliance with Relevant Laws and Regulations

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Reporting Period and up to the Latest Practicable Date, the Group has complied with the laws, regulations and regulatory requirements of the places where the Group operates and those that have a significant impact on the Group in all material respects, including the requirements under the Hong Kong Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. During the Reporting Period and up to the Latest Practicable Date, neither the Group nor any of the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from entering the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial organs or held criminally responsible, and none were involved in any other litigation, arbitration or administrative proceedings which would have a material adverse impact on our business, financial condition or results of operations. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2023.

## Key Risks and Uncertainties

There are certain risks involved in our operations, many of which are beyond our control. Some of the major risks we face include:

- The diabetic market is well established with a variety of treatment options. Failure to achieve broad market acceptance or maintain good reputation necessary for our products and any future products would have a material adverse impact on the Group’s results of operations and profitability. The degree of market acceptance of our products and product candidates, if approved for commercial sale, will depend on a number of factors. If any products that we commercialize fail to achieve market acceptance among physicians, patients, hospitals, or others in the industry or if we fail to maintain good relationships with them, we will not be able to generate significant revenue. Even if our products achieve market acceptance, we may not be able to maintain that market acceptance over time if new products or technologies are introduced that are more favorably received than our products, are more cost effective or render our products obsolete. The successful promotion of our brand will depend largely on our ability to continue to offer high-quality products and our R&D efforts. However, there is no assurance that our brand promotion activities and R&D efforts may be successful or contribute to our growth. In addition, even if these activities increase revenue, the revenue may not be enough to offset the increased expenses we incur.

# REPORT OF DIRECTORS

- The Group operates in a very competitive industry and if it fails to compete successfully against its existing or potential competitors, many of whom, such as Medtronic and Dexcom, have greater resources than the Group has, which may result in others discovering, developing or commercializing competing products before or more successfully than the Group does, and the sales and operating results of the Group may be negatively affected. Our commercial opportunities could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer severe adverse events, are more convenient or are less expensive than any products that we commercialize or may develop. Many of the companies against which we are competing have significantly greater financial resources and expertise in R&D, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Our business and results of operations will suffer if we fail to compete effectively. In addition, certain development efforts throughout the diabetes industry, including that of the governmental authorities and other supporters of diabetes research are continually seeking ways to prevent, cure or improve treatment and management of diabetes. Therefore, our products and product candidates may be rendered obsolete by technological breakthroughs in diabetes monitoring, treatment, prevention and cure.
- The Company has incurred net losses since its inception and may incur net losses for the foreseeable future, and shareholders may lose substantially all their investments in the Company given the high risks involved in the medical device business. Investment in medical device development is highly speculative. It entails substantial upfront capital expenditures and significant risk that a product candidate will fail to gain regulatory approval or become commercially viable. We continue to incur significant expenses related to our ongoing operations. In addition, we incurred costs associated with being a public company in Hong Kong after the global offering. If any of our product candidates fails in clinical trials or does not gain regulatory approval, or if approved, fails to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Our failure to become and remain profitable would decrease the value of our Company and could impair our ability to raise capital, maintain our R&D efforts, expand our business or continue our operations.
- The revenue growth of the Group was mainly driven by the sales growth of Equil. Failure to achieve the anticipated sales growth of Equil may have a material adverse impact on the Group's business and results of operations. We cannot assure you that demand for Equil will continue to grow as anticipated. There is also no assurance that we will be able to maintain our sales and profit margin for Equil, which may be adversely affected by many factors outside of our control. If we are unable to maintain the sales growth of Equil, our business, financial condition and results of operations may be materially and adversely affected. Moreover, there is no guarantee that we may be able to develop or acquire new products that would diversify our product portfolio and reduce our dependence on Equil, or to do so in a timely or competitive manner.
- The Group's future growth depends substantially on the success of its product candidates. If the Group is unable to successfully complete clinical development, obtain regulatory approval and commercialize our product candidates, or experience significant delays in doing so, our business will be materially harmed and we may not be able to generate sufficient revenues and cash flows to continue our operations.

# REPORT OF DIRECTORS

- If the Group encounters difficulties enrolling patients in our clinical trials, the Group's clinical development activities could be delayed or otherwise adversely affected. Our clinical trials will likely compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates. This competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Even if we are able to enroll a sufficient number of patients in our clinical trials, delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates.
- Clinical product development involves a lengthy and expensive process with an uncertain outcome, and unsuccessful clinical trials or procedures relating to products under development could have a material adverse effect on our prospects.
- All material aspects of the research, development and commercialization of our products are heavily regulated. If we are not able to obtain, or experience delays in obtaining, required regulatory approvals, we will not be able to commercialize our product candidates, and our ability to generate revenue will be materially impaired.
- Undesirable adverse events caused by our products and product candidates could interrupt, delay or halt clinical trials, delay or prevent regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any regulatory approval.
- We have relatively limited experience in marketing and sales of our products and the commercialization of new products may require additional resources.
- If we fail to manage our distributors effectively, or fail to maintain, expand and optimize an effective distribution channel for our products, our business and sales of the relevant products could be adversely affected.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares. Although our management has proven track record of medical device manufacturing and commercialization, we have limited experience in manufacturing medical device products, which is a highly exacting and complex process. Our business could be materially and adversely affected if we encounter problems in the manufacturing process of our future medical devices. The Group has introduced risk management and internal control systems to manage and mitigate the risks underlying our business. For more details about our risk management and internal control systems, please refer to the section headed "RISK MANAGEMENT AND INTERNAL CONTROLS".

## PROSPECTS

A description of the future development in the Company's future business is provided in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report.

# REPORT OF DIRECTORS

## USE OF PROCEEDS FROM THE LISTING OF SHARES OF THE COMPANY

The shares of the Company were listed on the Main Board of the Stock Exchange on October 19, 2021 and the over-allotment options were partially exercised on November 10, 2021. The Company obtained net proceeds of HK\$1,875.53 million (equivalent to RMB1,533.49 million) in total after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering and the partial exercise of the over-allotment option. The table below sets forth a detailed breakdown and description of the use of net proceeds from the listing of the Company up to December 31, 2023:

Item	Approximate percentage of total amount	Net proceeds from IPO (HK\$ million)	Allocation of net proceeds from the Global Offering (RMB million)	Amount utilized for the year ended December 31, 2023 (RMB million)	Utilized as at December 31, 2023 (RMB million)	Amount unutilized as at December 31, 2023 (RMB million)	Expected timetable for utilization
To fund our Core Product	31%	581.42	475.38	25.84	60.81	414.57	Expected to be fully utilized by December 31, 2025
— To fund ongoing and planned clinical trials of our Core Product for its further development, including but not limited to clinical trials for our Core Product's indication expansion, to prepare for and carry out registration of our Core Product in major markets worldwide	14%	262.58	214.69	5.40	13.91	200.78	Expected to be fully utilized by December 31, 2025
— To enhance our commercialization capabilities for our Core Product through expanding our global footprint by recruiting high-caliber sales staff with extensive local experience and establishing long-term cooperation with leading distribution partners, and organizing and participating in academic conferences and activities, among other efforts	11%	206.31	168.68	14.69	33.21	135.47	Expected to be fully utilized by December 31, 2025
— To fund the expansion of our manufacturing capacity of our Core Product, by upgrading our existing production lines, recruiting personnel and purchasing new machinery	6%	112.53	92.01	5.75	13.69	78.32	Expected to be fully utilized by December 31, 2025

# REPORT OF DIRECTORS

Item	Approximate percentage of total amount	Net proceeds from IPO (HK\$ million)	Allocation of net proceeds from the Global Offering (RMB million)	Amount utilized for the	Utilized as at December 31, 2023 (RMB million)	Amount unutilized as at	Expected timetable for utilization
				year ended December 31, 2023 (RMB million)		December 31, 2023 (RMB million)	
For our CGMS	35%	656.43	536.73	64.00	129.50	407.23	Expected to be fully utilized by December 31, 2025
— To fund the pre-clinical studies, including but not limited to develop the second generation of our CGMS product, AiDEX X	10%	187.55	153.35	7.85	21.01	132.34	Expected to be fully utilized by December 31, 2025
— to fund clinical trials of our AiDEX G7	12%	225.06	184.03	7.85	12.95	171.08	Expected to be fully utilized by December 31, 2025
— to fund the expansion of our manufacturing capacity of our CGMS	6%	112.53	92.01	9.10	29.56	62.45	Expected to be fully utilized by December 31, 2025
— to enhance our commercialization capabilities for our CGMS	7%	131.29	107.34	39.20	65.98	41.36	Expected to be fully utilized by December 31, 2025
For the pre-clinical studies, clinical trials, registration, manufacturing and commercialization of our second-generation patch insulin pump system	11%	206.31	168.68	8.16	19.68	149.00	Expected to be fully utilized by December 31, 2025
For the pre-clinical studies, clinical trials, registration, manufacturing and commercialization of our other products and product candidates	8%	150.04	122.68	2.40	6.74	115.94	Expected to be fully utilized by December 31, 2025
To fund the establishment of our cloud-based diabetes management platform	5%	93.78	76.67	15.97	33.19	43.48	Expected to be fully utilized by December 31, 2025
For working capital and other general corporate purposes	10%	187.55	153.35	29.46	149.05	4.30	Expected to be fully utilized by December 31, 2025
<b>Total</b>	<b>100%</b>	<b>1,875.53</b>	<b>1,533.49</b>	<b>145.83</b>	<b>398.97</b>	<b>1,134.52</b>	

# REPORT OF DIRECTORS

Notes:

- (1) Net IPO proceeds were received in Hong Kong dollars and translated to Renminbi for application planning.
- (2) The unutilized net proceeds of RMB1,134.52 million as of December 31, 2023 is expected to be fully utilized by December 31, 2025, subject to further adjustments based on the current and future development of market conditions and actual business needs of the Group. The remaining balance of the net proceeds have been deposited in bank. The Group expects that the remaining net proceeds shall be utilized gradually in accordance to the actual business needs and in the manner stated in the Prospectus. There was no change in the intended use of the unutilized net proceeds as previously disclosed in the Prospectus.

## EVENTS AFTER THE END OF THE REPORTING PERIOD

For details of the events after the end of the Reporting Period, please refer to the section headed “Management Discussion and Analysis — Events After the Reporting Period” of this report.

## DIRECTORS AND SUPERVISORS

The Directors and supervisors during the Reporting Period and up to the Latest Practicable Date are:

### Executive Directors

Dr. Zheng Pan (*Chairman and Chief Executive Officer*)

Dr. Yu Fei

Dr. Shi Yonghui

Ms. Liu Xiu

### Non-executive Directors

Mr. Mao Shuo (*appointed on December 27, 2023*)

Ms. Gao Yun

Mr. Hu Xubo (*retired on December 27, 2023*)

### Independent Non-executive Directors

Dr. Li Lihua

Ms. Wang Chunfeng

Mr. Ho Kin Cheong Kelvin

Dr. Cheng Hua

### Supervisors

Mr. Li Zhenhua

Mr. Lyu Cheng

Mr. Zhao Zhiheng

# REPORT OF DIRECTORS

## BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and the senior management of the Group as at the date of this report are set out on pages 18 to 26 in the section headed “Directors, Supervisors and Senior Management” of this report.

## CHANGE OF INFORMATION OF DIRECTORS

Details of changes in Directors during the Reporting Period and up to the Latest Practicable Date are set out below:

Name	Position	Details of Change
Mr. Hu Xubo	Non-executive Director	retired on December 27, 2023
Mr. Mao Shuo	Non-executive Director	appointed on December 27, 2023

Saved as disclosed in this report, there are no other changes to the Directors’, Supervisors’ and chief executives’ information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS OR APPOINTMENT LETTERS

For details in relation to directors’ and supervisors’ service contracts or appointment letters, please refer to the paragraph headed “Appointment and Re-election of Directors” under the Corporate Governance Report as set out on page 29 of this report.

The Company has not entered, and do not propose to enter, into any service contracts or appointment letters with any of the Directors or Supervisors in their respective capacities as Directors or Supervisors which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Dr. Li Lihua, Ms. Wang Chunfeng, Mr. Ho Kin Cheong Kelvin and Dr. Cheng Hua, the confirmation of their respective independence. The Company has duly reviewed the confirmation of independence of each of these Directors. We consider that our independent non-executive Directors have been independent from the date of their appointments to December 31, 2023 and remain so as of the Latest Practicable Date.

# REPORT OF DIRECTORS

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

As at December 31, 2023, interests or short positions of Directors, Supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are registered in the register that the Company must keep in accordance with the section 352 of the SFO; or which shall be separately notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

Name of Director	Nature of interest	Class of Shares	Number of underlying Shares held	Approximate percentage in the relevant class of Shares <sup>(1)</sup>	Approximate percentage of shareholding interest <sup>(1)</sup>
Dr. Zheng	Beneficial owner	Domestic Shares	58,855,338(L) <sup>(2)</sup>	28.27%	13.82%
	Interests in controlled corporation	Domestic Shares	23,154,199(L) <sup>(2)</sup>	11.12%	5.44%
	Beneficial owner	H Shares	30,115,356(L) <sup>(2)</sup>	17.32%	7.07%
	Interests in controlled corporation	H Shares	11,575,363(L) <sup>(2)</sup>	6.66%	2.72%
Dr. Shi Yonghui	Beneficial owner	H Shares	590,900(L) <sup>(2)</sup>	0.34%	0.14%

Notes:

(1) As at December 31, 2023, the Company had 425,742,600 issued shares in total, comprising 173,840,442 H Shares, 208,205,474 Domestic Shares and 43,696,684 Unlisted Foreign Shares.

(2) "L" means holding a long position in Shares.

Save as disclosed above, so far as the Directors are aware, as at December 31, 2023, none of the Directors, Supervisors or chief executives has any interest and/or short position in the Shares, underlying Shares and debentures of the Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

# REPORT OF DIRECTORS

## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

To the best of the knowledge of the Company and the Directors, the following are the persons, other than the Directors, Supervisors or chief executives of the Company, who had interests or short positions in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at December 31, 2023.

Name of substantial shareholder	Nature of interest	Class of Shares	Number of Shares interested	Approximate percentage in the relevant class of Shares <sup>(1)</sup>	Approximate percentage of shareholding interest <sup>(1)</sup>
Chen Fei <sup>(3)</sup>	Interests in controlled corporation	Domestic Shares	21,776,804(L) <sup>(2)</sup>	10.46%	5.12%
Shanghai Liyao Investment Management Co., Ltd (上海禮曜投資管理有限公司) ("Shanghai Liyao") <sup>(3)</sup>	Interests in controlled corporation	Domestic Shares	21,776,804(L) <sup>(2)</sup>	10.46%	5.12%
Hu Xubo <sup>(4)</sup>	Interests in controlled corporation	Domestic Shares	16,055,165(L) <sup>(2)</sup>	7.71%	3.77%
Yu Jia <sup>(4)</sup>	Interests in controlled corporation	Domestic Shares	16,055,165(L) <sup>(2)</sup>	7.71%	3.77%
Shanghai Qichang Investment Consulting Co., Ltd. (上海啟昌投資諮詢有限公司) ("Shanghai Qichang") <sup>(4)</sup>	Interests in controlled corporation	Domestic Shares	16,055,165(L) <sup>(2)</sup>	7.71%	3.77%
Suzhou Qicheng Investment Management Partnership (Limited Partnership) (蘇州啟承投資管理合夥企業(有限合夥)) ("Suzhou Qicheng") <sup>(4)</sup>	Interests in controlled corporation	Domestic Shares	16,055,165(L) <sup>(2)</sup>	7.71%	3.77%
Suzhou Qiming Ronghe Venture Capital Partnership (Limited Partnership) (蘇州啟明融合創業投資合夥企業(有限合夥)) ("Suzhou Qiming") <sup>(4)</sup>	Beneficial owner	Domestic Shares	16,055,165(L) <sup>(2)</sup>	7.71%	3.77%

# REPORT OF DIRECTORS

Name of substantial shareholder	Nature of interest	Class of Shares	Number of Shares interested	Approximate percentage in the relevant class of Shares <sup>(1)</sup>	Approximate percentage of shareholding interest <sup>(1)</sup>
Zhu Yong <sup>(6)</sup>	Interests in controlled corporation	Domestic Shares	15,678,051(L) <sup>(2)</sup>	7.53%	3.68%
Jiangsu Lize Investment Management Co., Ltd. (江蘇禮澤投資管理有限公司) (“ <b>Jiangsu Lize</b> ”) <sup>(6)</sup>	Interests in controlled corporation	Domestic Shares	15,678,051(L) <sup>(2)</sup>	7.53%	3.68%
Jiangsu Jiequan Lize Health Industry Venture Capital Fund (Limited Partnership) (江蘇捷泉禮澤健康產業創業投資基金(有限合夥)) (“ <b>Jiangsu Jiequan</b> ”) <sup>(6)</sup>	Beneficial owner	Domestic Shares	15,678,051(L) <sup>(2)</sup>	7.53%	3.68%
Zhejiang Jiuren Capital Management Co.,Ltd. (浙江九仁資本管理有限公司) (“ <b>Zhejiang Jiuren</b> ”) <sup>(6)</sup>	Interests in controlled corporation	Domestic Shares	14,700,067(L) <sup>(2)</sup>	7.06%	3.45%
Hangzhou Yantai Investment Partnership (Limited Partnership) (杭州研泰投資合夥企業(有限合夥)) (“ <b>Hangzhou Yantai</b> ”) <sup>(7)</sup>	Beneficial owner	Domestic Shares	12,688,166(L) <sup>(2)</sup>	6.09%	2.98%
Shanghai Li Yi Investment Management Partnership (Limited Partnership) (上海禮頤投資管理合夥企業(有限合夥)) (“ <b>Shanghai Li Yi</b> ”) <sup>(3)</sup>	Interests in controlled corporation	Domestic Shares	11,983,877(L) <sup>(2)</sup>	5.76%	2.81%
Shanghai Li'an Venture Capital Investment Center (Limited Partnership) (上海禮安創業投資中心(有限合夥)) (“ <b>Shanghai Li'an</b> ”) <sup>(3)</sup>	Beneficial owner	Domestic Shares	11,983,877(L) <sup>(2)</sup>	5.76%	2.81%
Hangzhou Hengtai Brand Management Partnership (Limited Partnership) (杭州衡泰品牌管理合夥企業(有限合夥)) (“ <b>Hangzhou Hengtai</b> ”) <sup>(7)</sup>	Beneficial owner	Domestic Shares	10,466,033(L) <sup>(2)</sup>	5.03%	2.46%

# REPORT OF DIRECTORS

Name of substantial shareholder	Nature of interest	Class of Shares	Number of Shares interested	Approximate percentage in the relevant class of Shares <sup>(1)</sup>	Approximate percentage of shareholding interest <sup>(1)</sup>
LAV Asset Management (Hong Kong) Limited <sup>(8)</sup>	Investment manager	H Shares	12,464,540(L) <sup>(2)</sup>	7.17%	2.93%
Shi Yi <sup>(8)</sup>	Interests in controlled corporation	H Shares	12,464,540(L) <sup>(2)</sup>	7.17%	2.93%
	Interests in controlled corporation	Unlisted Foreign Shares	17,091,680(L) <sup>(2)</sup>	39.11%	4.01%
Qiming Corporate GP V, Ltd. <sup>(9)</sup>	Interests in controlled corporation	H Shares	11,925,181(L) <sup>(2)</sup>	6.86%	2.80%
	Interests in controlled corporation	Unlisted Foreign Shares	22,146,766(L) <sup>(2)</sup>	50.68%	5.20%
Qiming GP V, L.P. <sup>(9)</sup>	Interests in controlled corporation	H Shares	11,925,181(L) <sup>(2)</sup>	6.86%	2.80%
	Interests in controlled corporation	Unlisted Foreign Shares	22,146,766(L) <sup>(2)</sup>	50.68%	5.20%
Qiming Venture Partners V, L.P. <sup>(9)</sup>	Interests in controlled corporation	H Shares	11,925,181(L) <sup>(2)</sup>	6.86%	2.80%
	Interests in controlled corporation	Unlisted Foreign Shares	22,146,766(L) <sup>(2)</sup>	50.68%	5.20%
QM32 Limited <sup>(9)</sup>	Beneficial owner	H Shares	11,925,181(L) <sup>(2)</sup>	6.86%	2.80%
	Beneficial owner	Unlisted Foreign Shares	22,146,766(L) <sup>(2)</sup>	50.68%	5.20%
LAV Corporate GP, Ltd. <sup>(8)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	17,091,680(L) <sup>(2)</sup>	39.11%	4.01%
LAV Evergreen (Hong Kong) Co., Limited <sup>(8)</sup>	Beneficial owner	Unlisted Foreign Shares	17,091,680(L) <sup>(2)</sup>	39.11%	4.01%
Lilly Asia Ventures Fund GP, L.P. <sup>(8)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	17,091,680(L) <sup>(2)</sup>	39.11%	4.01%

# REPORT OF DIRECTORS

Name of substantial shareholder	Nature of interest	Class of Shares	Number of Shares interested	Approximate percentage in the relevant class of Shares <sup>(1)</sup>	Approximate percentage of shareholding interest <sup>(1)</sup>
Lilly Asia Ventures Fund II, L.P. <sup>(6)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	17,091,680(L) <sup>(2)</sup>	39.11%	4.01%
Qiming GP VII, LLC <sup>(10)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	4,458,238(L) <sup>(2)</sup>	10.20%	1.05%
Qiming Venture Partners VII, L.P. <sup>(10)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	4,458,238(L) <sup>(2)</sup>	10.20%	1.05%
QM153 Limited <sup>(10)</sup>	Beneficial owner	Unlisted Foreign Shares	4,458,238(L) <sup>(2)</sup>	10.20%	1.05%
CDBI Partners Fund I, L.P. <sup>(11)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	6,958,131(L) <sup>(2)</sup>	15.92%	1.63%
CDBI Partners GP, Ltd <sup>(11)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	6,958,131(L) <sup>(2)</sup>	15.92%	1.63%
Master Summer Limited <sup>(11)</sup>	Interests in controlled corporation	Unlisted Foreign Shares	6,958,131(L) <sup>(2)</sup>	15.92%	1.63%
Power SUM Limited <sup>(11)</sup>	Beneficial owner	Unlisted Foreign Shares	6,958,131(L) <sup>(2)</sup>	15.92%	1.63%

Notes:

- (1) As at December 31, 2023, the Company had 425,742,600 issued shares in total, comprising 173,840,442 H Shares, 208,205,474 Domestic Shares and 43,696,684 Unlisted Foreign Shares.
- (2) "L" means holding a long position in Shares.
- (3) Shanghai Li'an and Suzhou Likang Equity Investment Center (Limited Partnership) (蘇州禮康股權投資中心(有限合夥)) ("Suzhou Likang") are managed by Shanghai Li Yi and Shanghai Liyi Investment Management Co., Ltd (上海禮貽投資管理合夥企業(有限合夥)) ("Shanghai Liyi"), respectively. Both of Shanghai Li Yi and Shanghai Liyi are in turn managed by Shanghai Liyao, which is wholly-owned by Mr. Chen Fei. Therefore, Mr. Chen Fei and Shanghai Liyao are deemed to be interested in (i) the 11,983,877 Domestic Shares held by Shanghai Li'an and (ii) the 9,792,927 Domestic Shares held by Suzhou Likang under the SFO. Shanghai Li Yi is deemed to be interested in the 11,983,877 Domestic Shares held by Shanghai Li'an under the SFO.
- (4) Suzhou Qiming is managed by Suzhou Qicheng, which is in turn managed by Shanghai Qichang, a company held as to 50% and 50% by Mr. Hu Xubo and Ms. Yu Jia, respectively. Therefore, Suzhou Qicheng, Shanghai Qichang, Mr. Hu Xubo and Ms. Yu Jia are deemed to be interested in the 16,055,165 Domestic Shares held by Suzhou Qiming under the SFO.
- (5) Jiangsu Jiequan is managed by Jiangsu Lize, a company wholly-owned by Mr. Zhu Yong. Therefore, Jiangsu Lize and Mr. Zhu Yong are deemed to be interested in the 15,678,051 Domestic Shares held by Jiangsu Jiequan under the SFO.

# REPORT OF DIRECTORS

- (6) Hangzhou Jiuyao Equity Investment Partnership (Limited Partnership) (杭州九瑛股權投資合夥企業(有限合夥)) (“**Hangzhou Jiuyao**”), Hangzhou Jiufu Equity Investment Partnership (Limited Partnership) (杭州九賦股權投資合夥企業(有限合夥)) (“**Hangzhou Jiufu**”), Hangzhou Yunbo Investment Partnership (Limited Partnership) (杭州雲帛投資合夥企業(有限合夥)) (“**Hangzhou Yunbo**”) and Hangzhou Jiuge Equity Investment Partnership (Limited Partnership) (杭州九歌股權投資合夥企業(有限合夥)) (“**Hangzhou Jiuge**”) are all managed by Zhejiang Jiuren. Therefore, Zhejiang Jiuren is deemed to be interested in (i) the 3,426,804 Domestic Shares held by Hangzhou Jiuyao; (ii) the 6,944,317 Domestic Shares held by Hangzhou Jiufu; (iii) the 2,472,612 Domestic Shares held by Hangzhou Yunbo; and (iv) the 1,856,334 Domestic Shares held by Hangzhou Jiuge under the SFO.
- (7) Hangzhou Yantai and Hangzhou Hengtai, both being the employee incentive platforms, are managed by Dr. Zheng. Therefore, under the SFO, in addition to his direct shareholding, Dr. Zheng is deemed to be interested in the 12,688,166 Domestic Shares held by Hangzhou Yantai, and the 10,466,033 Domestic Shares held by Hangzhou Hengtai. Dr. Zheng is therefore also deemed to be interested in the 6,343,131 H shares and 5,232,232 H Shares held by Hangzhou Yantai and Hangzhou Hengtai, respectively.
- (8) LAV Evergreen (Hong Kong) Co., Limited is wholly-owned by Lilly Asia Ventures Fund II, L.P., which is managed by Lilly Asia Ventures Fund GP, L.P., which in turn is managed by LAV Corporate GP, Ltd., a company wholly-owned by Mr. Shi Yi. Therefore, under the SFO, Mr. Shi Yi is deemed to be interested in the 8,545,840 H Shares held by LAV Evergreen (Hong Kong) Co., Limited. LAV Star Limited, being a cornerstone investor of the Company, is wholly-owned by LAV Fund VI, L.P. and LAV Star Opportunities Limited, being a cornerstone investor of the Company, is wholly-owned by LAV Fund VI Opportunities, L.P. (together with LAV Fund VI, L.P., collectively, the “LAV Fund VI”), each is ultimately controlled by Mr. Shi Yi. LAV Star Limited and LAV Star Opportunities Limited collectively own 3,918,700 H Shares. Therefore, (i) Lilly Asia Ventures Fund II, L.P., Lilly Asia Ventures Fund GP, L.P., LAV Corporate GP, Ltd. and Mr. Shi Yi are deemed to be interested in the 17,091,680 Unlisted Foreign Shares held by LAV Evergreen (Hong Kong) Co., Limited under the SFO; (ii) Mr. Shi Yi is deemed to be interested in the 12,464,540 H Shares held by LAV Star Limited, LAV Star Opportunities Limited and LAV Evergreen (Hong Kong) Co., Limited under the SFO. LAV Asset Management (Hong Kong) Limited is the investment manager of those fund mentioned-above.
- (9) QM32 Limited is held as to 96.99% by Qiming Venture Partners V, L.P., which is managed by Qiming GP V, L.P., which is in turn managed by Qiming Corporate GP V, Ltd. Therefore, Qiming Venture Partners V, L.P., Qiming GP V, L.P. and Qiming Corporate GP V, Ltd. are deemed to be interested in (i) the 11,925,181 H Shares held by QM32 Limited, and (ii) the 22,146,766 Unlisted Foreign Shares held by QM32 Limited under the SFO.
- (10) QM153 Limited is held as to 99.09% by Qiming Venture Partners VII, L.P., whose sole general partner is Qiming GP VII, LLC. Therefore, Qiming Venture Partners VII, L.P. and Qiming GP VII, LLC are deemed to be interested in the 4,458,238 Unlisted Foreign Shares held by QM153 Limited under the SFO.
- (11) Power SUM Limited is wholly-owned by Master Summer Limited, which is in turn owned as to 90.52% by CDBI Partners Fund I, L.P., an entity controlled by CDBI Partners GP, Ltd. Therefore, Master Summer Limited, CDBI Partners Fund I, L.P. and CDBI Partners GP, Ltd are deemed to be interested in the 6,958,131 Unlisted Foreign Shares held by Power SUM Limited under the SFO.

Save as disclosed above, as at December 31, 2023, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors, Supervisors and the chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

# REPORT OF DIRECTORS

## EQUITY-LINKED AGREEMENTS

During the Reporting Period, the Company has not entered into any equity-linked agreement, and no such agreement subsisted at the end of the Reporting Period.

## RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors or the Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouse or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## DIRECTORS', SUPERVISORS' AND SINGLE LARGEST GROUP OF SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors, Supervisors and the Single Largest Group of Shareholders or their respective close associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a Director of the Company and/or its subsidiaries.

## RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note XI to the Consolidated Financial Statements contained herein. For the year ended December 31, 2023, none of the related parties transactions as disclosed in note XI to the Consolidated Financial Statements constitute any connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules. For the year ended December 31, 2023, we have not entered into any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules.

## DIRECTORS', SUPERVISORS' AND SINGLE LARGEST GROUP OF SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, no Director/Supervisor/the Single Largest Group of Shareholders or an entity connected with a Director/Supervisor/the Single Largest Group of Shareholders was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the Reporting Period or as at December 31, 2023.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period and up to Latest Practicable Date between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

# REPORT OF DIRECTORS

## PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate liability insurance policies for its Directors, Supervisors and senior management during the Reporting Period and up to the Latest Practicable Date.

## INFORMATION ON TAX REDUCTION AND EXEMPTION FOR HOLDERS OF H SHARES

### Individual Investors

According to the Notice on the Management of Personal Income Tax Imposed after the Abolition of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividends and bonuses received by foreign resident individual shareholders from the issuance of shares in Hong Kong by domestic non-foreign invested enterprises is subject to the payment of individual income tax according to the items of “interests, dividend and bonus income”, which shall be withheld and paid on behalf of the shareholders by the withholding and payment agents. The foreign resident individual shareholders who hold the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China and the tax arrangements between mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration management, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends and bonuses, generally withhold and pay individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries which have entered into tax agreements stipulating a tax rate of lower than 10%, the withholding and payment agents will file applications on their behalf to seek entitlement of the relevant agreed preferential treatments, and upon review and approval by the tax authorities, the excess tax amounts withheld and paid will be refunded; (2) for citizens from countries which have entered into tax agreements stipulating a tax rate of higher than 10% but lower than 20%, the withholding and payment agents will withhold and pay the individual income tax at the agreed-upon effective tax rate when distributing dividends, and are not obligated to file an application; (3) for citizens from countries without tax agreements or are under other situations, the withholding and payment agents will withhold and pay the individual income tax at a tax rate of 20% when distributing dividends and bonuses.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (Guo Shui Han [2006] No. 884) (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(國稅函[2006]884號)) signed on 21 August 2006, the Chinese government may impose tax on dividends payable by the Chinese companies to Hong Kong residents, but the tax should not exceed 10% of the total dividend payable, if Hong Kong residents hold at least 25% equity interest in the Chinese company, the relevant tax shall not exceed 5% of the total dividend payable by the Chinese company.

# REPORT OF DIRECTORS

## Enterprises

According to the Enterprise Income Tax law of the People's Republic of China (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) effective on 1 January 2008, if non-resident enterprises establish no organizations and sites within the territory of China, or though they have established certain organizations and sites but the dividends and bonuses received have actually not correlated to the organizations and sites established, such enterprises shall pay the enterprise income tax at the rate of 10% of its income from the Chinese territory. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

According to the Notice on the Withholding and Payment of Enterprise Income Tax on the Dividends Distributed by the Chinese Resident Enterprise to Foreign H Share Non-resident Enterprise Shareholders (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)) issued by the State Administration of Taxation and effective on 6 November 2008, when the Chinese resident enterprises distribute dividends of 2008 and subsequent years to foreign H Share non-resident enterprise shareholders, they shall withhold and pay on behalf of the shareholders the enterprise income tax. Such withholding tax may be reduced pursuant to applicable treaties for the avoidance of double taxation.

Pursuant to the provisions in the Notice on Tax Policies Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends and bonuses obtained by mainland individual investors from investing in H Shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall withhold individual income tax at the tax rate of 20%. For the dividends and bonuses obtained by mainland securities investment funds from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, the individual income tax will be levied pursuant to the provisions mentioned above. For the dividends and bonuses obtained by mainland enterprise investors from investing in shares listed in Stock Exchange through Shanghai-Hong Kong Stock Connect, such H Share companies shall not withhold any income taxes on the dividends and bonuses, as the income taxes shall be reported and paid by the investing enterprises on their own. Meanwhile, for the dividends and bonuses obtained by mainland resident enterprises from holding relevant H Shares for consecutive 12 months, the corporate income taxes shall be exempted according to laws.

Pursuant to the current practices of Inland Revenue Department of Hong Kong, no taxes shall be paid for the dividends distributed by the Company.

The shareholders of the Company shall pay the relevant taxes and/or be entitled to tax reduction and exemption pursuant to the above provisions. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the Shares, they are advised to consult an expert.

# REPORT OF DIRECTORS

## EMOLUMENT POLICY AND COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at December 31, 2023, we had 760 employees. Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security contributions and other welfare payments. In accordance with applicable PRC laws, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees in the PRC. For the year ended December 31, 2023, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations, or any difficulty in recruiting employees. To remain competitive in the labor market, we provide various incentives and benefits to our employees. We invest in continuing education and training programs, including internal and external training, for our management staff and other employees to upgrade their skills and knowledge. We require all of our employees, especially those who involved in sales and marketing and business development activities, to abide by our anti-bribery and anti-corruption compliance requirements and applicable laws and regulations to eliminate bribery and corruption risks. We closely monitor our employee's compliance with anti-bribery and anti-corruption policies.

Our Directors, Supervisors and senior management receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, contribution to the pension scheme and other share-based compensation. We determine the compensation of our Directors and Supervisors based on each the responsibilities, qualification, position and seniority of each Director and Supervisor. Details of the remuneration of Directors and Supervisors during the Reporting Period are set out in note XI (II) 3 to the Consolidated Financial Statements.

For the Reporting Period, no emoluments were paid by the Group to any Director, Supervisor or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors or Supervisors has waived any emoluments for the year ended December 31, 2023. Save as disclosed in this annual report, no loans, quasi-loans and other dealings in favour of directors, their controlled bodies corporate and connected entities subsisted at the end of or at any time during the Reporting Period. No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Reporting Period. No consideration provided to or receivable by third parties for making available directors' services subsisted at the end of the Reporting Period or at any time during the Reporting Period.

Save as disclosed above, during the year ended December 31, 2023, the Group had a small number of payments or payables with the Directors, details of which are set out in note XI (III) to the financial statements.

### Retirement Benefits Scheme

The employees of the Group's subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions. There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

# REPORT OF DIRECTORS

## THE 2022 H SHARE AWARD AND TRUST SCHEME

As approved by the Shareholders at the annual general meeting of the Company on June 22, 2022, the Company adopted the 2022 H Share Award and Trust Scheme (the “**H Share Scheme**”). As of the Latest Practicable Date, no award has been granted under the H Share Scheme. Hence, the total number of award Shares available for grant under the 2022 H Share Scheme is 8,510,000 H Shares as at December 31, 2023 and the Latest Practicable Date. Major terms of the H Share Scheme are set out below:

### (a) Purpose and Objectives of the H Share Scheme

The H Share Scheme is a share award of H Shares and trust scheme established by the Company to award selected employees and the objectives of the H Share Scheme are:

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

### (b) Eligible participant of the H Share Scheme

Eligible participant who may participate in the H Share Scheme include any full-time PRC or non-PRC employee of any members of the Group, who is a Director, supervisor, senior management, key operating team member, employee, or, a consultant of the Group.

### (c) H Share Scheme Limit

Subject to the rules of the H Share Scheme, the H Share Scheme Limit shall be the maximum number of H Shares that will be acquired by the Trustee from time to time, and in any case being not more than 8,510,000 H Shares. The Company shall not make any further grant of Awards which will result in the aggregate number of H Shares underlying all grants made pursuant to the H Share Scheme (excluding Awarded Shares that have been forfeited in accordance with the H Share Scheme) to exceed the H Share Scheme Limit without approval of the general meeting of the Shareholders.

As at the Latest Practicable Date, the total number of H Shares available for issue under the H Share Scheme is 8,510,000 H Shares, representing approximately 2.00% of the total issued shares of the Company.

Save as required above, the maximum number of non-vested awarded Shares granted to a selected employee under the H Share Scheme shall not exceed one per cent of the issued share capital of the Company from time to time in any 12-month period.

# REPORT OF DIRECTORS

## (d) Grant of Award Shares

The Board and its delegates may, from time to time, at its absolute discretion select any employee for participation in the H Share Scheme as a selected employee, and grant such number of award Shares to any selected employee at no consideration and in such number and on and subject to such terms and conditions as it may in its absolute discretion determine.

No consideration is payable on application or acceptance of the award Shares granted, and no purchased price is required under the H Share Scheme.

## (e) Vesting of the Awarded Shares

Subject to the terms and condition of the H Share Scheme and the fulfillment of all vesting conditions to the vesting of the award Shares on such selected employee as specified in the H Share Scheme and the grant notice, the respective award Shares held by the trustee on behalf of the selected employee pursuant to the provision hereof shall vest in such selected employee in accordance with the vesting schedule (if any) as set out in the grant notice.

## (f) Duration of the H Share Scheme

Unless terminated earlier by the Board pursuant to the H Share Scheme Rules, the H Share Scheme shall be valid for ten years commencing from the June 22, 2022. As of December 31, 2023, the remaining life of the H Share Scheme is approximately eight years and six months.

## PRE-IPO EMPLOYEE INCENTIVE SCHEMES

The following is a summary of the principal terms of the employee incentive schemes dated January 2, 2018 (as amended on September 21, 2020) and December 25, 2019 (as amended on September 21, 2020) respectively (collectively, the “**Pre-IPO Employee Incentive Schemes**”). Given the underlying Shares under the Pre-IPO Employee Incentive Schemes had already been issued, there will not be any dilution effect to the issued Shares upon the vesting of the Shares thereunder. No further award will be or was granted after Listing.

The Company had established two employee incentive platforms (“**Employee Incentive Platforms**”), namely Hangzhou Yantai and Hangzhou Hengtai. As at the Latest Practicable Date, the two Employee Incentive Platforms, in aggregate, held 11,575,363 H Shares and 23,154,199 Domestic Shares.

## (a) Objectives

The purpose of the Pre-IPO Employee Incentive Schemes is to build an incentive mechanism for the management members and core employees of our Company, attracting talents in the labour market to raise the core competitiveness of the Company. The Pre-IPO Employee Incentive Schemes also serve the purpose of achieving efficient and high-quality management of the Company.

# REPORT OF DIRECTORS

## (b) Eligibility

Pursuant to the scheme documents, participants of the Pre-IPO Employee Incentive Schemes include the Company's senior management members and core employees. The scheme documents further provided that the following employees may not be selected as participants to the Schemes (as applicable):

- Employees who have received public censure from any stock exchange or have been declared as disqualified persons for the preceding three years;
- Employees who have received administrative penalties from CSRC due to material violation laws and regulations for the preceding three years;
- Employees who are forbidden to hold the position of director or senior management pursuant to the PRC Company Law; or
- Employees who are otherwise not eligible due to serious violations of laws, regulations and the policies of the Company as determined by the Board.

## (c) Grant of Award

The sole general partner of Hangzhou Yantai and Hangzhou Hengtai is Dr. Zheng and in effect, all management powers and voting rights of the Employee Incentive Platforms reside with the sole general partner, Dr. Zheng.

All selected participants do not have any voting rights in the Company. The selected participants will be granted awards in the form of economic interest in the Employee Incentive Platforms as a limited partner of the relevant Employee Incentive Platform. Upon becoming the limited partner of the Employee Incentive Platforms, the selected participants indirectly receive economic interest in the corresponding number of underlying Shares held by the Employee Incentive Platforms.

## (d) Administration of the Schemes

The Board retain full discretion over the following matters of the Pre-IPO Employee Incentive Schemes:

- the selection of participants in the Pre-IPO Employee Incentive Schemes, which currently include Directors, core employees and senior management members of our Group; and
- the implementation, amendment and termination of the Pre-IPO Employee Incentive Schemes.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's revenue attributed to its five largest customers in aggregate accounted for approximately 39% of the Group's revenue for the year ended December 31, 2023. The Group's revenue attributed to its largest customer accounted for approximately 19% of the Group's revenue for the year ended December 31, 2023.

For the year ended December 31, 2023, the Group's purchases attributed to its five largest suppliers in aggregate accounted for less than 30% of the Group's total purchases.

None of the Directors, their respective close associates, or any Shareholder (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the major customers or suppliers of the Company.

# REPORT OF DIRECTORS

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended December 31, 2023, the Company repurchased 3,303,800 H shares of the Company on the Stock Exchange at an aggregate consideration of HK\$17,009,328 pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting held on May 18, 2023. Details of the repurchases are summarized as follows:

Date of repurchase	Price per Share		Number of Shares	Total consideration HKD
	Highest HKD	Lowest HKD		
24 November 2023	4.52	4.46	40,000	180,033.999
27 November 2023	4.40	4.28	150,000	650,773
28 November 2023	4.50	4.35	200,000	896,140
29 November 2023	4.50	4.43	174,000	777,887
30 November 2023	4.60	4.33	150,000	672,913
1 December 2023	4.60	4.42	86,000	390,469
4 December 2023	4.65	4.29	195,700	883,289
5 December 2023	4.72	4.65	193,700	909,765
6 December 2023	4.75	4.32	200,000	945,505
7 December 2023	4.74	4.70	30,100	142,214
8 December 2023	4.66	4.51	33,400	154,246
11 December 2023	4.54	4.13	72,900	326,135
12 December 2023	4.50	4.36	101,900	452,196
13 December 2023	4.50	4.45	11,900	53,302
20 December 2023	5.30	5.00	185,200	955,324
21 December 2023	5.55	5.37	236,000	1,289,448
22 December 2023	5.71	5.49	527,700	2,958,349
27 December 2023	5.87	5.75	90,900	528,087
28 December 2023	6.03	5.91	27,200	163,564
29 December 2023	6.27	6.08	597,200	3,679,688
<b>Total:</b>			3,303,800	17,009,327.999

None of the above repurchased shares of the Company has been cancelled as of Latest Practicable Date. The repurchases were effected by the Board with a view to benefit the Shareholders as a whole by enhancing the earnings per Share of the Company.

Save as disclosed, the Group did not purchase, sell or redeem any listed securities of the Company during the year ended December 31, 2023.

## CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group made external donations and supplies totaling RMB1,976,967.82.

## CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

# REPORT OF DIRECTORS

## CORPORATE GOVERNANCE

The Company is committed to ensuring high standards of corporate governance and has adopted the code provisions set out in the CG Code. During the Reporting Period, the Company has complied with all the applicable code provisions in the CG Code, save for the deviation from code provisions C.2.1.

In order to maintain high standards of corporate governance, the Board will continuously review and monitor the Company's corporate governance code.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 45 of this report.

## CHANGE OF AUDITOR

The 2022 annual general meeting of the Company held on May 18, 2023 considered and approved the Proposed Appointment of the Auditor for 2023, and resolved to appoint Pan-China Certified Public Accountants LLP as the Company's auditor to provide the Company with audit services for the 2023 financial reports and internal control after the term of Ernst & Young expired on the date of the 2022 annual general meeting of the Company. Please refer to the circular of the Company dated April 26, 2023 and the poll results announcement of the Company dated May 18, 2023 for further details. Hence, The consolidated financial statements of the Group for the year ended December 31, 2023 have been audited by Pan-China Certified Public Accountants LLP.

Save as disclosed above, the Company did not change its auditors in the previous three years.

## ADOPTION OF CASBE

Reference is made to the announcements of the Company dated April 25 and May 18, 2023 and the circular of the Company dated April 26, 2023, in relation to, among others, the adoption of the China Accounting Standards for Business Enterprises ("**CASBE**").

Since the listing of the Company's Shares on the Stock Exchange, the Company has been complying with the Hong Kong Financial Reporting Standards ("**HKFRS**") in preparing its financial statements.

However, according to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong (《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》) published by the Stock Exchange in December 2010, the issuers listed in Hong Kong and incorporated in the mainland China have been approved to adopt CASBE to prepare their financial statements, and China accounting firms recognized by the Ministry of Finance of the People's Republic of China (the "**MOF**") and the China Securities Regulatory Commission (the "**CSRC**") are permitted to audit such financial statements by adopting the China Standards on Auditing for Certified Public Accountants. The Company has adopted CASBE instead of HKFRS for preparing its financial statements since January 1, 2023 by way of an ordinary resolution at the annual general meeting of the Company on May 18, 2023.

Accordingly, the financial statements of the Company for the year ended December 31, 2023 have been prepared in compliance with CASBE.

By order of the Board of Directors  
**MicroTech Medical (Hangzhou) Co., Ltd.**  
**Dr. Zheng Pan**  
*Chairman and Chief Executive Officer*

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

To all the shareholders of MicroTech Medical (Hangzhou) Co., Ltd.:

## I. AUDITOR'S OPINIONS

We audited the financial statements of MicroTech Medical (Hangzhou) Co., Ltd. (hereinafter referred to as MicroTech Medical Company), including the consolidated and the company balance sheets as at December 31, 2023, the consolidated and the company income statements, the consolidated and the company statements of cash flow and the consolidated and the company statements of changes in owners' equity for 2023 and notes to relevant financial statements.

We believe that the attached financial statements are prepared in accordance with the Accounting Standard for Business Enterprises in all material respects and fairly reflect the consolidated and the company financial positions of MicroTech Medical Company as at December 31, 2023 as well as the consolidated and the company operating performance and cash flows for 2023.

## II. BASIS FOR AUDITOR'S OPINIONS

We conducted our audit in accordance with the Auditing Standards of PRC Certified Public Accountants (中國註冊會計師審計準則). Our responsibilities under these standards are further described in the section named "Responsibilities of Certified Public Accountants for Auditing Financial Statements" in the auditor's report. In accordance with the Code of Professional Ethics for PRC Certified Public Accountants (中國註冊會計師職業道德守則), we are independent of MicroTech Medical Company and have fulfilled our other responsibilities in terms of professional ethics. We believe that the audit evidence that we obtained is sufficient and appropriate and provides a basis for the auditor's opinions.

## III. KEY AUDIT MATTERS

Key audit matters are matters that we, based on our professional judgment, consider to be most important in our audit on the financial statements for the current period. Our response to these matters is based on the audit on the financial statements as a whole and the auditor's opinions thereon. We do not express opinions on these matters separately.

### (I) Revenue Recognition

#### 1. Description

For details of the disclosure, please refer to Notes III (XXI) and V (II) 1 of the financial statements.

Operating income of MicroTech Medical Company was mainly derived from the sales of BGMS, CGMS and insulin pump systems. For 2023, operating income of MicroTech Medical Company was RMB253,227,561.50.

Since operating income was one of the key performance indicators of MicroTech Medical Company, and there might be an inherent risk that the management of MicroTech Medical Company (hereinafter referred to as the Management) would achieve specific goals or expectations through inappropriate revenue recognition, we determined revenue recognition as a key audit matter.

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

## III. KEY AUDIT MATTERS (Continued)

### (I) Revenue Recognition (Continued)

#### 2. Auditor's Response

For revenue recognition, the audit procedures that we implemented mainly include:

- (1) Understanding the key internal controls related to revenue recognition, evaluating the design of these controls to determine whether they are implemented and testing the operating effectiveness of related internal controls;
- (2) Checking the sales contract to understand the main contract terms or conditions and evaluating whether the revenue recognition method was appropriate;
- (3) Implementing analysis procedures on operating income and gross profit margin by means of month, product, customer and so forth, to identify whether there were major or abnormal fluctuations and investigate the causes of fluctuations;
- (4) For domestic sales revenue, selecting the supporting documents relative to project inspection, including sales contracts, sales invoices, outbound orders and logistics records; for export revenue, obtaining electronic port information and checking it with book records, and selecting the supporting documents relative to project inspection, including sales contracts, export declarations, waybills and sales invoices; and for online income, selecting delivery record recognized via online platforms for project inspection, obtaining data from the platforms, bills and other documents and checking them with book records;
- (5) Consolidating the accounts receivable confirmations to select the sales amount of the project confirmations;
- (6) Conducting cutoff tests to check whether revenue was recognized during an appropriate period;
- (7) Obtaining sales return records after the balance sheet date and checking whether there were any occasions where any revenue recognition conditions were not met on the balance sheet date; and
- (8) Checking whether information related to operating income was appropriately presented in the financial statements.

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

## III. KEY AUDIT MATTERS (Continued)

### (II) Impairment of Accounts Receivable

#### 1. Description

For details of the disclosure, please refer to Notes 3(XI) and 5(I)3 of the financial statements.

As of December 31, 2023, the book balance of accounts receivable of MicroTech Medical Company was RMB79,227,568.86, the bad debt provision was RMB5,993,973.30, and the book value was RMB73,233,595.56.

With reference to the credit risk characteristics of each item under accounts receivable, the Management measured the loss provisions based on individual item or a portfolio in accordance with an amount equivalent to the expected credit losses throughout the lifetime. As the amount of accounts receivable was substantial and the impairment test of accounts receivable involved significant management judgment, we determined the impairment of accounts receivable as a key audit matter.

#### 2. Auditor's Response

For the impairment of accounts receivable, the audit procedures that we implemented mainly include:

- (1) Understanding the key internal controls related to the impairment of accounts receivable, evaluating the design of these controls to determine whether they are implemented and testing the operating effectiveness of related internal controls;
- (2) For the Management's estimates of bad debt provisions for previous years, reviewing their findings or their subsequent amounts re-estimated by the Management;
- (3) Reviewing the Management's consideration over and the objective evidence for the credit risk assessment on the accounts receivable, and evaluating whether the Management appropriately identified the credit risk characteristics of each item under account receivable;
- (4) For accounts receivable for which expected credit losses were measured based on individual items, reviewing the Management's forecast on the expected cash inflow, evaluating the appropriateness of the major assumptions used in the forecast and the appropriateness, relevance and reliability of the data, and checking them with external evidence obtained;
- (5) For accounts receivable for which expected credit losses were measured based on a portfolio, evaluating the rationality on the Management's classification of portfolio conducted based on credit risk characteristics; evaluating the reasonableness of the expected credit loss rate for accounts receivable determined by the Management, including the appropriateness of the significant assumptions used and the appropriateness, relevance and reliability of the data; and testing whether the Management's calculation on bad debt provisions was accurate;
- (6) Consolidating the accounts receivable confirmations and subsequent repayments to evaluate the rationality on the Management's provision for bad debts; and
- (7) Checking whether information related to the impairment of accounts receivable was appropriately presented in the financial statements.

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

## IV. OTHER INFORMATION

The Management is responsible for other information, which includes information covered in the annual report but excludes the financial statements and the auditor's report. The annual report is expected to be provided to us after the date of the auditor's report.

The auditor's opinion on the financial statements does not cover other information, nor shall we express any form of assurance conclusion on such other information.

In addition to our audit of the financial statements, our responsibility is to read the other information described above when it is available. In doing so, we consider whether such other information is materially inconsistent with the financial statements or our knowledge obtained during the audit or appears to be substantially misstated.

## V. RESPONSIBILITY OF THE MANAGEMENT AND THOSE IN CHARGE OF GOVERNANCE FOR FINANCIAL STATEMENTS

The Management is responsible for preparing the financial statements in accordance with the Accounting Standard for Business Enterprises for fair reflection of truth, and is liable for designing, implementing and maintaining necessary internal controls, to the effect that the financial statements would be free from material misstatement whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the ability of MicroTech Medical Company to operate as a going concern and disclosing matters related to going concern (if applicable) by applying the going concern assumption, unless it is planned to undergo liquidation, discontinued operation or unless no other realistic option is available.

Those in charge of corporate governance of MicroTech Medical Company (hereinafter referred to as those in charge of governance) are responsible for overseeing the financial reporting process of MicroTech Medical Company.

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

## VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANT OF AUDITING FINANCIAL STATEMENTS

Our goal is to achieve reasonable assurance as to whether the financial statements as a whole are free of material misstatements due to fraud or error and also to issue an auditor's report containing the auditor's opinion. Reasonable assurance is a high-level assurance, but it could not guarantee that an audit performed in accordance with auditing standards could always discover material misstatement whenever it exists. Misstatements may be due to fraud or error and are generally considered material if the misstatements, individually or in aggregate, are reasonably expected to affect the economic decisions made by users of financial statements based on those statements.

In the process of conducting audit in accordance with the auditing standards, we adopted professional judgment and maintained professional skepticism. At the same time, we also performed the following tasks:

- (I) Risks of material misstatements in financial statements due to fraud or error were identified and assessed, audit procedures were designed and implemented to cope with such risks, and sufficient and appropriate audit evidence was obtained as a basis for issuing the auditor's opinion. Since fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control, the risk of failing to discover a material misstatement resulting from fraud is higher than that for a material misstatement resulting from error.
- (II) The internal controls relevant to the audit were learnt in order to design appropriate audit procedures, but not to express opinion on the effectiveness of the internal controls.
- (III) The appropriateness of the Management's selection of accounting policies and the reasonableness of their accounting estimates and related disclosures were evaluated.
- (IV) Conclusions were drawn on the appropriateness of the Management's use of the going concern assumption. Meanwhile, based on the audit evidence obtained, a conclusion was reached as to whether there were significant uncertainties for events or conditions that may cast significant doubts on the ability of MicroTech Medical Company to operate as a going concern. If it is concluded that a material uncertainty exists, according to the auditing standards, we are required to draw the attention of users of the financial statements to the relevant disclosures in those statements in the auditor's report. If disclosure is insufficient, we should express a qualified opinion. Our conclusions were based on the information available as of the date of the auditor's report. However, it is possible that future events or conditions may end up in the inability of MicroTech Medical Company to operate as a going concern.
- (V) The overall presentation, structure and content of the financial statements were evaluated together with whether the financial statements had fairly reflected the underlying transactions and events.
- (VI) Sufficient and appropriate audit evidence regarding the financial information of entities under or business activities within MicroTech Medical Company was obtained to express the auditor's opinion on the financial statements. We are responsible for directing, supervising and conducting audit for the Group and take full responsibility for the auditor's opinions.

# INDEPENDENT AUDITOR'S REPORT

Tianjian Shen No. [2024] 765 (天健審〔2024〕765號)

## VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANT OF AUDITING FINANCIAL STATEMENTS (Continued)

We communicated with those in charge of governance for, among other matters, the planned audit scope, timing and significant audit findings, including the internal control deficiencies deserving concern and identified during our audit.

We also provided those in charge of governance with a statement that we had complied with relevant requirements on professional ethics regarding independence and communicated with them all the relationships and other matters that may reasonably be thought to affect our independence and, where applicable, relevant safeguards.

Among the matters communicated with those in charge of governance, we determined which of them was the most important to the financial statement audit for the current period and therefore constituted an key audit matter. We would describe these matters in the auditor's report, unless they are prohibited by laws or regulations for public disclosure, or, in rare circumstances, we determine that such matter should not be communicated in the auditor's report in the event that negative consequences from communicating such matter in the auditor's report are reasonably expected to outweigh the benefits generated in terms of public interest.

Pan-China Certified Public Accountants LLP      PRC Certified Public Accountant:  
(Project Partner)

Hangzhou, China      PRC Certified Public Accountant:

March 27, 2024

# CONSOLIDATED BALANCE SHEET

December 31, 2023

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

會和01表  
Unit: RMB

<b>Assets</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Current assets:			
Cash at bank and on hand	1	<b>1,885,880,958.10</b>	2,046,570,461.60
Clearing settlement funds			
Placements to banks and other financial institutions			
Financial assets held for trading	2	<b>6,054,088.59</b>	
Derivative financial assets			
Bills receivable			
Accounts receivable	3	<b>73,233,595.56</b>	49,256,938.67
Receivables financing			
Prepayments	4	<b>10,223,222.56</b>	9,426,337.98
Premium receivable			
Reinsurance receivable			
Reinsurance contract reserves receivable			
Other receivables	5	<b>1,413,104.20</b>	2,001,235.00
Financial assets held under resale agreements			
Inventories	6	<b>42,114,723.25</b>	67,335,172.90
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets	7	<b>4,250,997.96</b>	2,393,001.63
<b>Total current assets</b>		<b>2,023,170,690.22</b>	2,176,983,147.78

# CONSOLIDATED BALANCE SHEET

December 31, 2023

<b>Assets</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Non-current assets:			
Monetary funds			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments			
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets	8	<b>92,685,508.25</b>	89,475,537.83
Construction in progress	9	<b>7,946,229.32</b>	381,053.10
Productive biological asset			
Oil and gas assets			
Right-of-use assets	10	<b>727,703.13</b>	760,610.34
Intangible assets	11	<b>33,741,834.65</b>	18,759,209.60
Development expenses			
Goodwill			
Long-term deferred expenses	12	<b>242,031.73</b>	177,706.41
Deferred tax assets	13		
Other non-current assets	14	<b>267,927.25</b>	7,560,000.00
Total non-current assets		<b>135,611,234.33</b>	117,114,117.28
<b>Total assets</b>		<b>2,158,781,924.55</b>	2,294,097,265.06

# CONSOLIDATED BALANCE SHEET

December 31, 2023

<b>Total liabilities and owners' equity (or shareholders' equity)</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Current liabilities:			
Short-term borrowings			
Borrowings from central bank			
Due to banks and other financial institutions			
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable	16	<b>4,417,732.79</b>	
Accounts payable	17	<b>33,772,276.03</b>	23,210,999.91
Advance payments received	18	<b>656,002.18</b>	597,829.95
Contract liabilities	19	<b>7,977,773.08</b>	11,859,515.52
Financial assets sold under repurchase agreements			
Deposits from customers and other banks			
Accounts payable to brokerage clients			
Funds payable to securities issuers			
Staff salaries payable	20	<b>19,661,496.14</b>	20,986,210.18
Taxes payable	21	<b>5,752,216.53</b>	1,931,407.36
Other payables	22	<b>20,349,685.93</b>	19,770,967.65
Fees and commissions payables			
Reinsurance accounts payables			
Liabilities held for sales			
Non-current liabilities due within one year	23	<b>477,807.54</b>	452,704.79
Other current liabilities	24	<b>313,710.19</b>	348,726.33
<b>Total current liabilities</b>		<b>93,378,700.41</b>	79,158,361.69
Non-current liabilities:			
Provision for insurance contract			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities	25	<b>165,627.80</b>	263,523.45
Long-term payables			
Long-term staff salaries payable			
Accrued liabilities	26	<b>3,982,756.01</b>	2,625,604.30
Deferred income	27		10,861.47
Deferred tax liabilities	13	<b>170,280.63</b>	6,657.31
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>4,318,664.44</b>	2,906,646.53
<b>Total liabilities</b>		<b>97,697,364.85</b>	82,065,008.22

# CONSOLIDATED BALANCE SHEET

December 31, 2023

<b>Total liabilities and owners' equity (or shareholders' equity)</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Owners' equity (or shareholders' equity)			
Paid-in capital (or share capital)	28	<b>425,742,600.00</b>	425,742,600.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	29	<b>1,882,785,222.90</b>	1,882,785,222.90
Less: Inventory shares	30	<b>26,246,338.65</b>	
Other comprehensive income	31	<b>733,216.22</b>	418,703.77
Special reserve			
Surplus reserve			
General risk reserve			
Unallocated profit	32	<b>-221,930,140.77</b>	-96,914,269.83
Total equity attributable to owners of the parent			
Total equity		<b>2,061,084,559.70</b>	2,212,032,256.84
Minority interest			
Total owners' equity		<b>2,061,084,559.70</b>	2,212,032,256.84
Total liabilities and owners' equity		<b>2,158,781,924.55</b>	2,294,097,265.06

# PARENT COMPANY BALANCE SHEET

December 31, 2023

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

會企01表

Unit: RMB

<b>Assets</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Current assets:			
Monetary funds		<b>1,870,430,819.40</b>	2,022,394,223.08
Financial assets held for trading		<b>6,054,088.59</b>	
Derivative financial assets			
Bills receivable			
Accounts receivable	1	<b>147,447,656.21</b>	74,065,265.10
Receivables financing			
Prepayments		<b>6,369,912.38</b>	8,686,180.67
Other receivables	2	<b>61,193,626.13</b>	12,538,636.19
Inventories		<b>38,953,752.37</b>	65,093,772.30
Contract assets			
Assets held for sale			
Non-current assets due within one year			
Other current assets			1,228,050.45
<b>Total current assets</b>		<b>2,130,449,855.08</b>	2,184,006,127.79

# PARENT COMPANY BALANCE SHEET

December 31, 2023

<b>Assets</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	3	<b>60,037,225.00</b>	39,037,225.00
Other equity instrument investments			
Other non-current financial assets			
Investment properties			
Fixed assets		<b>92,435,697.46</b>	89,366,398.69
Construction in progress		<b>5,502,115.09</b>	381,053.10
Productive biological asset			
Oil and gas assets			
Right-of-use assets		<b>727,703.13</b>	760,610.34
Intangible assets		<b>17,189,548.51</b>	18,747,151.78
Development expenses			
Goodwill			
Long-term deferred expenses		<b>242,031.73</b>	177,706.41
Deferred income tax assets			
Other non-current assets		<b>201,095.57</b>	7,560,000.00
Total non-current assets		<b>176,335,416.49</b>	156,030,145.32
Total assets		<b>2,306,785,271.57</b>	2,340,036,273.11

# PARENT COMPANY BALANCE SHEET

December 31, 2023

<b>Total liabilities and owners' equity</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Current liabilities:			
Short-term borrowings			
Financial liabilities held for trading			
Derivative financial liabilities			
Bills payable		<b>4,417,732.79</b>	
Accounts payable		<b>33,038,506.34</b>	24,174,693.27
Advance payments received		<b>656,002.18</b>	597,829.95
Contract liabilities		<b>6,718,375.58</b>	11,631,794.27
Staff salaries payable		<b>18,131,835.44</b>	19,998,578.16
Taxes payable		<b>5,680,073.11</b>	1,838,929.91
Other payables		<b>30,681,731.29</b>	18,627,796.75
Liabilities held for sales			
Non-current liabilities due within one year		<b>477,807.54</b>	452,704.79
Other current liabilities		<b>149,988.52</b>	319,122.58
		<b>99,952,052.79</b>	77,641,449.68
Total current liabilities			

# PARENT COMPANY BALANCE SHEET

December 31, 2023

<b>Total liabilities and owners' equity</b>	Notes	<b>Closing balance</b>	Closing balance of last year
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities		<b>165,627.80</b>	263,523.45
Long-term payables			
Long-term staff salaries payable			
Accrued liabilities		<b>2,422,391.27</b>	1,998,896.07
Deferred income			10,861.47
Deferred tax liabilities		<b>170,280.63</b>	6,657.31
Other non-current liabilities			
Total non-current liabilities		<b>2,758,299.70</b>	2,279,938.30
Total liabilities		<b>102,710,352.49</b>	79,921,387.98
Owners' equity (or shareholders' equity):			
Paid-in capital (or share capital)		<b>425,742,600.00</b>	425,742,600.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		<b>1,883,026,894.49</b>	1,883,026,894.49
Less: Inventory shares		<b>26,246,338.65</b>	
Other comprehensive income			
Special reserve			
Surplus reserve			
Unallocated profit		<b>-78,448,236.76</b>	-48,654,609.36
Total owners' equity		<b>2,204,074,919.08</b>	2,260,114,885.13
Total liabilities and owners' equity		<b>2,306,785,271.57</b>	2,340,036,273.11

# CONSOLIDATED INCOME STATEMENT

Year 2023

會合02表

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

Unit: RMB

Items	Notes	Amount for the Period	Amount for the same period last year
I. Total operating revenue		<b>253,227,561.50</b>	173,606,972.80
Including: Operating revenue	1	<b>253,227,561.50</b>	173,606,972.80
Interest income			
Premium earned			
Handling fee and commission income			
II. Total operating costs		<b>379,558,913.82</b>	226,217,992.32
Including: Operating costs	1	<b>127,493,364.22</b>	91,670,631.73
Interest expenses			
Handling fees and commission expenses			
Surrenders			
Net claims expenses			
Net provisions for insurance contracts reserve			
Insurance policy dividend paid			
Reinsurance costs			
Tax and surcharges	2	<b>1,314,308.71</b>	629,157.56
Selling expenses	3	<b>210,090,716.50</b>	116,699,475.05
Administration expenses	4	<b>45,599,582.13</b>	41,533,587.59
Research & development expenses	5	<b>70,098,410.26</b>	61,086,121.98
Finance costs	6	<b>-75,037,468.00</b>	-85,400,981.59
Including: Interest expenses		<b>52,955.29</b>	146,585.93
Interest income		<b>68,240,076.38</b>	55,723,108.69
Add: Other gains	7	<b>10,591,431.18</b>	22,614,820.60
Investment income (Loss denoted with "-")	8	<b>-4,367.42</b>	
Including: Investment income from associated companies and joint ventures			
Gains on derecognition of financial assets measured at amortized cost			
Exchange gains (Loss denoted with "-")			
Income from net exposure to hedging (Loss denoted with "-")			
Gains on fair value changes (Loss denoted with "-")	9	<b>-15,619.71</b>	
Credit impairment losses (Loss denoted with "-")	10	<b>-991,791.42</b>	-2,701,632.12
Impairment losses on assets (Loss denoted with "-")	11	<b>-3,520,725.48</b>	-2,241,909.60
Gains on disposal of assets (Loss denoted with "-")	12		-8,311.42

# CONSOLIDATED INCOME STATEMENT

Year 2023

Items	Notes	Amount for the Period	Amount for the same period last year
III. Operating profits (Loss denoted with “-”)		<b>-120,272,425.17</b>	-34,948,052.06
Add: Non-operating income	13	<b>18,242.41</b>	137,907.73
Less: Non-operating expenses	14	<b>4,598,064.86</b>	231,435.76
IV. Total profits (Total loss denoted with “-”)		<b>-124,852,247.62</b>	-35,041,580.09
Less: Income tax expenses	15	<b>163,623.32</b>	1,507.33
V. Net profits (Net loss denoted with “-”)		<b>-125,015,870.94</b>	-35,043,087.42
(I) Classified by sustainability			
1. Net profits from continuing operations (Net loss denoted with “-”)		<b>-125,015,870.94</b>	-35,043,087.42
2. Net profits from discontinued operations (Net loss denoted with “-”)			
(II) Classified by ownership			
1. Net profits attributable to owners of the parent company (Net loss denoted with “-”)		<b>-125,015,870.94</b>	-35,043,087.42
2. Minority shareholders’ profits or losses (Net loss denoted with “-”)			
VI. Other comprehensive income, net of tax	16	<b>314,512.45</b>	418,703.77
Other comprehensive income attributable to owners of the parent, net of tax		<b>314,512.45</b>	418,703.77
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Change in defined benefit plans arising from re-measurement			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity approach			
3. Changes in fair value of other equity instrument investments			
4. Change in fair value of the Company’s own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss		<b>314,512.45</b>	418,703.77
1. Other comprehensive income that can be transferred to profit or loss under the equity approach			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedge reserve			
6. Translation differences arising on translation of foreign currency financial statements		<b>314,512.45</b>	418,703.77
7. Others			
Other comprehensive income attributable to minority interests, net of tax			
VII. Total comprehensive income		<b>-124,701,358.49</b>	-34,624,383.65
Total comprehensive income attributable to owners of the parent		<b>-124,701,358.49</b>	-34,624,383.65
Total comprehensive income attributable to minority interests			
VIII. Earnings per share:			
(I) Basic earnings per share		<b>-0.29</b>	-0.08
(II) Diluted earnings per share		<b>-0.29</b>	-0.08

# PARENT COMPANY INCOME STATEMENT

Year 2023

會企02表

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

Unit: RMB

Items	Notes	Amount for the Period	Amount for the same period last year
I. Operating revenue	1	<b>244,437,115.16</b>	172,167,280.75
Less: Operating costs	1	<b>131,081,479.30</b>	94,352,408.91
Tax and surcharges		<b>1,294,701.89</b>	622,536.74
Selling expenses		<b>103,644,212.48</b>	70,777,192.16
Administration expenses		<b>44,637,025.69</b>	40,769,144.05
Research & development expenses	2	<b>70,098,410.26</b>	61,086,121.98
Finance costs		<b>-74,840,251.60</b>	-85,396,452.37
Including: Interest expenses		<b>52,955.29</b>	146,585.93
Interest income		<b>67,934,420.12</b>	55,707,956.32
Add: Other gains		<b>10,586,778.28</b>	22,590,533.60
Investment income (Loss denoted with "-")	3	<b>-4,367.42</b>	
Including: Investment income from associated companies and joint ventures			
Gains on derecognition of financial assets measured at amortized cost			
Income from net exposure to hedging (Loss denoted with "-")			
Gains on fair value changes (Loss denoted with "-")		<b>-15,619.71</b>	
Credit impairment losses (Loss denoted with "-")		<b>-810,669.12</b>	-2,447,670.94
Impairment losses on assets (Loss denoted with "-")		<b>-3,326,147.11</b>	-2,241,909.60
Gains on disposal of assets (Loss denoted with "-")			-8,311.42
II. Operating profits (Loss denoted with "-")		<b>-25,048,487.94</b>	7,848,970.92
Add: Non-operating income		<b>16,415.04</b>	137,897.30
Less: Non-operating expenses		<b>4,597,931.18</b>	231,002.58
III. Total profits (Total loss denoted with "-")		<b>-29,630,004.08</b>	7,755,865.64
Less: Income tax expenses		<b>163,623.32</b>	1,507.33
IV. Net profits (Net loss denoted with "-")		<b>-29,793,627.40</b>	7,754,358.31
(I) Net profits from continuing operations (Net loss denoted with "-")		<b>-29,793,627.40</b>	7,754,358.31
(II) Net profits from discontinued operations (Net loss denoted with "-")			

# PARENT COMPANY INCOME STATEMENT

Year 2023

Items	Notes	Amount for the Period	Amount for the same period last year
V. Other comprehensive income, net of tax			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Change in defined benefit plans arising from re-measurement			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity approach			
3. Changes in fair value of other equity instrument investments			
4. Change in fair value of the Company's own credit risk			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that can be transferred to profit or loss under the equity approach			
2. Change in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Cash flow hedge reserve			
6. Translation differences arising on translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		<b>-29,793,627.40</b>	7,754,358.31
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

# CONSOLIDATED CASH FLOW STATEMENT

Year 2023

會合03表

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

Unit: RMB

Items	Notes	Amount for the Period	Amount for the same period last year
I. Cash flows generated from operating activities:			
Cash from sale of products and provision of services		<b>243,667,151.49</b>	168,749,108.08
Net increase in deposits from customers and business partners			
Net increase in borrowings from central bank			
Net increase in placements from other financial institutions			
Cash premiums received under original insurance policies			
Net cash received from reinsurance business			
Net increase in deposit from insurance policy holders and investments			
Cash received for interest, handling fee and commission			
Net increase in placements from banks			
Net gain from repurchase of business			
Net cash received from trading securities			
Tax rebate received		<b>3,806,560.77</b>	5,518,039.91
Other cash received relating to operating activities	2(1)	<b>40,127,641.25</b>	40,063,303.15
Cash inflows from operating activities — subtotal		<b>287,601,353.51</b>	214,330,451.14
Cash paid for purchase of products and services		<b>124,674,417.66</b>	142,299,366.52
Net increase in loans and advances to customers			
Net increase in deposits with central bank and other business partners			
Cash benefits paid for original insurance policies			
Net increase in placement with banks			
Cash paid for interest, handling fee and commission			
Cash dividends paid for insurance policies			
Cash paid to and for employees		<b>146,219,212.10</b>	109,033,878.17
Payments of various taxes		<b>3,167,486.80</b>	2,650,727.30
Other cash paid relating to operating activities	2(2)	<b>166,536,329.41</b>	79,357,237.60
Cash outflows from operating activities — subtotal		<b>440,597,445.97</b>	333,341,209.59
Net cash flows generated from operating activities		<b>-152,996,092.46</b>	-119,010,758.45

# CONSOLIDATED CASH FLOW STATEMENT

Year 2023

Items	Notes	Amount for the Period	Amount for the same period last year
II. Cash flows generated from investing activities:			
Cash received from recovery of investments			
Cash received from investment income			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Net cash received from disposal of subsidiaries and other business units			
Other cash received relating to investing activities	2(3)	<b>891,638,253.26</b>	1,052,442,301.48
Cash inflows from investing activities — subtotal		<b>891,638,253.26</b>	1,052,442,301.48
Cash paid for acquisition and installation of fixed assets, intangible assets and other long-term assets		<b>28,695,279.65</b>	29,780,451.72
Cash paid for investments			
Net increase in secured loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash paid relating to investing activities	2(4)	<b>1,403,646,707.22</b>	1,412,106,343.36
Cash outflows from investing activities — subtotal		<b>1,432,341,986.87</b>	1,441,886,795.08
Net cash flows generated from investing activities		<b>-540,703,733.61</b>	-389,444,493.60
III. Cash flow generated from financing activities:			
Cash received from investments			
Including: Cash received by subsidiaries from investments by minority shareholders			
Cash received from borrowings			
Other cash received relating to financing activities			
Cash inflows from financing activities — subtotal			
Cash paid for repayment of indebtedness			
Cash paid for distribution of dividends, profits and repayment of interest			
Including: Dividends and profits distributed to minority shareholders by subsidiaries			
Other cash paid relating to financing activities	2(5)	<b>23,464,076.52</b>	20,572,542.68
Cash outflows from financing activities — subtotal		<b>23,464,076.52</b>	20,572,542.68
Net cash flows generated from financing activities		<b>-23,464,076.52</b>	-20,572,542.68
IV. Effects of changes in exchange rates on cash and cash equivalents		<b>-1,648,839.67</b>	27,099,507.73
V. Net increase in cash and cash equivalents		<b>-718,812,742.26</b>	-501,928,287.00
Add: Balance of cash and cash equivalents as at the beginning of the period		<b>1,084,250,525.65</b>	1,586,178,812.65
VI. Balance of cash and cash equivalents as at the end of the period		<b>365,437,783.39</b>	1,084,250,525.65

# PARENT COMPANY CASH FLOW STATEMENT

Year 2023

會企03表

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

Unit: RMB

Items	Amount for the Period	Amount for the same period last year
I. Cash flows generated from operating activities:		
Cash from sale of products and provision of services	<b>183,331,956.02</b>	144,800,268.73
Tax rebate received	<b>3,806,560.77</b>	5,518,039.91
Other cash received relating to operating activities	<b>51,496,689.62</b>	39,973,853.35
Cash inflows from operating activities — subtotal	<b>238,635,206.41</b>	190,292,161.99
Cash paid for purchase of products and services	<b>117,630,328.46</b>	137,136,882.08
Cash paid to and for employees	<b>132,934,888.72</b>	102,382,159.92
Payments of various taxes	<b>3,154,659.89</b>	2,590,950.68
Other cash paid relating to operating activities	<b>126,888,765.34</b>	51,672,942.70
Cash outflows from operating activities — subtotal	<b>380,608,642.41</b>	293,782,935.38
Net cash flows generated from operating activities	<b>-141,973,436.00</b>	-103,490,773.39
II. Cash flows generated from investing activities:		
Cash received from recovery of investments		
Cash received from investment income		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiaries and other business units		
Other cash received relating to investing activities	<b>874,910,397.87</b>	1,052,442,301.48
Cash inflows from investing activities — subtotal	<b>874,910,397.87</b>	1,052,442,301.48
Cash paid for acquisition and installation of fixed assets, intangible assets and other long-term assets	<b>9,411,766.94</b>	29,632,548.20
Cash paid for investments	<b>21,000,000.00</b>	37,037,225.00
Net cash paid for acquiring subsidiaries and other business units		
Other cash paid relating to investing activities	<b>1,380,007,189.22</b>	1,412,106,343.36
Cash outflows from investing activities — subtotal	<b>1,410,418,956.16</b>	1,478,776,116.56
Net cash flows generated from investing activities	<b>-535,508,558.29</b>	-426,333,815.08

# PARENT COMPANY CASH FLOW STATEMENT

Year 2023

Items	Amount for the Period	Amount for the same period last year
III. Cash flow generated from financing activities:		
Cash received from investments		
Cash received from borrowings		
Other cash received relating to financing activities		
Cash inflows from financing activities — subtotal		
Cash paid for repayment of indebtedness		
Cash paid for distribution of dividends, profits and repayment of interest		
Other cash paid relating to financing activities	<b>23,464,076.52</b>	20,572,542.68
Cash outflows from financing activities — subtotal	<b>23,464,076.52</b>	20,572,542.68
Net cash flows generated from financing activities	<b>-23,464,076.52</b>	-20,572,542.68
IV. Effects of changes in exchange rates on cash and cash equivalents	<b>-1,937,569.97</b>	26,680,803.96
V. Net increase in cash and cash equivalents	<b>-702,883,640.78</b>	-523,716,327.19
Add: Balance of cash and cash equivalents as at the beginning of the period	<b>1,060,074,287.13</b>	1,583,790,614.32
VI. Balance of cash and cash equivalents as at the end of the period	<b>357,190,646.35</b>	1,060,074,287.13

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year 2023

Prepared by: MicroTech Medical (Hangzhou) Co., Ltd.

會合04表  
Unit: RMB

Items	Amount for the period																								
	Paid-in capital (or share capital)	Other equity instruments (Preferred shares, bonds, Others)	Capital reserve	Treasury shares	Less comprehensive income	Other income reserve	Special reserve	Surplus reserve	General risk provision	Unallocated profit	Minority interests	Total Owners' equity													
I. Balances at the end of the periods year	425,742,800.00		1,882,785,222.90		418,703.77					-86,914,288.83		2,212,022,256.84	425,742,800.00		1,882,785,222.90		418,703.77				-87,896,022.43		2,246,681,791.47	5,149.88	
II. Adjustments to changes in accounting policies																									
III. Correction of accounting errors in prior period																									
IV. Consideration of enterprises under common control																									
Others																									
I. Balance at the beginning of the year	425,742,800.00		1,882,785,222.90		418,703.77					-86,914,288.83		2,212,022,256.84	425,742,800.00		1,882,785,222.90		418,703.77				-87,871,822.14		2,246,681,841.49		
II. Increase/Decrease during the period																									
(*) (Increase/Decrease)																									
(i) Total comprehensive income																									
(ii) Capital contribution and reduced by shareholders																									
1. Ordinary shares contributed by shareholders																									
2. Capital contributed by holders of other equity instruments																									
3. Amount of share-based payment included in owners' equity																									
4. Others																									
(iii) Profit distribution																									
1. Transfer of surplus reserve																									
2. Provision to general risk reserve																									
3. Distribution to owners (or shareholders)																									
4. Others																									
(iv) Internal transfer within shareholders' equity																									
1. Transfer of capital reserve to share capital (or equity)																									
2. Transfer of surplus reserve to share capital (or equity)																									
3. Comprehensive losses by surplus reserve																									
4. Changes in defined benefit plans transferred to retained earnings																									
5. Other comprehensive income transferred to retained earnings																									
6. Others																									
(v) Special reserve																									
1. Enticed during the period																									
2. Amount used during the period																									
(vi) Others																									
IV. Balances at the end of the period	425,742,800.00		1,882,785,222.90	262,463,383.65	782,748.22					-421,801,461.77		2,281,094,539.70	425,742,800.00		1,882,785,222.90		418,703.77				-86,914,288.83		2,212,022,256.84		



# NOTES TO FINANCIAL STATEMENTS

2023

Unit: RMB

## I. GENERAL INFORMATION OF THE COMPANY

MicroTech Medical (Hangzhou) Co., Ltd. (hereinafter referred to as the Company) was formerly known as MicroTech Medical (Hangzhou) Company Limited (微泰醫療器械(杭州)有限公司 (hereinafter referred to as MicroTech Medical Co., Ltd 微泰醫療有限公司)), MicroTech Medical Co., Ltd was jointly funded by Zheng Pan, Hangzhou Ruili Technology Co., Ltd. (杭州瑞利科技有限公司), Wang Chunjiang, Qiu Yifeng, The 715th Research Institute of China Shipbuilding Industry Corporation (中國船舶重工集團公司第七一五研究所), Liu Yajun and Zhou Shenghao. On January 20, 2011, MicroTech Medical Co., Ltd was registered with the Administration for Market Regulation of Yuhang District in Hangzhou. MicroTech Medical Co., Ltd set the base date as September 30, 2020, converting the whole entity into a joint stock limited liability company, and registered with the Administration for Market Regulation of Yuhang District in Hangzhou on November 6, 2020, which the headquarter was located in Hangzhou, Zhejiang Province. The Company currently obtains a business license with unified social credit code of 9133011056875135XF, with the registered capital of RMB425,742,600 and 425,742,600 shares in total with par value of RMB1.00 each. Of which, 251,902,158 are non-tradable shares; and 173,840,442 H shares (tradable shares held not subject to sale restrictions). The Company's shares have been listed and traded on The Stock Exchange of Hong Kong Limited (hereinafter referred to as the Hong Kong Stock Exchange) on October 19, 2021.

The Company is engaged in the medical device industry. The principal business activities are the R&D, manufacturing and sale of medical devices.

These financial statements were approved for publication at the 2nd meeting of the second meeting of the Board of the Company on 27 March 2024.

## II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

### (I) Preparation Basis

The Company prepared the financial statements on the going concern basis.

### (II) Evaluation on ability of continuing operation

The Company does not have any event or circumstance that arises material concerns about assumptions on the ability of continuing operation within twelve months from the end of the reporting period.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Importance note: Formulation of specific accounting policies and accounting estimates was based on the features of actual productions and operations of the Company with respect to such transactions or matters as impairment of financial instruments, inventories, depreciation of fixed assets, construction in progress, intangible assets, and recognition of revenue.

### (I) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Company are in accordance with the requirements of the Accounting Standards for Business Enterprises, and gives a true and complete view on information including the financial position, the operating results and cash flows of the Company.

### (II) Accounting Period

The accounting year is from 1 January to 31 December.

### (III) Operating cycle

The Company operates on a relatively short operating cycle, which classifies the liquidity of assets and liabilities by a 12-months standard.

### (IV) Standard currency for accounting

The Company and domestic subsidiaries adopt Renminbi as the standard currency for accounting. MTM AiDEX Europe GmbH, the offshore subsidiary, operates abroad, and chooses the currency of the main economic environment in which it operates as the reporting currency.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (V) Methodology for determining materiality criteria and basis for selection

The Company followed the principle of materiality in its preparation and disclosure of financial statements. The disclosures in the notes to the financial statements that involve materiality standard judgments and the methods of determining and selecting the materiality standards are as follows:

Disclosures that involve materiality standard judgments	Location of the disclosure of the matter in the notes to the financial statements	Methodology for determining materiality criteria and basis for selection
Significant accounts receivables with provision for bad debts on individual basis	V(I)3(1)2)	The company recognizes accounts receivable with an individual account receivable amount exceeding 0.3% of total assets as significant accounts receivable.
Significant written-off of receivables	V(I)3(4)2)	The company recognizes accounts receivable with an individual account receivable amount exceeding 0.3% of total assets as significant accounts receivable.
Significant prepayments aged over 1 year	V(I)4(1)2)	The Company recognizes prepayments with an individual prepayment amount exceeding 0.3% of total assets as significant prepayment.
Significant construction projects in progress	V(I)9(2)	The Company recognizes construction projects in progress with an individual construction project in progress amount exceeding 0.3% of total assets as significant construction projects in progress.
Significant payables aged over 1 year	V(I)17(3)	The Company recognizes payables with an individual payable amount exceeding 0.3% of total assets as significant payables.
Significant receipts in advance aged over 1 year or past due	V(I)18(2)	The Company recognizes receipts in advance with an individual receipt in advance amount exceeding 0.3% of total assets as significant receipts in advance.
Significant contract liabilities aged over 1 year	V(I)19(2)	The Company recognizes contract liabilities with an individual contract liability amount exceeding 0.3% of total assets as significant contract liabilities.
Significant other payables aged over 1 year	V(I)22(2)	The Company recognizes other payables with an individual other payable amount exceeding 0.3% of total assets as significant other payables.
Significant cash flows from investing activities	V(III)1	The Company recognizes cash flows from investing activities with an individual amount exceeding 5% of total assets as significant cash flows from investing activities.
Significant overseas operating entities	V(IV)1(2)	The Company recognizes foreign operating entities with total assets exceeding 15% of total consolidated assets as significant foreign operating entities.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (VI) Accounting treatment for business combinations under common control

The assets acquired and liabilities assumed by the Company through business combination shall be measured at the book value of the acquiree in the consolidated financial statements of the ultimate controlling party at the combination date. The capital reserve shall be adjusted by the Company based on the difference between the book value of shares of the acquiree's owners' equity in the consolidated financial statements of the ultimate controller and the book value of the combined consideration or the total value of the issued shares, if it is not enough, retained earnings shall be adjusted.

### (VII) Standards for Determination of Control and Methodology for the Preparation of the Financial Statements

#### 1. Determination of Control

Control is recognised when the investor has the power over the investee; rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

#### 2. Preparation Method of Consolidated Financial Statements

The parent includes all subsidiaries under its control in the consolidation scope for consolidated financial statements, which are prepared by the parent pursuant to "ASBE 33 — Consolidated Financial Statements" based on the financial statements of the parent and its subsidiaries and other relevant information.

### (VIII) Standards for Determination of Cash and Cash Equivalents

Cash presented in the cash flows statement represents cash on hand and deposits ready for payment from time to time. Cash equivalents represent the short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (IX) Foreign Currency Transactions and Translation of Foreign Currency Financial Statements

#### 1. Translation of foreign currency transactions

Transactions denominated in foreign currency are translated into RMB at the spot exchange rate at the date of transaction upon initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the construction or production of qualifying assets. Foreign currency non-monetary items measured at historical cost are translated at the approximate exchange rate of the spot exchange rate at the date of transaction, without changing its RMB amount; foreign currency non-monetary items measured at fair value are translated at the spot exchange rate at the date of determination of fair value, with the differences included in profit or loss for the current period or other comprehensive income.

#### 2. Translation of foreign currency financial statements

Asset and liability items in the balance sheet are translated at the spot exchange rate at the balance sheet date. Owners' equity items, excluding "retained earnings", are translated at the spot exchange rate on the transaction dates, and the income and expense items in the income statements are translated at the approximate exchange rate of the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments

#### 1. Classification of financial assets and financial liabilities

Financial assets are classified into the following three categories at initial recognition: (1) financial assets measured at amortized cost; (2) financial assets measured at fair value through other comprehensive income; (3) financial assets measured at fair value through profit or loss for the current period.

Financial liabilities are classified into the following four categories at initial recognition: (1) financial liabilities measured at fair value through profit or loss for the current period; (2) financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continue to be involved in transferred financial assets; (3) the financial guarantee contracts which do not fall into (1) or (2) above, and the commitments to grant loans which do not fall into (1) above and have an interest rate lower than the market rate; (4) financial liabilities measured at amortized cost.

#### 2. Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities

##### (1) Recognition criteria and initial measurement method of financial assets and financial liabilities

When the Company becomes a party to a financial instrument contract, it is recognised as a financial asset or financial liability. The financial assets or financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss for the current period, the transaction expenses thereof are directly included in profit or loss for the current period; for other categories of financial assets or financial liabilities, the transaction expenses thereof are included into the initially recognised amount. However, accounts receivable initially recognised by the Company which do not contain a significant financing component, or financing components in a contract valid for less than one year which are not considered by the Company, are initially measured at transaction price as defined in the “Accounting Standard for Business Enterprises No.14 — Revenue”.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments (Continued)

#### 2. Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities (Continued)

##### (2) Subsequent measurement of financial assets

- 1) Financial assets measured at amortized cost  
These assets are subsequently measured at amortized cost using the effective interest method. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship shall be included in profit or loss when the financial asset is derecognized, reclassified, amortized using the effective interest method or recognized in respect of impairment.
- 2) Debt instrument investments at fair value through other comprehensive income  
These debt instrument investments are subsequently measured at fair value. Interest, impairment losses or gains and foreign exchange gains and losses calculated using the effective interest method are included in profit or loss in the current period. Other gains or losses are included in other comprehensive income. On derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to profit or loss for the current period.
- 3) Equity instrument investments at fair value through other comprehensive income  
These debt instrument investments are subsequently measured at fair value. Dividends obtained (excluding those obtained as investment costs recovered) are included in profit or loss for the current period, while other gains or losses are included in other comprehensive income. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.
- 4) Financial assets at fair value through profit or loss for the current period  
These financial assets are subsequently measured at fair value, and any gain or loss therefrom (including interest and dividend income) is included in profit or loss for the current period, unless such financial assets are part of the hedging relationship.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments (Continued)

#### 2. Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities (Continued)

##### (3) Subsequent measurement of financial liabilities

- 1) Financial liabilities at fair value through profit or loss for the current period  
These financial liabilities include trading financial liabilities (including derivative instruments classified as financial liabilities) and financial liabilities designated as at fair value through profit or loss for the current period. These financial liabilities are subsequently measured at fair value. Changes in fair value of financial liabilities designated as at fair value through profit or loss for the current period as a result of changes in the Company's own credit risk are included in other comprehensive income, unless this approach creates or enlarges an accounting mismatch in the profit or loss. Other gains or losses on these financial liabilities (including interest expenses and changes in fair value other than as a result of changes in the Company's own credit risk) are included in profit or loss for the current period, unless these financial liabilities are part of the hedging relationship. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.
- 2) Financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continue to be involved in transferred financial assets. Those financial liabilities are measured in accordance with the "Accounting Standard for Business Enterprises No.23 — Transfer of Financial Assets".
- 3) Financial guarantee contracts which do not fall into 1) or 2) above, and the commitments to grant loans which do not fall into 1) above and have an interest rate lower than the market rate  
After initial recognition, these financial guarantee contracts and commitments to grant loans are subsequently measured at the higher of: ① provisions for losses determined according to requirements on the impairment of financial instruments; ② balance from the initially recognised amount less accumulated amortisation determined according to the "Accounting Standard for Business Enterprises No.14— Revenue".
- 4) Financial liabilities measured at amortised cost  
These financial liabilities are measured at amortised cost using the effective interest method. Any gains or losses on financial liabilities measured at amortised cost which are not part of the hedging relationship are included in profit or loss for the current period when derecognised or amortised using the effective interest method.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments (Continued)

#### 2. Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities (Continued)

##### (4) Derecognition of financial assets and financial liabilities

- 1) Financial assets are derecognised when one of the following conditions is met:
  - ① the contractual right to the cash flows from such financial assets has expired;
  - ② such financial assets have been transferred, which meets the requirements of Accounting Standard for Business Enterprise No. 23 — Transfer of Financial Assets in relation to derecognition of financial assets.
- 2) A financial liability (or part of it) is derecognized accordingly where its present obligation (or part of it) is discharged.

#### 3. Recognition criteria and measurement method of transfer of financial assets

A financial asset is derecognized when the Company has transferred substantially all the risks and rewards associated with the ownership of a financial asset, and the rights and obligations arising from or retained in such transfer shall be separately recognized as assets or liabilities. A transferred financial asset will remain recognized if the Company retains substantially all the risks and rewards associated with the ownership of such financial asset. Where the Company has neither transferred nor retained substantially all the risks and rewards associated with the ownership of the financial asset, it may either: (1) derecognize the financial asset if control of the financial asset has not been retained, and the rights and obligations arising from or retained in the transfer shall be separately recognized as assets or liabilities; (2) recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognize associated liability accordingly if control has been retained.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the book value of the financial asset transferred on the date of derecognition; (2) the sum of the consideration received from the transferred financial asset and the amount (which involves investments in debt instruments at fair value through other comprehensive income being the transferred financial assets) for derecognition of the cumulative changes in fair value previously included in comprehensive income, is included in profit or loss for the current period. If a partial transfer of a financial asset as a whole qualifies for derecognition, the book value of the financial asset prior to such transfer is allocated between the part that subject to derecognition and the part subject to recognition, in proportion to the respective fair values of those parts on the date of transfer. The difference between (1) the book value of the part derecognized; (2) the sum of the consideration of the part derecognized and the amount (which involves investments in debt instruments at fair value through other comprehensive income being the transferred financial assets) for derecognition of the cumulative changes in fair value for the part derecognized which has been previously directly included in other comprehensive income, is included in profit or loss for the current period.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments (Continued)

#### 4. Determination of fair value of financial assets and financial liabilities

The Company adopts valuation techniques that are appropriate under the circumstances and supported by sufficient data and other information available to determine the fair value of the relevant financial assets and financial liabilities. The Company classifies the inputs used by the valuation techniques into the following hierarchies, and applies in the following sequence:

- (1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the date of measurement;
- (2) Level 2 inputs are direct or indirect observable inputs for the relevant asset or liability other than Level 1 inputs, including: quoted price for similar assets or liabilities in an active market; quoted price for the same or similar assets or liabilities in an inactive market; other observable inputs excluding quoted price, such as interest rates and yield curves observable at commonly quoted intervals; inputs that are evidenced in market, etc.;
- (3) Level 3 inputs are unobservable inputs for the relevant asset or liability, including interest rates, stock volatility, future cash flows from the disposal obligations assumed in a business combination, financial forecast using internal data that are not directly observable or cannot be verified by observable market data.

#### 5. Impairment of financial instruments

Based on the expected credit losses (ECLs), the Company impairs and recognises the loss allowance with respect to financial assets amortized at costs, investments in debt instruments at FVOCI, contract assets, lease receivables, loan commitments other than financial liabilities at FVTPL for the current period, financial liabilities that disqualify for those at FVTPL for the current period and financial guarantee contracts for financial liabilities arising from the transfer of financial assets that do not qualify for the derecognition criteria or continue to be involved in the financial assets being transferred.

The expected credit losses are the weighted average credit losses with probability of default as the weight. Credit loss refers to the difference between all contractual cash flows receivable according to the contract and discounted according to the original effective interest rate and all cash flows that the Company expects to receive, that is, the present value of all cash shortages. For purchased or originated credit-impaired financial assets, the ECLs are discounted at the credit-adjusted effective interest rate of such financial assets.

For purchased or originated credit-impaired financial assets, the Company only recognises the cumulative change in lifetime ECLs after initial recognition on the balance sheet date as loss provision.

For lease receivables, receivables and contract assets arising from transactions regulated by the "Accounting Standard for Business Enterprises No.14 — Revenue", the Company measures loss provision based on the amount of lifetime ECLs by using a simplified measurement method.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (X) Financial Instruments (Continued)

#### 5. Impairment of financial instruments (Continued)

In addition to financial assets in respect of which the aforesaid measurement approaches are adopted, the Company assesses whether there has been a significant increase in its credit risk since initial recognition at each balance sheet date. If there has been a significant increase in the credit risk since initial recognition, the loss reserves are measured at the amount of lifetime ECLs; if there has not been a significant increase in the credit risk since initial recognition, the loss reserves are measured at the amount of 12-month expected credit loss.

To assess whether the credit risk of a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument on the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition through reasonable and supportable information, including forward-looking information.

The Company assumes that there has not been a significant increase in the credit risk, if a financial instrument is determined to have a low credit risk at the balance sheet date.

The Company assesses expected credit risk and measures expected credit loss on either an individual basis or a collective basis of financial instruments. When the assessment is performed on a collective basis, the financial instruments are classified into various groups by the Company based on shared risk characteristics.

Expected credit losses are remeasured by the Company at each balance sheet date, and any increase or reversal of loss reserves arising therefrom is included in profit or loss for the current period as impairment losses or gains. For a financial asset at amortised cost, the loss reserve reduces the book value of the financial asset as shown in the balance sheet; for a debt instrument investment at fair value through other comprehensive income, the loss reverse is recognised in other comprehensive income without reducing the book value of the financial asset.

#### 6. Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet, and are not offset. However, if the following conditions are met, the net amount offset by each other is presented in the balance sheet: (1) the Company has a statutory right to offset the recognised amount, and such legal right is currently enforceable; (2) the Company plans to settle in net amount or to realise the financial assets and liquidate the financial liabilities at the same time.

For transferred financial assets not qualify for derecognition, the Company will not offset the transferred financial assets against related liabilities.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XI) Recognition criteria and provision method of expected credit loss of receivables

#### 1. Receivables for which expected credit losses are provided based on credit risk characteristics portfolio

Category of portfolio	Basis for determining the portfolio	Method for measuring expected credit losses
Bank acceptance Accounts receivable	Bill type	With reference to the historical credit loss experience, combined with the current situation and the forecast of future economic conditions, the expected credit loss is calculated based on the exposure at default and the lifetime expected credit loss rate
Commercial acceptance Accounts receivable		
Accounts receivable — Related party group within the scope of consolidation	Related parties within the scope of consolidation	The expected credit loss is calculated using the aging provision matrix model, specifically by estimating the historical loss rate using the migration rate, forecasting the expected credit loss after considering forward-looking information, and preparing a comparison table between the aging of accounts receivable and the expected credit loss rate to calculate the expected credit loss.
Accounts receivable — aging portfolio	Ageing	
Other receivables — low risk portfolio	Nature of business	With reference to the historical credit loss experience, combined with the current situation and the forecast of future economic conditions, the expected credit loss is calculated based on the exposure at default and the expected credit loss rate in the next 12 months or the entire lifetime
Other receivables — Related party portfolio within the scope of consolidation	Related parties within the scope of consolidation	

#### 2. Comparison table of aging and expected credit loss rate of aging portfolio

Age	Expected credit loss rate of accounts receivable (%)
Within 1 year (inclusive, same below)	3.59
1-2 years	23.61
2-3 years	45.78
3-4 years	70.30
4-5 years	83.67
Over 5 years	87.30

The aging of accounts receivable is calculated from the month in which the payment actually occurs.

#### 3. Criteria for recognition of receivables for which expected credit losses are provided on an individual basis

For receivables with significantly different credit risks and portfolio credit risks, the Company makes provision for expected credit losses on an individual basis.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XII) Inventories

#### 1. Categories of inventories

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials and supplies etc. to be consumed in the production process or in the rendering of services.

#### 2. Accounting method for dispatching inventories

Dispatched inventories are accounted for with the moving weighted average method at the end of each month.

#### 3. Inventory system

Perpetual inventory method is adopted.

#### 4. Amortisation method of low-value consumables and packages

##### (1) Low-value consumables

Low-value consumables are amortised in full when received for use.

##### (2) Packages

Packages are amortised in full when received for use.

#### 5. Provision for inventory impairment

At the balance sheet date, inventories are measured at the lower of cost and net realisable value; provisions for inventory write-down are made on the excess of its cost over the net realisable value. The net realisable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realisable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realisable value is determined separately and is compared with their costs to determine the provision for inventory write-down to be made or reversed.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XIII) Long-term Equity Investments

#### 1. Judgement on joint control and significant effects

Joint control is recognised as control held for a certain arrangement under the relevant agreement, the relevant activity of which should be unanimously agreed by the parties sharing the control. The influence is deemed as significant if there involves the power of participating in decision making on the financial and operational policies of the investee, but the power cannot control or jointly control with other parties the formulation of the policies.

#### 2. Determination of investment cost

- (1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the book value of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investment and the book value of the combination consideration paid or the aggregate nominal amount of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “package deal”. If it is a “package deal”, transactions as a whole are treated as one transaction obtaining the right to control in accounting treatment. If it is not a “package deal”, on the combination date, investment cost is initially recognised at the share of the book value of net assets of the combined party included in the consolidated financial statements of the ultimate controlling party after the combination. The difference between the acquisition-date investment cost of long-term equity investments and the book value of the previously held long-term equity investments plus the book value of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings

- (2) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “Accounting Standards for Business Enterprises No.12 — Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “Accounting Standards for Business Enterprises No. 7 — Non-cash Assets Exchange”.

#### 3. Subsequent measurement and recognition in profit or loss

When the Company controls the investee, a long-term equity investment is accounted for using the cost method. The equity method is applied to long-term equity investment of associates and joint ventures.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XIV) Fixed Assets

#### 1. Recognition criteria of fixed assets

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year, and are recognised when the inflow of economic benefits is probable and the cost can be reliably measured.

#### 2. Depreciation method of each category of fixed assets

Categories	Depreciation method	Depreciation term (years)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	10-20	0.00-5.00	4.75-10.00
General Equipment	Straight-line method	3-10	0.00-5.00	9.50-33.33
Professional Equipment	Straight-line method	3-10	0.00-5.00	9.50-33.33
Transportation tools	Straight-line method	5	5.00	19.00

### (XV) Construction in Progress

- Construction in progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred until it is ready for intended use.
- Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred to fixed assets based on estimated value. After final account of the project has been settled, the Company shall make adjustment to the previous estimated value based on actual cost, but need not to adjust the depreciation retrospectively.

Categories	Standards and timings for converting construction in progress to fixed assets
Buildings and structures	available for use after completion of work
General Equipment	meeting the design requirements or standards specified in the contract after installation and commissioning
Professional Equipment	meeting the design requirements or standards specified in the contract after installation and commissioning

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XVI) Intangible Assets

1. Intangible assets, including land use rights, patents, license fee, and software license, are initially measured at cost.
2. Intangible assets with definite useful lives are reasonably and systematically amortised over their useful lives based on the pattern of the economic benefits relating to the intangible assets that are expected to be realised. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Items	Useful life (months)	Basis for determining useful life	Amortization method
Land use rights	593-600	Term of land use rights certificates	Straight-line method
Patents	203-206	Patent term	Straight-line method
License fee, software license	36-60	Estimated useful life	Straight-line method

### 3. Scope of collection of R&D expenses

#### (1) Personnel costs

Personnel and labor costs include salaries, basic endowment insurance, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund for the Company's R&D personnel, as well as labor costs for external R&D personnel.

The R&D personnel also serve multiple R&D projects, the labor costs are recognised based on the working hours records of the R&D personnel of each R&D project provided by the Company's management department, and are allocated among different R&D projects on a pro rata basis.

For personnel directly engaged in R&D activities and external R&D personnel engaged in non-R&D activities at the same time, the Company allocates the actual labor costs of R&D personnel according to the working hours of R&D personnel in different positions and other reasonable methods such as the proportion of actual working hours to R&D expenses and production and operation expenses.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XVI) Intangible Assets (Continued)

#### 3. Scope of collection of R&D expenses (Continued)

(2) *Direct input costs*

Direct investment expenses refer to the relevant expenses actually incurred by the Company for the implementation of R&D activities. Including: 1) Direct consumption of materials, fuel and power; 2) the development and manufacturing fees for molds and process equipment used for intermediate tests and product trial production, which do not constitute the purchase fees for samples, prototypes and general testing methods of fixed assets, and the inspection fees for trial production of products; 3) Operation, maintenance, adjustment, inspection, testing and maintenance costs of instruments and equipment used for R&D activities.

(3) *Depreciation expenses and long-term deferred expenses*

Depreciation expenses represent depreciation charges for instruments, equipment and buildings in use for R&D activities.

For instruments, equipment and buildings in use used for R&D activities, which are also used for non-R&D activities, necessary records shall be made for the use of such instruments, equipment and buildings in use, and the actual depreciation expenses shall be allocated between the R&D expenses and the production and operation expenses using reasonable methods based on the actual working hours, area of use and other factors.

Long-term deferred expenses refer to the long-term deferred expenses incurred in the process of reconstruction, modification, renovation and repair of R&D facilities, which are classified according to the actual expenses and amortized evenly over the prescribed period.

(4) *Amortization expenses of intangible assets*

Amortization expense of intangible assets refers to the amortization expense of software, intellectual property rights and non-patented technologies (proprietary technologies, licenses, design and calculation methods, etc.) used in R&D activities.

(5) *Design fee*

Design expenses refer to the expenses incurred for the conceptualization, development and manufacturing of new products and processes, the formulation of processes, technical specifications, procedures, and the design of operational characteristics, including the expenses related to the creative design activities for obtaining innovative, creative and breakthrough products.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XVI) Intangible Assets (Continued)

#### 3. Scope of collection of R&D expenses (Continued)

(6) *Equipment commissioning expenses and testing expenses*

Equipment commissioning expenses refer to the expenses incurred in R&D activities during the preparation of tooling, including the expenses incurred in the development of special and specialized production machines, changes in production and quality control procedures, or the formulation of new methods and standards.

The expenses incurred for the preparation of regular tooling and industrial engineering for large-scale batch and commercial production are not included in the scope of collection. Trial expenses include clinical trial fees for new drug development, on-site testing fees for exploration and development technologies, field testing fees, etc.

(7) *Commission for external R&D*

Outsourced external R&D expenses refer to the expenses incurred by the Company in entrusting other domestic and overseas institutions or individuals to conduct R&D activities (the results of R&D activities are owned by the Company and are closely related to the Company's main business).

(8) *Other expenses*

Other expenses refer to other expenses directly related to R&D activities in addition to the above expenses, including technical drawings and materials fees, data translation fees, expert consulting fees, high-tech R&D insurance premiums, R&D achievements search, demonstration, review, appraisal and acceptance fees, intellectual property application fees, registration fees, agency fees, conference fees, travel expenses, communication fees, etc.

4. Expenditures for internal R&D projects during the development stage are expensed in the period as incurred. The expenses of internal R&D projects during the development stage are recognised as intangible assets when all of the following conditions are satisfied: (1) the completion of such intangible assets for use or sale is technically feasible; (2) the Company has the intention to use or sell the intangible assets upon completion; (3) the way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation; (4) the Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; (5) the expenses attributable to such intangible assets can be measured reliably at the development stage.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XVII) Partial Long-term Asset Impairment

For long-term assets such as long-term equity investment, fixed assets, construction in progress, right-of-use assets and intangible assets with definite useful lives, when there is evidence at the balance sheet date showing that the assets are impaired, the recoverable amounts are estimated. For goodwill arising from business combination and intangible assets with uncertain useful life, whether there is an evidence of impairment or not, impairment test is conducted annually. Impairment test is performed on goodwill together with its relevant asset group or asset group portfolio.

If the recoverable amounts of the abovementioned long-term assets are lower than their book values, the differences are recognised as provision for asset impairment and recorded in profit and loss for the current period.

### (XVIII) Long-term Deferred Expenses

Long-term deferred expenses are expenses that have been recognised but with amortisation period over one year (excluding one year). Long-term deferred expenses are recognised as incurred, and evenly amortised within its beneficial period or stipulated period. If items of long-term deferred expenses fail to be beneficial to the subsequent accounting periods, the residual values of such items are included in profit and loss for the period.

### (XIX) Employee Benefits

1. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long term employee benefits.
2. **Accounting treatment of short-term remuneration**

During the accounting period when the staff provides service, the Company will recognise the short-term remuneration incurred as liabilities, and the liabilities would be included in profit and loss for the period or the relevant costs of assets.
3. **Accounting treatment of post-employment benefits**

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

  - (1) During the accounting period when the staff provides service, the Company will recognise the amount payable calculated under defined contribution plan as liabilities, and the liabilities would be included in profit and loss for the period or the relevant costs of assets.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XIX) Employee Benefits (Continued)

#### 3. Accounting treatment of post-employment benefits (Continued)

(2) Accounting treatment of defined benefit plan normally comprises steps as follow:

- 1) According to the projected unit credit method, the Company adopted unbiased and mutually agreed actuarial assumptions to estimate the relevant demographic variables and financial variables, calculate the obligations arising from the defined benefit plan and determine the period of relevant obligations belonging to. Meanwhile, the obligation arising from the defined benefit plan is discounted to determine the present value of such obligation under the defined benefit plan and the service cost for the current period;
- 2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan;
- 3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognised as three parts, such as the service cost, the net interest on the net liabilities or net assets from the defined benefit plan and the changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan. Of these, the service cost and the net interest on the net liabilities or net assets from the defined benefit plan will be recognised in profit and loss for the period or relevant assets cost. The changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan will be recognised in other comprehensive income and shall not be reversed to profit or loss in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

#### 4. Accounting treatment of termination benefits

When providing termination benefits to employees, the employee benefits liabilities arising from the recognition of termination will be recognised in profit and loss for the current period at the earlier of: (1) when the Company cannot unilaterally withdraw the termination benefits for the release of the labour relationship plan or the termination proposal; (2) when the Company recognised relevant costs or expenses associated with the reorganisation of the payment of the termination benefits.

#### 5. Accounting treatment of other long-term employee' benefits

Other long-term benefits provided by the Company to employees that satisfy the conditions of defined contribution plan will apply accounting treatment according to the relevant provisions of the defined contribution plans. Other long-term benefits other than this will conduct accounting treatment according to the defined benefit plan. In order to simplify the relevant accounting treatment, the generated staff remuneration is recognised as service cost and the total net amount of the components such as net interest amount of net liabilities or net assets in terms of other long-term employees' benefits and changes arising from re-measuring the net liabilities or net assets in terms of other long-term employees' benefits is recognised as profit and loss for the period or the relevant cost of asset.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XX) Provision for Liabilities

1. Provisions for liabilities are recognised when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, product quality warranty, and onerous contract, and it is very likely that an outflow of economic benefits will be resulted from settlement of such obligation, and a reliable estimate of the amount of the obligation can be made.
2. Provisions for liabilities are initially stated at the best estimate of the expenditure that is required for settling the present obligation. Book values of provisions for liabilities are reviewed at balance sheet date.

### (XXI) Revenue

#### 1. Principles on recognition of revenue

At contract inception, the Company assesses the contract to identify each individual performance obligation thereunder and to determine whether the performance obligation is satisfied over time or at a point in time.

If one of the following criteria is met, the Company satisfies a performance obligation over time, otherwise the performance obligation is satisfied at a point in time: (1) the customer simultaneously receives and consumes the economic benefits provided by the Company's performance as the Company performs; (2) the Company's performance creates goods that the customer controls as goods are created; (3) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date during the term of the contract.

For a performance obligation satisfied over time, the Company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. If the Company is unable to reasonably measure its progress towards complete satisfaction of a performance obligation and expects to recover the costs incurred, the Company shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure progress towards complete satisfaction of the performance obligation. For a performance obligation satisfied at a point in time, the Company shall recognise revenue when customer obtains control of relevant goods or services. To determine whether a customer obtains control of goods, the Company shall consider the following indicators: (1) the Company has a present right to receive the payment for the goods, i.e. a customer has a present obligation to pay for the goods; (2) the Company has transferred the legal title of the goods to the customer, i.e. the customer has the legal title of the goods; (3) the Company has transferred physical possession of the goods to the customer, i.e. the customer has physical possession of the goods; (4) the Company has transferred significant risks and rewards of ownership of the goods to the customer, i.e. the customer has the significant risks and rewards of ownership of the goods; (5) the customer has accepted the goods; (6) other indications that the customer has obtained control of the goods.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXI) Revenue (Continued)

#### 2. Principles on the measurement of revenue

- (1) The Company measures revenue through allocating the transaction price to each performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to the customers.
- (2) If the consideration promised in a contract includes a variable amount, the Company shall estimate the amount of consideration by using either of the expected value or the most likely amount, provided that the transaction price including the variable consideration does not exceed the amount for which the accumulative recognised income is unlikely to undergo a major reversal when the relevant uncertainty is eliminated.
- (3) Where there is a significant financing component in the contract, the Company determines the transaction price based on the amount payable in cash when it is assumed that the customer has taken the control of goods or services. The difference between the transaction price and the contract consideration is amortised using the effective interest method during the contract period. On the contract start date, the Company does not consider the major financing components in the contract when it expects that the difference between customer taking the control of goods or services and the payment of the customer price is not more than one year.
- (4) Where the contract includes two or more performance obligations, the Company shall amortise the transaction price to each individual performance obligation on the contract start date in line with the relative proportion of the individual selling prices of the goods.

#### 3. Specific methods for revenue recognition

The Company's product sales model is mainly divided into offline channel and online channel sales model, which is a performance obligation performed at a certain point in time. The specific methods for revenue recognition are as follows:

(1) *Offline channel sales*

Revenue from domestic sales is recognized when the Company delivers the products to the agreed delivery location and the customers sign off; revenue from export sales is recognized when the Company has declared the products according to the contract and obtained the bill of lading.

(2) *Online channel sales*

Customers place orders on the e-commerce platform, and the Company delivers the products after receiving the orders from customers, and the revenue is recognized after the customers signing and accepting the orders.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXI) Revenue (Continued)

#### 4. Impact of special sales terms on revenue recognition and measurement

The Company's contracts with some distributors stipulate that after reaching a certain sales target, sales incentives such as rebates and purchase gifts will be provided. For rebates, at the balance sheet date, the Company recognizes contract liabilities based on the amount allocated to the goods to be redeemed and offsets the sales revenue of the corresponding customers. For the purchase of goods, the Company allocates the total contract transaction price to the relative proportion of the individual selling price of each good and recognizes the sales revenue of each good.

### (XXII) Contract Assets, Contract Liabilities

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The Company presents the net amount after offsetting the contract assets with the contract liabilities under the same contract.

The Company's unconditional (i.e., depending only on the passage of time) right to collect consideration from customers is presented separately as receivables, whereas the right to collect consideration from customers who have received the goods transferred (which depends on factors other than the passage of time) is presented as contract assets.

Contract liabilities are presented for the obligation of transferring goods to customers when an amount of consideration has been received or is receivable by the Company

### (XXIII) Government Grants

1. Government grants are recognised when (1) the Company is able to comply with the conditions attached to the government grants; (2) the Company is able to receive the government grants. Government grants which are monetary assets shall be measured at the amount received or receivable. Government grants which are non-monetary assets shall be measured at fair value, or at nominal amount if the fair value cannot be reliably measured.

#### 2. Judgment basis and accounting treatment on the government grants relating to assets

Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the book value of such assets or recognised as deferred income. Government grants relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government grants measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXIII) Government Grants (Continued)

#### 3. Judgment basis and accounting treatment on the government grants relating to revenue

Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to the profit and loss for the period or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in the profit and loss for the period or offset the related costs.

4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.

### (XXIV) Deferred Income Tax Assets and Deferred Income Tax Liabilities

1. Deferred income tax assets or deferred income tax liabilities are recognised based on the difference between the book values of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the book value), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.
2. Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred income tax assets unrecognised in previous accounting periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.
3. The book value of deferred income tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available in future periods against which the deferred income tax assets can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.
4. The Company's current and deferred income taxes are recognised in profit and loss for the period as tax expense or profit, excluding income tax arising from: (1) business combination; (2) transactions or items directly recognised in owners' equity.
5. When the following conditions are met at the same time, the Company presents the deferred income tax assets and deferred income tax liabilities as the net amount after offsetting: (1) the Company has the legal right to settle the current income tax assets and current income tax liabilities on a net basis; (2) the deferred income tax assets and deferred income tax liabilities are related to the income tax levied by the same tax collection and management department on the same taxable entity or related to different taxable entities, but the involved taxable entities intend to settle the current income tax assets and current income tax liabilities on a net basis or acquire assets and pay off debts simultaneously in each future period in which significant deferred income tax assets and deferred income tax liabilities are reversed.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXV) Lease

#### 1. The Company as a lessee

On the commencement date of the lease term, the Company recognises the leases which have a term of 12 months or less and does not include any purchase options as a short-term lease; the separate leased asset has a low value when new is recognised as a lease of low-value assets. If the Company subleases or expects to sublease the leased assets, the original lease is not recognised as a lease of low-value assets.

For all short-term leases and leases of low-value assets, the Company accounts the lease payments into the relevant asset costs or the profit and loss for the current period using the straight-line method in each period of the lease term.

In addition to the above-mentioned accounting treatment for short-term leases and leases of low-value assets using simplified approach, the Company recognises the right-of-use assets and lease liabilities for the lease at the beginning of the lease term.

#### (1) *Right-of-use assets*

The right-of-use assets shall be initially measured at costs. Such costs include: 1) the initial amount of measurement of the lease liabilities; 2) the lease payment paid on or before the commencement date of the lease term (if there is a lease incentive, the amount of the lease incentive that has been received shall be deducted); 3) initial direct costs incurred by the lessee; 4) the cost that the lessee expects to occur for dismantling and removing the leased assets, restoring the site where the leased assets are located, or restoring the leased assets to the agreed status under the terms of the lease terms.

The Company shall make a provision for depreciation on the right-of-use assets using the straight-line method. If it is reasonable to determine that the ownership of the leased assets can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation within the remaining useful life of the leased assets. If it is not reasonable to determine that the ownership of the leased assets can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation at the shorter of the lease term and the remaining useful life of the leased assets.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXV) Lease (Continued)

#### 1. The Company as a lessee (Continued)

##### (2) Lease liabilities

On the lease start date, the Company recognises the present value of the unpaid lease payments as lease liabilities. When calculating the present value of lease payments, the implied interest rate of lease is used as the discount rate. If the implied interest rate of lease cannot be determined, the incremental borrowing rate of the Company is used as the discount rate. The difference between the lease payments and its present value is regarded as the unrecognised financing expense. During each period of the lease term, its interest expense is measured at the discount rate for determining the present value of the lease payments, and is included in the profit and loss for the current period. The variable lease payments not included in the measurement of lease liabilities are included in the profit and loss for the period when they actually occur.

After the commencement date of the lease term, when there is a change in the actual fixed payments, the estimated payable amount of the guarantee residual value, the index or ratio used to determine the lease payments, the evaluation result or the actual exercise situation of the purchase option, the renewal option or the termination option change, the Company remeasures the lease liabilities according to the present value of the changed lease payments and adjusts the book value of the right-of-use asset accordingly. If the book value of the right-of-use asset has been reduced to zero but the lease liability still needs to be further reduced, the Company accounts for the remaining amount in the profit and loss for the period.

#### 2. The Company as a lessor

On the lease commencement date, the Company classifies leases that substantially transfer almost all the risks and rewards related to the ownership of the leased assets as financial leases, and other leases are operating leases.

##### *Operating lease*

During each period of the lease term, the Company recognizes the lease receipts as rental income on a straight-line basis. The initial direct expenses incurred are capitalized and amortized on the same basis as the rental income recognition, and are included in the profit and loss for the current period in installments. The variable lease payments obtained by the Company related to operating leases but not included in the lease receipts are included in the profit and loss for the current period when actually incurred.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXVI) Other significant accounting policies and accounting estimates

#### Accounting treatment related to the repurchase of the Company's shares

Where the Company acquires its own shares due to the reduction of registered capital or the reward of employees, the amount actually paid shall be treated as treasury shares and registered for inspection at the same time. If the repurchased shares are canceled, the difference between the total nominal value of the shares calculated based on the nominal value of the shares canceled and the number of shares canceled and the amount actually paid for the repurchase is offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings are offset. If the repurchased shares are awarded to the Company's employees as equity-settled share-based payments, when the employees exercise the right to purchase the Company's shares, the cost of the treasury shares delivered to the employees and the accumulated amount of capital reserve (other capital reserve) during the waiting period are reversed, and the capital reserve (share premium) is adjusted according to the difference.

### (XXVII) Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Key assumptions of the estimates and judgments of uncertain factors are reviewed on an ongoing basis by the Company. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty are as follows:

#### 1. Recognition of deferred income tax assets

As stated in note 3(XXIV) to these financial statements, deferred income tax assets are recognised on the basis of the deductible temporary differences between the book values of the assets and liabilities and their tax bases (for an item not recognised as asset and liability but for which tax base can be determined under tax laws, the difference between its tax base and its book value), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled. Deferred income tax assets are recognised for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

#### 2. Impairment of financial instruments and contract assets

As described in Note III (X) and (XI) to these financial statements, the Company performs impairment treatment on financial assets measured at amortized cost (accounts receivable and other receivables) and recognizes loss provisions based on expected credit losses.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXVII) Significant Accounting Judgments and Estimates (Continued)

#### 3. Provision for impairment of inventories

As stated in note 3(XII) to these financial statements, at the balance sheet date, the Company's inventories are measured at the lower of cost and net realisable value. Provision for impairment is made for the excess of the cost over the net realisable value of individual inventory. For inventories for immediate sale, net realisable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realisable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realisable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or released.

#### 4. Impairment of long-term assets

As stated in note 3(XVII) to these financial statements, for long-term assets such as long-term equity investments, fixed assets, construction in progress, right-of-use assets and intangible assets with limited useful lives, its recoverable amount will be estimated when there is an indication of impairment at the balance sheet date. Goodwill arising from a business combination and an intangible asset with an indefinite useful life shall be subject to the annual impairment test, irrespective of whether there is any indication of impairment. Impairment test will be conducted on goodwill together with the related asset group or asset group portfolio. If the result of recoverable amount measurement indicates that the recoverable amount of such long-term assets is less than its book value, the book value of the assets will be reduced to its recoverable amount. That reduction is recognised as an impairment loss of assets and charged to profit or loss for the current period. A provision for impairment of the assets is recognised accordingly.

# NOTES TO FINANCIAL STATEMENTS

2023

## III. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (XXVIII) Changes in Significant Accounting Policies

#### Changes in accounting policies arising from alteration in accounting standards for business enterprises

Since January 1, 2023, the Company has implemented the “Interpretation of Accounting Standards for Business Enterprises No. 16” issued by the Ministry of Finance, which stipulates that “the deferred income tax related to assets and liabilities arising from a single transaction does not apply to the accounting treatment of initial recognition exemption”, and the individual transaction that applies this regulation occurred between the beginning of the earliest period presented in the financial statements for the first time to the first implementation date is adjusted in accordance with this regulation. For the lease liabilities and right-of-use assets recognized due to the application of the single transaction in the beginning of the earliest period presented in the financial statements in which the provision is first implemented, as well as the estimated liabilities related to the decommissioning obligations and the corresponding assets recognized, and the taxable temporary differences and deductible temporary differences arising therefrom, the cumulative impact shall be adjusted to the opening retained earnings and other relevant financial statement items of the earliest period presented in the financial statements in accordance with the provisions of the regulation and the “Accounting Standards for Business Enterprises No. 18 — Income Tax”. The specific adjustments are as follows:

Report items significantly affected	Amount affected	Remarks
Balance sheet items as at December 31, 2022		
Deferred tax liabilities	6,657.31	
Retained earnings	-6,657.31	
2022 Income Statement Items		
Income tax expense	1,507.33	

# NOTES TO FINANCIAL STATEMENTS

2023

## IV. TAXATION

### (I) Main Types of Taxes and Corresponding Rates

Tax Type	Tax basis	Tax rate
Value-added Tax	Output VAT is calculated on product sales and taxable services revenue according to taxation laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable	6%, 9%, 13%, 19%
Property tax	If levied at value, 1.2% of the original value of the property less 30% of the remaining value at one time; if levied at rent, 12% of the rental income	1.2%, 12%
City maintenance and construction tax	Actual amount of transfer tax paid	7%
Education surcharge	Actual amount of transfer tax paid	3%
Local education surcharge	Actual amount of transfer tax paid	2%
Corporate income tax	Based on taxable profits	15%, 20%, 25%

Details of corporate income tax rates of different entities

Name of entity	Income tax rate
The Company	15%
Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司)	20%
Hangzhou Jienuotong Science and Technology Materials Co., Ltd. (杭州捷諾通科技材料有限公司)	20%
MTM AiDEX Europe GmbH	15%
MicroTech Medical Nanjing Co., Ltd. (微泰醫療器械(南京)有限公司)	20%
Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司)	25%
SenEaron Healthcare Limited (欣宜榮健康有限公司)	Using the principle of geographical source, the profits tax rate is 8.25% for the first HK\$2,000,000 of profits derived from Hong Kong, and 16.5% for profits derived from Hong Kong thereafter. Profits derived from other places are not subject to profits tax in Hong Kong

# NOTES TO FINANCIAL STATEMENTS

2023

## IV. TAXATION (Continued)

### (II) Tax Incentives

1. According to the Announcement on the Filing of the First Batch of High-tech Enterprises Recognized in Zhejiang Province in 2021 issued by the National High-tech Enterprise Certification Management Leading Group Office, the Company was recognized as a high-tech enterprise (Certificate No. GR202133006732), with a validity period of 3 years (from December 16, 2021 to December 16, 2024), and is subject to an enterprise income tax rate of 15% in 2023.
2. According to the Announcement on the Additional VAT Deduction Policy for Advanced Manufacturing Enterprises (Announcement of the Ministry of Finance and the State Taxation Administration [2023] No. 43) issued by the Ministry of Finance and the State Taxation Administration in September 2023, from January 1, 2023 to December 31, 2027, advanced manufacturing enterprises are allowed to offset the VAT payable with an additional 5% of the deductible input VAT for the current period. The Company is an advanced manufacturing enterprise and enjoys this tax preference in 2023.
3. Income tax incentives for small and low-profit enterprises

Hangzhou MicroTech E-Commerce Co., Ltd., Hangzhou Jienuotong Technology Materials Co., Ltd. and MicroTech Medical (Nanjing) Co., Ltd. are qualified as small low-profit enterprises in 2023 and are entitled to the income tax preference for small low-profit enterprises, details of which are as follows:

- (1) According to Article 28 of the Enterprise Income Tax Law of the People's Republic of China, qualified small low-profit enterprises are subject to a reduced enterprise income tax rate of 20%.
  - (2) According to the Announcement of the Ministry of Finance and the State Taxation Administration on Preferential Income Tax Policies for Small and Micro Enterprises and Individual Industrial and Commercial Households (Announcement of the Ministry of Finance and the State Taxation Administration [2023] No. 6) and the Announcement on Further Implementation of Preferential Income Tax Policies for Small and Micro Enterprises (Announcement of the Ministry of Finance and the State Taxation Administration [2022] No. 13), from January 1, 2023 to December 31, 2024, the portion of annual taxable income of a small low-profit enterprise which does not exceed RMB1,000,000 shall be reduced to 25% of the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%; from January 1, 2022 to December 31, 2024, the portion of annual taxable income of a small low-profit enterprise which exceeds RMB1,000,000 but does not exceed RMB3,000,000 shall be reduced to 25% of the taxable income, and the enterprise income tax shall be paid at the tax rate of 20%.
4. Pursuant to section 14 of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), Hong Kong is taxed on a territorial basis, i.e. only profits from Hong Kong are taxable in Hong Kong, while profits from other places are not taxable in Hong Kong.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (I) Notes to the Consolidated Balance Sheet

#### 1. Monetary funds

##### (1) Breakdown

Item	Closing balance	Closing balance of last year
Cash on hand	4,287.29	10,287.29
Bank deposits	1,882,225,351.38	2,045,285,886.81
Other monetary funds	3,651,319.43	1,274,287.50
Total	1,885,880,958.10	2,046,570,461.60
Including: total amount of money deposited abroad	13,862,656.79	23,836,217.24

##### (2) Other description

Other monetary funds at the end of the 2023 period consisted of RMB2,791,616.75 deposited in the third party payment platform and RMB859,702.68 of cash balance in the share repurchase trust account.

#### 2. Financial assets held for trading

Item	Closing balance	Closing balance of last year
Financial assets at fair value through profit or loss for the current period	6,054,088.59	
Included: Funds	6,054,088.59	
Total	6,054,088.59	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 3. Accounts receivable

##### (1) Breakdown

##### 1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	1,780,095.32	2.25	1,780,095.32	100.00	
Provision for bad debts made as per portfolio	77,447,473.54	97.75	4,213,877.98	5.44	73,233,595.56
Total	79,227,568.86	100.00	5,993,973.30	7.57	73,233,595.56

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	1,164,996.72	2.14	1,164,996.72	100.00	
Provision for bad debts made as per portfolio	53,286,749.76	97.86	4,029,811.09	7.56	49,256,938.67
Total	54,451,746.48	100.00	5,194,807.81	9.54	49,256,938.67

##### 2) No material accounts receivable with provision for bad debts has been made individually.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 3. Accounts receivable (Continued)

(1) Breakdown (Continued)

3) Accounts receivable with provision for bad debts has been made using ageing grouping

Age	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Within 1 year	72,659,985.25	2,608,493.47	3.59
1 to 2 years	2,821,302.29	666,109.47	23.61
2 to 3 years	1,816,519.94	831,602.83	45.78
3 to 4 years	131,289.29	92,296.37	70.30
4 to 5 years	18,376.77	15,375.84	83.67
Sub-total	77,447,473.54	4,213,877.98	5.44

(2) Ageing analysis

Age	Closing balance			Closing balance of last year		
	Book balance	Provision for bad debts	Percentage of provision (%)	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year	72,659,985.25	2,608,493.47	3.59	47,539,043.44	2,207,990.31	4.64
1 to 2 years	3,095,657.61	940,464.79	30.38	5,178,026.72	1,460,362.68	28.20
2 to 3 years	2,112,869.52	1,127,952.41	53.38	689,674.46	496,139.56	71.94
3 to 4 years	388,315.03	349,322.11	89.96	318,146.75	303,460.15	95.38
4 to 5 years	257,793.77	254,792.84	98.84	282,870.72	282,870.72	100.00
Over 5 years	712,947.68	712,947.68	100.00	443,984.39	443,984.39	100.00
Total	79,227,568.86	5,993,973.30	7.57	54,451,746.48	5,194,807.81	9.54

The ageing analysis of accounts receivable is based on the month in which the amount actually occurs. The amount that occurs first has priority in settlement upon turnover of funds.

The credit period granted by the Company to its customers generally ranges from 1 to 9 months. Overdue receivables are regularly reviewed by management.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 3. Accounts receivable (Continued)

(3) Changes in provision for bad debt

Item	Opening balance	Provision	Changes in the period			Closing balance
			Recovery or reversal	Write-off	Others	
Provision for bad debts made individually	1,164,996.72	615,098.60				1,780,095.32
Provision for bad debts made as per portfolio	4,029,811.09	376,692.82		192,625.93		4,213,877.98
Sub-total	5,194,807.81	991,791.42		192,625.93		5,993,973.30

(4) Actual Accounts receivables written off in the period

1) Accounts receivables written off

Item	Amount written off
Actual Accounts receivables written off	192,625.93

2) There were no material account receivables written off in the period.

(5) Top 5 entities by the amount of accounts receivable

Name of entity	Percentage of the closing balance of accounts receivable (%)		Provision for bad debt
	Closing balance	of accounts receivable (%)	
Company A	23,739,732.45	29.96	852,256.39
Company B	11,766,589.24	14.85	422,420.55
Company C	3,722,518.24	4.70	337,258.58
Company D	3,050,038.26	3.85	109,496.37
Company E	2,359,559.01	2.98	84,708.17
Sub-total	44,638,437.20	56.34	1,806,140.06

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 4. Prepayments

(1) Ageing analysis

1) breakdown

Ageing	Closing balance			Closing balance of last year				
	Book balance	Proportion (%)	Provision for impairment	Book value	Book balance	Proportion (%)	Provision for impairment	Book value
Within 1 year	10,212,308.99	99.90		10,212,308.99	9,402,564.60	99.75		9,402,564.60
1 to 2 years	1,298.57	0.01		1,298.57	16,334.91	0.17		16,334.91
2 to 3 years	9,615.00	0.09		9,615.00	4,093.92	0.04		4,093.92
Over 3 years					3,344.55	0.04		3,344.55
Total	10,223,222.56	100.00		10,223,222.56	9,426,337.98	100.00		9,426,337.98

2) As at the end of the period, there were no material prepayments aged over 1 year.

(2) Top 5 entities by the amount of prepayments

Name of entity	Closing balance	Percentage of the closing balance of prepayments (%)
Company F	2,795,133.33	27.34
Company G	1,793,540.18	17.54
Company H	895,697.78	8.76
Company I	691,428.40	6.76
Company J	567,000.00	5.55
Sub-total	6,742,799.69	65.95

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 5. Other receivables

(1) Other receivables presented by nature

Nature	Closing balance	Closing balance last year
Export tax rebate		1,202,584.03
Deposit security deposit	<b>1,072,753.64</b>	570,073.64
Reserve fund	<b>253,850.56</b>	228,497.33
other	<b>86,500.00</b>	80.00
Total	<b>1,413,104.20</b>	2,001,235.00

(2) Ageing

Age	Closing balance	Closing balance last year
Within 1 year	<b>1,050,270.56</b>	1,618,681.36
1 to 2 years	<b>37,600.00</b>	275,024.20
2 to 3 years	<b>220,104.20</b>	101,009.44
3 to 4 years	<b>101,009.44</b>	
4 to 5 years		5,000.00
Over 5 years	<b>4,120.00</b>	1,520.00
Total	<b>1,413,104.20</b>	2,001,235.00

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 5. Other receivables (Continued)

(3) Provision for bad debts

1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Provision for bad debts made as per portfolio	1,413,104.20	100.00			1,413,104.20
Total	1,413,104.20	100.00			1,413,104.20

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Provision for bad debts made as per portfolio	2,001,235.00	100.00			2,001,235.00
Total	2,001,235.00	100.00			2,001,235.00

2) Other receivables with provision for bad debts made as per portfolio

Name of Portfolio	Book balance	Closing balance	
		Provision for bad debts	Percentage of provision (%)
Low Risk Portfolio	1,413,104.20		
Sub-total	1,413,104.20		

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 5. Other receivables (Continued)

(4) Top 5 entities by the amount of other receivables

Name of entity	Nature	Closing balance	Ageing	Percentage of the closing balance of other receivables (%)	Bad debt provision at end of period
Company K	Security deposits	500,000.00	Within 1 year	35.38	
Company L	Reserve funds	109,108.25	Within 1 year	7.72	
Company M	Security deposits	100,009.44	3 to 4 years	7.08	
Company N	Security deposits	90,000.00	Within 1 year	6.37	
Company O	Security deposits	87,746.95	2 to 3 years	6.21	
Sub-total		886,864.64		62.76	

#### 6. Inventories

(1) Breakdown

Items	Closing balance			Closing balance of last year		
	Book balance	Impairment	Book value	Book balance	Impairment	Book value
Raw materials	24,857,996.96	3,669,165.86	21,188,831.10	47,816,189.89	1,975,549.93	45,840,639.96
Work in process	3,915,485.49	11,255.99	3,904,229.50	4,296,798.25	2,919.61	4,293,878.64
Inventories	11,571,349.01	628,678.52	10,942,670.49	12,813,383.01	854,291.77	11,959,091.24
Delivered goods	2,780,471.77		2,780,471.77	2,718,230.61		2,718,230.61
Materials for consigned processing	3,298,520.39		3,298,520.39	2,523,332.45		2,523,332.45
Total	46,423,823.62	4,309,100.37	42,114,723.25	70,167,934.21	2,832,761.31	67,335,172.90

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 6. Inventories (Continued)

(2) Provisions for inventory impairment

1) Breakdown

Items	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	write-off	Others	
Raw materials	1,975,549.93	2,746,291.83		1,052,675.90		3,669,165.86
Work in process	2,919.61	8,336.38				11,255.99
Inventories	854,291.77	766,097.27		991,710.52		628,678.52
Total	2,832,761.31	3,520,725.48		2,044,386.42		4,309,100.37

2) Specific basis for determining net realizable value, the reasons for write-off of provisions for inventory impairment during the period

Items	Specific basis for determining net realisable value	Reason for write-off of provisions for inventory impairment
Raw materials Work in process	The net realisable value of relevant products is determined based on estimated selling price less estimated costs to be incurred for completion, estimated sales expenses and relevant taxes and surcharges	During the period, inventories with provisions for impairment were consumed
Inventories	The net realisable value of the inventory items is determined based on estimated selling price less estimated sales expenses and relevant taxes.	During the period, inventories with provisions for impairment were sold

#### 7. Other current assets

Items	Closing balance			Closing balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Input value added tax retained for deduction	4,250,688.30		4,250,688.30	2,392,984.33		2,392,984.33
Prepaid corporate income tax	309.66		309.66	17.30		17.30
Total	4,250,997.96		4,250,997.96	2,393,001.63		2,393,001.63

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 8. Fixed assets

##### (1) Breakdown

Items	Buildings and structures	General equipment	Professional equipment	Transportation vehicles	Total
Original book value					
Opening balance	73,263,035.12	3,239,066.32	33,533,696.38	634,168.14	110,669,965.96
Increase during the period	1,285,230.95	936,115.82	9,995,610.87		12,216,957.64
1) Purchase	1,070,260.30	936,115.82	2,340,743.66		4,347,119.78
2) Transferred from					
construction in progress	214,970.65		7,654,867.21		7,869,837.86
Decrease during the period		309,973.60	546,224.43	9,734.51	865,932.54
1) Disposal or retirement		309,973.60	546,224.43	9,734.51	865,932.54
Closing balance	74,548,266.07	3,865,208.54	42,983,082.82	624,433.63	122,020,991.06
Accumulated depreciation					
Opening balance	8,879,616.83	1,855,386.15	10,330,715.75	128,709.40	21,194,428.13
Increase during the period	4,281,146.95	674,822.03	3,773,363.17	116,760.02	8,846,092.17
1) Provision	4,281,146.95	674,822.03	3,773,363.17	116,760.02	8,846,092.17
Decrease during the period		306,138.25	396,747.32	2,151.92	705,037.49
1) Disposal or retirement		306,138.25	396,747.32	2,151.92	705,037.49
Closing balance	13,160,763.78	2,224,069.93	13,707,331.60	243,317.50	29,335,482.81
Book value					
Closing book value	61,387,502.29	1,641,138.61	29,275,751.22	381,116.13	92,685,508.25
Opening book value	64,383,418.29	1,383,680.17	23,202,980.63	505,458.74	89,475,537.83

##### (2) Operating leased fixed assets

Item	Closing book value
Buildings and structures	13,026,037.31
Sub-total	13,026,037.31

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 9. Project under construction

(1) *breakdown*

Item	Closing balance		Closing balance of last year			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Equipment to be installed	5,015,876.56		5,015,876.56	381,053.10		381,053.10
Annual production of 30,000 sets of patch insulin pumps and 3.6 million sets of consumables	2,444,114.23		2,444,114.23			
Warehouse renovation	486,238.53		486,238.53			
<b>Total</b>	<b>7,946,229.32</b>		<b>7,946,229.32</b>	381,053.10		381,053.10

(2) *Changes in major projects under construction during the period*

Project name	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Other decrease	Closing balance
Annual production of 30,000 sets of patch insulin pumps and 3.6 million sets of consumables	RMB 244.28 million		2,444,114.23			2,444,114.23
Sub-total			2,444,114.23			2,444,114.23

Project name	Percentage of accumulated project input to budget (%)	Progress of project	Accumulated amounts of capitalized interest	Capitalised interest amount for the current period	Ratio of capitalised interest for the current period (%)	Source of funds
Annual production of 30,000 sets of patch insulin pumps and 3.6 million sets of consumables	1.00	Early stage of preparation				Bank loans and own funds
Sub-total						

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 10. Right-of-use assets

Item	Buildings and structures	Total
Original book value		
Opening balance	950,357.14	950,357.14
Increase during the period	434,828.86	434,828.86
(1) Leased-in	434,828.86	434,828.86
Decrease during the period		
(1) Disposal		
Closing balance	1,385,186.00	1,385,186.00
Accumulated depreciation		
Opening balance	189,746.80	189,746.80
Increase during the period	467,736.07	467,736.07
(1) Provision	467,736.07	467,736.07
Decrease during the period		
(1) Disposal		
Closing balance	657,482.87	657,482.87
Book value		
Closing book value	727,703.13	727,703.13
Opening book value	760,610.34	760,610.34

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 11. Intangible assets

Item	Land use rights	Patent	License Fee	Software License	Total
Original book value					
Opening balance	7,313,864.52	20,000,000.00	1,946,875.00	1,712,711.49	30,973,451.01
Increase during the period	16,686,000.00			295,154.42	16,981,154.42
(1) Purchase	16,686,000.00			295,154.42	16,981,154.42
Decrease during the period					
Closing balance	23,999,864.52	20,000,000.00	1,946,875.00	2,007,865.91	47,954,605.43
Accumulated amortisation					
Opening balance	814,022.22	9,143,669.91	1,703,515.68	553,033.60	12,214,241.41
Increase during the period	287,054.04	1,173,657.24	202,799.50	335,018.59	1,998,529.37
(1) Provision	287,054.04	1,173,657.24	202,799.50	335,018.59	1,998,529.37
Decrease during the period					
Closing balance	1,101,076.26	10,317,327.15	1,906,315.18	888,052.19	14,212,770.78
Book value					
Closing book value	22,898,788.26	9,682,672.85	40,559.82	1,119,813.72	33,741,834.65
Opening book value	6,499,842.30	10,856,330.09	243,359.32	1,159,677.89	18,759,209.60

#### 12. Long-term expenses to be amortised

Item	Opening amount	Increase during the period	Amortization during the period	Other decreases	Closing balance
Software License Fee	177,706.41	284,359.65	220,034.33		<b>242,031.73</b>
Total	177,706.41	284,359.65	220,034.33		<b>242,031.73</b>

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 13. Deferred income tax assets and deferred income tax liabilities

##### (1) Non-offsetting deferred income tax assets

Deductible temporary differences	Closing balance		Closing balance of last year	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Book value
Lease liabilities	643,435.34	96,515.30	716,228.24	107,434.24
Total	643,435.34	96,515.30	716,228.24	107,434.24

##### (2) Non-offsetting deferred income tax liabilities

Item	Closing balance		Closing balance of last year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Depreciation of fixed assets	1,050,936.42	157,640.46		
right-of-use assets	727,703.13	109,155.47	760,610.34	114,091.55
Total	1,778,639.55	266,795.93	760,610.34	114,091.55

##### (3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Item	Closing balance		Closing balance of last year	
	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting
Deferred income tax assets	96,515.30		107,434.24	
Deferred income tax liabilities	96,515.30	170,280.63	107,434.24	6,657.31

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 13. Deferred income tax assets and deferred income tax liabilities (Continued)

(4) Breakdown of unrecognised deferred income tax assets

Item	Closing balance	Closing balance of last year
Deductible losses	<b>387,004,607.58</b>	288,557,559.97
Provision for impairment of assets	<b>10,303,073.67</b>	8,027,569.12
Estimated liabilities	<b>3,982,756.01</b>	2,625,604.30
Deferred income		10,861.47
Total	<b>401,290,437.26</b>	299,221,594.86

(5) Deductible losses for which deferred income tax assets are not recognised will expire in the following years

Year	Closing balance	Closing balance of last year	Note
2023		10,582,178.15	
2024	<b>14,304,483.92</b>	14,304,483.92	
2025	<b>10,059,206.31</b>	10,059,206.31	
2026	<b>13,807,038.40</b>	13,807,038.40	
2027	<b>50,854,175.53</b>	50,854,175.53	
2028	<b>53,891,949.40</b>	31,826,699.38	
2029	<b>38,555,926.51</b>	38,555,926.51	
2030	<b>18,450,783.33</b>	18,450,783.33	
2031	<b>56,379,897.95</b>	56,379,897.95	
2032	<b>43,737,170.49</b>	43,737,170.49	
2033	<b>86,963,975.74</b>		
Total	<b>387,004,607.58</b>	288,557,559.97	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 14. Other non-current assets

Item	Closing balance		Closing balance of last year			
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Payment for the purchase of long-term assets	267,927.25		267,927.25	7,560,000.00		7,560,000.00
Total	267,927.25		267,927.25	7,560,000.00		7,560,000.00

#### 15. Assets under restricted ownership or use rights

(1) Restricted assets at end of period

Item	Closing book balance	Closing book value	Type of restriction	Reason for restriction
Monetary funds	20,000,000.00	20,000,000.00	Pledge	Pledge large-denomination certificates of deposit for issuing bank acceptance notes
Total	20,000,000.00	20,000,000.00		

(2) There were no asset restrictions at the end of last year.

#### 16. Bills payable

Item	Closing balance	Closing balance of last year
Bank acceptance notes	4,417,732.79	
Total	4,417,732.79	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 17. Accounts payable

(1) *breakdown*

Item	Closing balance	Closing balance of last year
Payment for goods	<b>26,967,441.96</b>	19,064,935.79
Payment for construction equipment	<b>5,089,986.64</b>	3,769,404.94
Others	<b>1,714,847.43</b>	376,659.18
Total	<b>33,772,276.03</b>	23,210,999.91

(2) *Ageing analysis*

Age	Closing balance
Within 1 year	<b>32,935,152.33</b>
1 to 2 years	<b>279,187.08</b>
2 to 3 years	<b>501,833.86</b>
Over 3 years	<b>56,102.76</b>
Total	<b>33,772,276.03</b>

(3) There were no material accounts payable ageing over 1 year at the end of the period.

#### 18. Prepayment

(1) *breakdown*

Item	Closing balance	Closing balance of last year
Rent in advance	<b>656,002.18</b>	597,829.95
Total	<b>656,002.18</b>	597,829.95

(2) There were no material prepayment ageing over 1 year at the end of the period or overdue.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 19. Contract liabilities

(1) Breakdown

Item	Closing balance	Closing balance of last year
Advances for goods	<b>3,159,227.01</b>	7,711,089.11
Rebate payables	<b>4,818,546.07</b>	4,148,426.41
Total	<b>7,977,773.08</b>	11,859,515.52

(2) At the end of the period, there were no significant contract liabilities aged more than one year.

#### 20. Employee remuneration payable

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance
Short-term compensation	19,084,988.18	142,108,949.71	141,580,037.96	<b>19,613,899.93</b>
Post-employment benefits				
— Defined contribution plans	1,901,222.00	3,232,462.69	5,086,088.48	<b>47,596.21</b>
Termination benefits		252,627.86	252,627.86	
Total	20,986,210.18	145,594,040.26	146,918,754.30	<b>19,661,496.14</b>

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 20. Employee remuneration payable (Continued)

(2) Details of short-term remuneration

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance
Salaries, bonuses, allowances and subsidies	16,587,595.47	132,138,001.37	129,905,276.50	<b>18,820,320.34</b>
Employee benefits expenses		1,743,568.82	1,743,568.82	
Social insurance premiums	1,324,323.19	2,162,691.29	3,455,411.63	<b>31,602.85</b>
Including: Medical insurance	1,298,075.70	2,117,580.73	3,384,712.56	<b>30,943.87</b>
Work-related injury insurance	26,247.49	45,110.56	70,699.07	<b>658.98</b>
Housing funds	746,751.09	3,625,031.58	4,360,662.67	<b>11,120.00</b>
Labor union expenses and staff education expenses	426,318.43	2,439,656.65	2,115,118.34	<b>750,856.74</b>
Sub-total	19,084,988.18	142,108,949.71	141,580,037.96	<b>19,613,899.93</b>

(3) Details of defined contribution plan

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance
Basic pension insurance	1,835,662.62	3,120,998.29	4,910,705.92	<b>45,954.99</b>
Unemployment insurance premiums	65,559.38	111,464.40	175,382.56	<b>1,641.22</b>
Sub-total	1,901,222.00	3,232,462.69	5,086,088.48	<b>47,596.21</b>

According to the Labor Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries pay basic pension insurance for their employees. The social insurance agency will pay pension to the employees when they reach the retirement age stipulated by the state or otherwise leave their positions. The Company and its subsidiaries no longer undertake other employee retirement benefits.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 21. Tax payable

Item	Closing balance	Closing balance of last year
Withholding individual income tax	<b>2,193,711.92</b>	1,606,052.62
VAT	<b>3,129,260.88</b>	
Property tax	<b>202,860.15</b>	202,387.59
Stamp duty	<b>70,171.20</b>	77,220.29
Urban maintenance and construction tax	<b>66,113.44</b>	1,675.29
Land use tax	<b>42,875.04</b>	42,874.92
Education surcharge	<b>28,334.34</b>	717.99
Local education surcharge	<b>18,889.56</b>	478.66
Total	<b>5,752,216.53</b>	1,931,407.36

#### 22. Other payables

(1) Breakdown

Item	Closing balance	Closing balance of last year
Accrued and unpaid fees	<b>15,242,991.09</b>	18,649,928.26
Payable for share repurchase	<b>3,342,839.18</b>	
Security deposit	<b>1,763,855.66</b>	1,121,039.39
Total	<b>20,349,685.93</b>	19,770,967.65

(2) At the end of the period, there were no significant other payables aged more than one year.

#### 23. Non-current liabilities due within one year

Item	Closing balance	Closing balance of last year
Lease liabilities due within one year	<b>477,807.54</b>	452,704.79
Total	<b>477,807.54</b>	452,704.79

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 24. Other Current Liabilities

Item	Closing balance	Closing balance of last year
Pending output tax	<b>313,710.19</b>	348,726.33
Total	<b>313,710.19</b>	348,726.33

#### 25. Lease liabilities

Item	Closing balance	Closing balance of last year
Lease payments not yet paid	<b>168,018.27</b>	267,220.18
Less: unrecognized financing expenses	<b>2,390.47</b>	3,696.73
Total	<b>165,627.80</b>	263,523.45

#### 26. Estimated liabilities

Item	Closing balance	Closing balance of last year	Reasons for formation
Product quality assurance	<b>3,982,756.01</b>	2,625,604.30	Estimated product exchange and claim costs
Total	<b>3,982,756.01</b>	2,625,604.30	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 27. Deferred income

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance	Reasons for formation
Government grants	10,861.47		10,861.47		Asset-related government grants received
Total	10,861.47		10,861.47		

#### 28. Share capital

##### (1) Breakdown

Item	Opening balance	Increase/decrease for the period (decrease represented by "-")					Sub-total	Closing balance
		Issuance of New shares	Bonus issue	Provident fund Conversion	Others			
Non-tradable shares	255,419,671				-3,517,513	-3,517,513	<b>251,902,158</b>	
Shares held by domestic legal persons	8,970,446						<b>8,970,446</b>	
Shares held by domestic natural persons	63,383,814						<b>63,383,814</b>	
Shares held by other domestic institutions	132,948,966				-3,517,513	-3,517,513	<b>129,431,453</b>	
State-owned shares	1,794,108						<b>1,794,108</b>	
Shares held by overseas legal persons	43,696,684						<b>43,696,684</b>	
Shares held by overseas natural persons	4,625,653						<b>4,625,653</b>	
Tradable shares not subject to sales restrictions	170,322,929				3,517,513	3,517,513	<b>173,840,442</b>	
H Shares	170,322,929				3,517,513	3,517,513	<b>173,840,442</b>	
Total	425,742,600						<b>425,742,600</b>	

##### (2) Other explanations

On April 18, 2023, the Company converted 3,517,513 non-tradable shares into H-tradable shares due to the H-share full circulation, and the conversion shares were listed on the Hong Kong Stock Exchange on April 19, 2023.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 29. Capital reserve

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance
Share premium	1,882,785,222.90			1,882,785,222.90
Total	1,882,785,222.90			1,882,785,222.90

#### 30. Treasury stock

##### (1) Breakdown

Item	Opening balance	Increase during the period	Decrease in the period	Closing balance
Treasury stock		26,246,338.65		26,246,338.65
Total		26,246,338.65		26,246,338.65

##### (2) Other explanations

- The resolution in relation to the proposed adoption of the 2022 H Share Award and Trust Scheme was considered and approved at the 2021 annual general meeting of the Company. The Company plans to establish a trust to repurchase no more than 8,510,000 shares of the Company, which will be funded by internal funds of the Company. The repurchased shares will be used to reward selected incentive employees. As of December 31, 2023, the Company's trust account purchased 2,050,900 shares of the Company through the secondary market, with a cumulative payment of HK\$11,830,402.11 (including transaction costs), equivalent to RMB10,753,174.20.
- According to the resolution of the general meeting on May 18, 2023, the board of directors of the Company was granted a general mandate to repurchase H shares. It is planned to repurchase no more than 17,384,044 shares of the Company by May 18, 2024. The repurchase price shall not be higher than 5% of the average closing price of the five trading days prior to the implementation of each round of repurchase, and the total amount of funds shall not exceed HK\$150,000,000. The repurchase of shares will carry out deregistration procedures under the Company Law of the People's Republic of China to reduce the registered capital of the Company. As of December 31, 2023, the Company's securities account purchased 3,303,800 shares of the Company through the secondary market, with a cumulative payment of HK\$17,081,676.84 (including transaction costs), equivalent to RMB15,493,164.45.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 31. Other comprehensive income

Item	Opening balance	Amount incurred before income tax for the period	Less: Previously included in other comprehensive income and transferred to profit or loss for the current period	Amount for the period			Less: Previously included in other comprehensive income and transferred to retained earnings for the current period (attributable to the parent company after tax)	Closing balance
				Other comprehensive income, net of tax	Less: Income tax expenses	Attributable to the parent company after tax		
Other comprehensive income that will be reclassified to profit or loss	418,703.77	314,512.45				314,512.45		733,216.22
Including: Translation difference of foreign currency financial statements	418,703.77	314,512.45				314,512.45		733,216.22
Total other comprehensive income	418,703.77	314,512.45				314,512.45		733,216.22

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (I) Notes to the Consolidated Balance Sheet (Continued)

#### 32. Retained earnings

(1) Breakdown

Item	Current period	Same period of last year
Retained earnings at the end of the previous period before adjustment	<b>-96,907,612.52</b>	-61,866,032.43
Adjustment the total amount of retained earnings at the beginning of the period (increase +, decrease-)	<b>-6,657.31</b>	-5,149.98
Retained earnings at the beginning of the period after adjustment	<b>-96,914,269.83</b>	-61,871,182.41
Add: Net profit attributable to owners of the parent company in the current period	<b>-125,015,870.94</b>	-35,043,087.42
Retained earnings at the end of the period	<b>-221,930,140.77</b>	-96,914,269.83

(2) Details of adjustment of retained earnings at the beginning of the period

The retrospective adjustment was made in accordance with the Accounting Standards for Business Enterprises and its relevant regulations, which affected the retained earnings of RMB-6,657.31 at the beginning of the current period. For details, please refer to descriptions of Note III (XXVIII) to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement

#### 1. Operating income/operating cost

##### (1) Breakdown

Item	Current Period		Same Period of Last Year	
	Revenue	Cost	Revenue	Cost
Income from principal operations	248,346,142.18	125,125,554.64	169,885,743.31	91,110,622.43
Other operating income	4,881,419.32	2,367,809.58	3,721,229.49	560,009.30
Total	253,227,561.50	127,493,364.22	173,606,972.80	91,670,631.73
Including: Revenue from contracts with customers	249,299,427.88	126,720,047.16	170,366,344.40	91,222,196.10

##### (2) Breakdown of revenue

#### 1) Disaggregation of revenue from contracts with customers by types of goods or services

Item	Current Period		Same Period of Last Year	
	Revenue	Cost	Revenue	Cost
Glucose Monitoring System	96,788,768.09	73,997,747.00	67,847,121.18	55,124,005.84
Continuous Glucose Monitoring System	75,713,991.00	30,925,841.80	33,842,683.10	15,520,753.67
Insulin Pump System	74,667,956.08	19,408,308.69	67,272,888.59	19,949,264.19
Others	2,128,712.71	2,388,149.67	1,403,651.53	628,172.40
Sub-total	249,299,427.88	126,720,047.16	170,366,344.40	91,222,196.10

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 1. Operating income/operating cost (Continued)

(2) Breakdown of revenue (Continued)

- 2) Disaggregation of revenue from contracts with customers by geographical areas of operations

Item	Current Period		Same Period of Last Year	
	Revenue	Cost	Revenue	Cost
Domestic	170,885,809.05	79,772,817.64	128,127,238.65	61,424,121.83
Overseas	78,413,618.83	46,947,229.52	42,239,105.75	29,798,074.27
Sub-total	249,299,427.88	126,720,047.16	170,366,344.40	91,222,196.10

- 3) Disaggregation of revenue from contracts with customers by timing of transfer of goods or services

Item	Current period	Same period of last year
Revenue recognized at a point in time	249,299,427.88	170,366,344.40
Sub-total	249,299,427.88	170,366,344.40

- (3) Revenue recognized in the current period that was included in the book value of contract liabilities at the beginning of the period was RMB11,803,070.91.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 2. Taxes and surcharges

Item	Current period	Same period of last year
Property tax	<b>471,376.08</b>	388,875.42
Urban maintenance and construction tax	<b>415,409.43</b>	90,984.49
Education surcharge	<b>187,402.01</b>	38,993.36
Local education surcharge	<b>129,402.29</b>	25,995.58
Stamp duty	<b>110,718.78</b>	75,673.76
Land use tax	<b>0.12</b>	8,574.95
Other taxes and surcharges		60.00
Total	<b>1,314,308.71</b>	629,157.56

#### 3. Selling expenses

Item	Current period	Same period of last year
Marketing and promotion expenses	<b>122,396,003.19</b>	51,204,240.79
Employee remuneration	<b>63,608,652.02</b>	48,681,781.81
Office and travel expenses	<b>9,309,684.45</b>	5,508,806.68
Entertainment expenses	<b>3,657,302.46</b>	2,466,751.97
Product quality assurance	<b>5,069,016.53</b>	2,189,341.76
Depreciation and amortization expenses	<b>860,180.96</b>	621,086.49
Others	<b>5,189,876.89</b>	6,027,465.55
Total	<b>210,090,716.50</b>	116,699,475.05

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 4. Administrative expenses

(1) Breakdown

Item	Current period	Same period of last year
Employee remuneration	<b>25,987,979.26</b>	18,420,294.22
Intermediary fees	<b>7,509,059.80</b>	10,385,198.08
Office and travel expenses	<b>3,601,911.19</b>	3,754,125.83
Depreciation and amortization expenses	<b>3,714,722.94</b>	3,094,825.23
Others	<b>4,785,908.94</b>	5,879,144.23
Total	<b>45,599,582.13</b>	41,533,587.59

(2) Included in the administrative expenses for the year is auditor's remuneration of RMB641,509.43 (2022: RMB1,680,000.00).

#### 5. Research and development expenses

Item	Current period	Same period of last year
Employee remuneration	<b>33,732,797.43</b>	26,562,650.87
Service fees	<b>17,159,159.46</b>	17,933,809.81
Materials expenses	<b>13,282,336.19</b>	10,907,460.11
Depreciation and amortization expenses	<b>3,028,845.72</b>	3,442,946.63
Others	<b>2,895,271.46</b>	2,239,254.56
Total	<b>70,098,410.26</b>	61,086,121.98

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 6. Finance costs

Item	Current period	Same period of last year
Interest expense	52,955.29	146,585.93
Less: Interest income	68,240,076.38	55,723,108.69
Foreign exchange gains or losses	-7,110,583.77	-29,947,218.96
Handling charges	260,236.86	122,760.13
Total	-75,037,468.00	-85,400,981.59

#### 7. Other Income

Item	Current period	Same period of last year	Amount included in non-recurring profit or loss for the period
Government grants related to assets	10,861.47	13,502.38	
Government grants related to income	10,469,328.63	22,537,417.51	10,098,014.52
Refund of withholding and payment of handling fees	94,806.27	63,900.71	
Additional VAT credit	16,434.81		
Total	10,591,431.18	22,614,820.60	10,098,014.52

#### 8. Investment income

Item	Current period	Same period of last year
Investment income from disposal of financial assets held for trading	-4,367.42	
Total	-4,367.42	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 9. Gains from changes in fair value

Item	Current period	Same period of last year
Financial assets held for trading	-15,619.71	
Including: Gains from changes in fair value of funds	-15,619.71	
Total	-15,619.71	

#### 10. Credit impairment losses

Item	Current period	Same period of last year
Bad debt loss	-991,791.42	-2,701,632.12
Total	-991,791.42	-2,701,632.12

#### 11. Impairment losses on assets

Item	Current period	Same period of last year
Inventory impairment loss	-3,520,725.48	-2,241,909.60
Total	-3,520,725.48	-2,241,909.60

#### 12. Gains on disposal of assets

Item	Current period	Same period of last year	Amount included in non-recurring profit or loss for the period
Gains on disposal of other long-term assets		-8,311.42	
Total		-8,311.42	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 13. Non-operating income

Item	Current period	Same period of last year	Amount included in non-recurring profit or loss for the period
Scrap income	11,162.00		11,162.00
Claims income	4,199.40	135,007.25	4,199.40
Amounts not required to be paid	2,668.50		2,668.50
Others	212.51	2,900.48	212.51
Total	18,242.41	137,907.73	18,242.41

#### 14. Non-operating expenses

Item	Current period	Same period of last year	Amount included in non-recurring profit or loss for the period
Claims paid [Note 1]	2,453,971.41		2,453,971.41
External donations [Note 2]	1,976,967.82	230,000.00	1,976,967.82
Losses from damage and scrapping of non-current assets	160,895.05	1,000.00	160,895.05
Others	6,230.58	435.76	6,230.58
Total	4,598,064.86	231,435.76	4,598,064.86

[Note 1] The amount for the current period includes the compensation for arbitration settlement of EUR313,500.00 (equivalent to RMB2,453,971.41) paid to MED TRUST Handelsges.m.b.H., a customer of the Company. Please refer to Note 14 (II) to the financial statements for details.

[Note 2] The amount for the period includes the expenditure on public welfare donations to Hangzhou Yuhang District Charity Federation (杭州市余杭區慈善總會), with a total amount of RMB1,959,860.17 in cash and in-kind donations

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (II) Notes to the Consolidated Income Statement (Continued)

#### 15. Income tax expense

(1) Breakdown

Item	Current period	Same period of last year
Deferred income tax expense	163,623.32	1,507.33
Total	163,623.32	1,507.33

(2) Adjustment process of accounting profit and income tax expenses

Item	Current period	Same period of last year
Total profit	-124,852,247.62	-35,041,580.09
Income tax expenses calculated at the applicable tax rate of the parent company	-18,727,837.14	-5,256,237.01
Effect of different tax rates applicable to subsidiaries	9,755,846.68	5,270,875.04
Effect of deemed sales adjustment and non-deductible costs, expenses and losses	563,868.52	582,330.77
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets were recognized in the period	17,892,418.71	7,392,051.10
Additional deduction of research and development expenses	-9,320,673.45	-7,799,302.29
High-tech enterprises additional pre-tax deduction for newly purchased equipment and appliances in the fourth quarter of 2022		-188,210.28
Income tax expense	163,623.32	1,507.33

#### 16. Other comprehensive income, net of tax

For details of other comprehensive income, net of tax, please refer to Note 5(l) 31 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (III) Notes to the Consolidated Statement of Cash Flows

1. There was no significant cash received or paid relating to investing activities during the period.
2. **Other cash received or paid relating to operating activities, investing activities and financing activities**
  - (1) *Cash received relating to other operating activities*

Item	Current period	Same period of last year
Interest income	<b>24,246,009.84</b>	21,132,818.83
Receipts of government grants	<b>10,098,014.52</b>	14,187,429.65
House rental income	<b>4,340,546.77</b>	4,188,446.23
Security deposit received	<b>1,332,654.40</b>	352,800.00
Others	<b>110,415.72</b>	201,808.44
Total	<b>40,127,641.25</b>	40,063,303.15

- (2) *Cash paid relating to other operating activities*

Item	Current period	Same period of last year
Marketing and promotion expenses	<b>104,294,429.65</b>	36,261,081.26
Service fees	<b>16,337,475.69</b>	15,733,831.97
Office and travel expenses	<b>12,897,332.87</b>	9,103,070.95
Intermediary fees	<b>12,739,614.89</b>	4,864,767.17
Entertainment expenses	<b>4,220,580.06</b>	2,962,109.93
Others	<b>16,046,896.25</b>	10,432,376.32
Total	<b>166,536,329.41</b>	79,357,237.60

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (III) Notes to the Consolidated Statement of Cash Flows (Continued)

#### 2. Other cash received or paid relating to operating activities, investing activities and financing activities (Continued)

##### (3) Cash received relating to other investing activities

Item	Current period	Same period of last year
Principal and interest received from time deposits and certificates of deposit	<b>879,920,528.98</b>	1,052,442,301.48
Redemption of fund	<b>11,717,724.28</b>	
Total	<b>891,638,253.26</b>	1,052,442,301.48

##### (4) Cash paid relating to other investing activities

Item	Current period	Same period of last year
Purchase of time deposits and certificates of deposit	<b>1,385,854,907.22</b>	1,412,106,343.36
Purchase of funds	<b>17,791,800.00</b>	
Total	<b>1,403,646,707.22</b>	1,412,106,343.36

##### (5) Cash paid relating to other financing activities

Item	Current period	Same period of last year
Payment for share repurchase	<b>22,903,499.47</b>	
Rent paid	<b>560,577.05</b>	503,283.68
Payment of listing expenses		20,069,259.00
Total	<b>23,464,076.52</b>	20,572,542.68

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (III) Notes to the Consolidated Statement of Cash Flows (Continued)

#### 3. Supplementary information to the cash flow statement

Supplementary information	Current period	Same period of last year
(1) Reconciliation of net profit to cash flows from operating activities:		
Net profit	<b>-125,015,870.94</b>	-35,043,087.42
Add: Provision for asset impairment	<b>4,512,516.90</b>	4,943,541.72
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	<b>8,846,092.17</b>	8,039,440.50
Depreciation of right-of-use assets	<b>467,736.07</b>	338,337.41
Amortization of intangible assets	<b>1,859,479.37</b>	2,106,478.02
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "-")		8,311.42
Losses from scrapping of fixed assets (gains are indicated by "-")	<b>160,895.05</b>	1,000.00
Losses from changes in fair value (gains are indicated by "-")	<b>15,619.71</b>	
Financial expenses (gains are indicated by "-")	<b>-50,077,736.44</b>	-64,578,078.98
Investment losses (gains are indicated by "-")	<b>4,367.42</b>	
Decrease in deferred tax assets (gains are indicated by "-")		
Increase in deferred tax liabilities (decrease is indicated by "-")	<b>163,623.32</b>	1,507.33
Decrease in inventories (increase is indicated by "-")	<b>21,699,724.17</b>	-35,412,640.29
Decrease in operating receivables (increase is indicated by "-")	<b>-27,194,340.41</b>	-17,508,121.40
Increase in operating payables (decrease is indicated by "-")	<b>11,561,801.15</b>	18,092,553.24
Others		
Net cash flows from operating activities	<b>-152,996,092.46</b>	-119,010,758.45
(2) Significant investing and financing activities not involving cash receipts and payments:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Fixed assets under finance lease		
(3) Net changes in cash and cash equivalents:		
Closing balance of cash	<b>365,437,783.39</b>	1,084,250,525.65
Less: Opening balance of cash	<b>1,084,250,525.65</b>	1,586,178,812.65
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	<b>-718,812,742.26</b>	-501,928,287.00

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (III) Notes to the Consolidated Statement of Cash Flows (Continued)

#### 4. Composition of cash and cash equivalents

(1) Breakdown

Item	Closing balance	Closing balance of last year
1) Cash	<b>365,437,783.39</b>	1,084,250,525.65
Including: Cash on hand	<b>4,287.29</b>	10,287.29
Bank deposits readily available for payment	<b>361,782,176.67</b>	1,083,015,950.86
Other monetary funds readily available for payment	<b>3,651,319.43</b>	1,224,287.50
2) Cash equivalents		
Including: Bond investments maturing within three months		
3) Closing balance of cash and cash equivalents	<b>365,437,783.39</b>	1,084,250,525.65
Including: Restricted cash and cash equivalents used by the parent company or subsidiaries of the Group		

(2) Cash and cash equivalents held by the Company with restricted scope of use

Item	Closing balance	Closing balance of last year	Reasons for the limitation of scope of use, reasons for being cash and cash equivalents
Fund raising	<b>248,046,304.05</b>	755,458,987.23	Limited scope of use but can be withdrawn at any time
Overseas funds	<b>1,003,593.18</b>	18,448,561.67	Limited scope of use but can be withdrawn at any time
Sub-total	<b>249,049,897.23</b>	773,907,548.90	

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (III) Notes to the Consolidated Statement of Cash Flows (Continued)

#### 4. Composition of cash and cash equivalents (Continued)

(3) Monetary funds not classified as cash and cash equivalents

Item	Closing balance	Closing balance of last year	Reasons for not being cash and cash equivalents
Principal of term deposits and certificates of deposit	<b>1,459,301,968.18</b>	939,068,550.00	Long holding period
Interest on term deposits and certificates of deposit	<b>60,534,842.85</b>	22,739,838.94	Interest accrued
Interest on portfolio deposit products	<b>606,363.68</b>	511,547.01	Interest accrued
Sub-total	<b>1,520,443,174.71</b>	962,319,935.95	

#### 5. Changes in liabilities related to financing activities

Item	Opening balance	Increase during the period		Decrease in the period		Closing balance
		Cash movement	Non-cash changes	Cash movement	Non-cash changes	
Other payables-Share repurchase payable			3,342,839.18			<b>3,342,839.18</b>
Lease liabilities (including lease liabilities due within one year)	716,228.24		487,784.15	560,577.05		<b>643,435.34</b>
Sub-total	716,228.24		3,830,623.33	560,577.05		<b>3,986,274.52</b>

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (IV) Others

#### 1. Foreign currency monetary items

(1) Breakdown

Item	Foreign currency balance at the end of the period	Conversion rate	Closing balance converted into RMB
Monetary funds			498,105,180.85
Including: HK\$	307,713,522.11	0.9062	278,849,993.74
USD	30,902,861.40	7.0827	218,875,696.44
EUR	48,286.17	7.8592	379,490.67
Accounts receivable			18,997,525.76
Including: USD	2,559,336.19	7.0827	18,127,010.43
EUR	110,763.86	7.8592	870,515.33
Other payables			5,258,524.47
Including: HK\$	4,008,466.65	0.9062	3,632,472.48
USD	203,920.98	7.0827	1,444,311.13
EUR	23,124.60	7.8592	181,740.86

(2) The Company has no significant overseas operating entities.

#### 2. Leases

(1) The Company as lessee

- For details of the right-of-use assets, please refer to Note 5 (I) 10 to the financial statements.
- For details of the Company's accounting policies for short-term leases and leases of low-value assets, please refer to Note 3 (XXV) to the financial statements. The amount of short-term lease expenses and low-value asset lease expenses included in the profit and loss for the period is as follows:

Item	Current period	Same period of last year
Short-term lease expenses	308,528.45	31,625.79
Total	308,528.45	31,625.79

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (IV) Others (Continued)

#### 2. Leases (Continued)

(1) *The Company as lessee* (Continued)

3) Profit and loss for the period and cash flows related to leases

<b>Item</b>	<b>Current period</b>	Same period of last year
Interest expenses on lease liabilities	<b>52,955.29</b>	146,585.93
Total cash outflow for leases	<b>869,105.50</b>	534,909.47

4) For the maturity analysis of lease liabilities and the corresponding liquidity risk management, please refer to Note 9 (II) to the financial statements.

(2) *The Company as lessor*

Operating leases

1) Rental income

<b>Item</b>	<b>Current period</b>	Same period of last year
Rental income Including: Income related to variable lease payments not included in the measurement of lease receipts	<b>3,928,133.62</b>	3,240,628.40

# NOTES TO FINANCIAL STATEMENTS

2023

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (IV) Others (Continued)

#### 2. Leases (Continued)

(2) *The Company as lessor* (Continued)

2) Operating lease assets

Item	Closing balance	Closing balance of last year
Fixed assets	<b>13,026,037.31</b>	13,516,973.62
Sub-total	<b>13,026,037.31</b>	13,516,973.62

Details of fixed assets leased out under operating leases are set out in note 5 (l) 8 to the financial statements.

3) Future undiscounted lease payments under non-cancellable leases with lessees in accordance with the lease agreement with the lessee

Remaining maturity	Closing balance	Closing balance of last year
Within 1 year	<b>3,977,538.49</b>	3,928,134.30
1-2 years	<b>4,027,372.28</b>	3,977,538.49
2-3 years	<b>4,079,354.08</b>	4,027,372.28
3-4 years	<b>681,348.22</b>	4,079,354.08
4-5 years		681,348.22
Total	<b>12,765,613.07</b>	16,693,747.37

# NOTES TO FINANCIAL STATEMENTS

2023

## VI. RESEARCH AND DEVELOPMENT EXPENDITURE

Item	Current period	Same period of last year
Employee remuneration	<b>33,732,797.43</b>	26,562,650.87
Service fees	<b>17,159,159.46</b>	17,933,809.81
Materials expenses	<b>13,282,336.19</b>	10,907,460.11
Depreciation and amortization expenses	<b>3,028,845.72</b>	3,442,946.63
Others	<b>2,895,271.46</b>	2,239,254.56
Total	<b>70,098,410.26</b>	61,086,121.98
Including: R&D expenditure expensed	<b>70,098,410.26</b>	61,086,121.98

## VII. EQUITY IN OTHER ENTITIES

### (I) Composition of the Group

- The Company included 6 subsidiaries including Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司) in the scope of consolidated financial statements.

### 2. General information of subsidiaries

Name of subsidiary	Registered capital	Principal place of business and place of registration	Nature of business	Shareholding ratio (%)		Acquisition method
				Direct	Indirect	
Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司)	RMB40,000,000	Hangzhou, Zhejiang Province	Retail	100.00		Established
Hangzhou Jienuotong Technology Materials Co., Ltd. (杭州捷諾通科技材料有限公司)	RMB1,000,000	Hangzhou, Zhejiang Province	Scientific research and technical services	100.00		Established
MTM AiDEX Europe GmbH	EUR4,650,000	Germany	Business Services	100.00		Established
MicroTech Medical (Nanjing) Co., Ltd. (微泰醫療器械(南京)有限公司)	RMB10,000,000	Nanjing, Jiangsu Province	Wholesale and retail	100.00		Established
Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司)	RMB1,000,000	Hangzhou, Zhejiang Province	Manufacturing	100.00		Established
Xinyi Wing Health Limited (欣宜榮健康有限公司)	USD100,000	Hong Kong, China	Commercials	100.00		Established

# NOTES TO FINANCIAL STATEMENTS

2023

## VII. EQUITY IN OTHER ENTITIES (Continued)

### (II) Changes in the scope of consolidation for other reasons

#### Increase in scope of consolidation

Company Name	Method of equity acquisition	Time of equity acquisition	Capital Contribution	Contribution ratio
Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司)	Newly established and acquired	February 28, 2023	1,000,000.00	100.00%
Xinyi Wing Health Limited (欣宜榮健康有限公司)	Newly established and acquired	November 28, 2023	[Note]	100.00%

[Note] As of December 31, 2023, the Company's subscribed capital contribution to Xinyi Wing Health Limited (欣宜榮健康有限公司) was US\$100,000, and the actual amount has not been contributed

## VIII. GOVERNMENT GRANTS

### (I) Increase in government grants in the period

Item	Increase in grants during the period
Government grants related to income	10,469,328.63
Including: Included in other income	10,469,328.63
Total	10,469,328.63

### (II) Liability items related to government grants

Financial reporting items	Opening balance	Addition during the period Grant amount	Amount included in other gains for the period	Amount included in non-operating income for the period
Deferred income	10,861.47		10,861.47	
Sub-total	10,861.47		10,861.47	

# NOTES TO FINANCIAL STATEMENTS

2023

## VIII. GOVERNMENT GRANTS (Continued)

### (II) Liability items related to government grants (Continued)

Item	Amount of cost offset in the period	Amount of assets offset in the period	Other changes	Closing balance	Related to assets/ income
Deferred income					Related to assets
Sub-total					

### (III) Amount of government grants included in profit or loss for the period

Item	The period	Same period of last year
Amount of government grants included in other income	10,480,190.10	22,550,919.89
Total	10,480,190.10	22,550,919.89

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company engages in risk management with the objective of striking a balance between risks and returns, minimizing the negative impact of risks on the Company's operating results, and maximizing the interests of shareholders and other equity investors. Based on this risk management objective, the basic strategy of the Company's risk management is to identify and analyze various risks faced by the Company, establish appropriate bottom lines for risk tolerance and conduct risk management, and monitor various risks in a timely and reliable manner to control risks within a limited scope.

The Company is exposed to various risks related to financial instruments in its daily activities, mainly including credit risk, liquidity risk and market risk. Management has reviewed and approved policies for managing each of these risks and they are summarized below.

# NOTES TO FINANCIAL STATEMENTS

2023

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### (I) Credit risk

Credit risk refers to the risk that a party to a financial instrument will fail to discharge its obligations and cause a financial loss to the other party.

#### 1. Credit risk management practices

##### (1) Credit risk evaluation method

The Company assesses at each balance sheet date whether the credit risk of relevant financial instruments has increased significantly since initial recognition. When determining whether the credit risk has increased significantly since initial recognition, the Company considers reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis based on historical information, external credit risk rating and forward-looking information. Based on a single financial instrument or a combination of financial instruments with similar credit risk characteristics, the Company compares the risk of a default occurring on the financial instrument on the balance sheet date with the risk of a default occurring on the initial recognition date to determine the change in the risk of a default occurring over the expected life of the financial instrument.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- 1) The quantitative criteria are mainly that the remaining lifetime probability of default on the balance sheet date has increased by more than a certain proportion from the initial recognition;
- 2) Qualitative criteria mainly include significant adverse changes in the debtor's operation or financial conditions, existing or expected changes in the technological, market, economic or legal environment, and will have a significant adverse impact on the debtor's ability to repay the Company.

##### (2) Definition of default and credit-impaired assets

When a financial instrument meets one or more of the following conditions, the Company defines the financial asset as defaulted, and its criteria are consistent with the definition of credit-impaired:

- 1) Significant financial difficulties of the debtor;
- 2) The debtor breaches the binding clauses on the debtor in the contract;
- 3) it is probable that the debtor will enter bankruptcy or other financial reorganization;
- 4) The creditor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider.

# NOTES TO FINANCIAL STATEMENTS

2023

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### (I) Credit risk (Continued)

#### 2. Measurement of expected credit losses

The key parameters for measuring ECL include probability of default, loss given default and exposure at default. The Company takes into account the quantitative analysis and forward-looking information of historical statistics (such as counterparty rating, guarantee method and collateral type, repayment method, etc.), and establishes the model of PD, LGD and EAD.

3. Please refer to notes V (I) 3 and V (I) 5 to the financial statements for the reconciliation of opening balance and closing balance of provision for losses on financial instruments.

#### 4. Credit risk exposure and credit risk concentration

The Company's credit risk mainly comes from monetary funds and receivables. In order to control the above-mentioned related risks, the Company has taken the following measures respectively.

(1) *Monetary funds*

The Company places bank deposits and other monetary funds with financial institutions with high credit ratings, so its credit risk is low.

(2) *Account receivables*

The Company continuously performs credit evaluations on customers who trade on credit. Based on the results of the credit assessment, the Company chooses to transact with recognized and creditworthy customers and monitors their receivable balances to ensure that the Company is not exposed to significant bad debt risks.

As the Company's accounts receivable risk is spread over a number of partners and customers, as at December 31, 2023, 56.34% of the Company's accounts receivable was due from the five largest customers in terms of balance (December 31, 2022: 40.66%), and the Company has no significant concentration of credit risk.

The maximum exposure to credit risk is the book value of each financial asset in the balance sheet.

### (II) Liquidity risk

Liquidity risk refers to the risk of shortage of funds when the Company performs its obligations to settle in cash or other financial assets. Liquidity risk may result from the inability to sell financial assets at fair value as soon as possible, or from the failure of the counterparty to repay its contractual obligations, or from early maturities of debts, or from the inability to generate expected cash flows.

In order to control this risk, the Company comprehensively uses various financing methods such as long-term leases, and adopts a combination of long-term and short-term financing methods to optimize the financing structure and maintain a balance between financing continuity and flexibility. The Company has obtained banking facilities from various commercial banks to meet its working capital requirements and capital expenditure.

# NOTES TO FINANCIAL STATEMENTS

2023

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### (II) Liquidity risk (Continued)

#### Classification of financial liabilities by remaining maturity

Item	Book value	Contractual undiscounted amount	Closing balance		
			Within 1 year	1-3 years	Over 3 years
Bills payables	4,417,732.79	4,417,732.79	4,417,732.79		
Accounts payable	33,772,276.03	33,772,276.03	33,772,276.03		
Other payables	20,349,685.93	20,349,685.93	20,349,685.93		
Lease liabilities (including those due within one year)	643,435.34	659,262.82	491,244.55	168,018.27	
Sub-total	59,183,130.09	59,198,957.57	59,030,939.30	168,018.27	

Item	Book value	Contractual undiscounted amount	Closing balance of last year		
			Within 1 year	1-3 years	Over 3 years
Bills payables					
Accounts payable	23,210,999.91	23,210,999.91	23,210,999.91		
Other payables	19,770,967.65	19,770,967.65	19,770,967.65		
Lease liabilities (including those due within one year)	716,228.24	771,791.14	504,570.96	267,220.18	
Sub-total	43,698,195.80	43,753,758.70	43,486,538.52	267,220.18	

### (III) Market risk

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly includes interest rate risk and foreign exchange risk.

#### 1. Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest-bearing financial instruments with fixed interest rates expose the Company to fair value interest rate risk, and interest-bearing financial instruments with floating interest rates expose the Company to cash flow interest rate risk. The Company determines the proportion of financial instruments with fixed and floating interest rates based on the market environment, and maintains an appropriate portfolio of financial instruments through regular review and monitoring.

# NOTES TO FINANCIAL STATEMENTS

2023

## IX. RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

### (III) Market risk (Continued)

#### 2. Foreign exchange risk

Foreign exchange risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in exchange rates relates primarily to the Company's foreign currency monetary assets and liabilities. For foreign currency assets and liabilities, if short-term imbalances occur, the Company will buy or sell foreign currencies at market rates when necessary to ensure that the net risk exposure is maintained at an acceptable level.

For details of the Company's foreign currency monetary assets and liabilities at the end of the period, please refer to Note V (IV) 1 to the financial statements.

## X. FAIR VALUE DISCLOSURES

### (I) Details of fair value of assets and liabilities measured at fair value at the end of the period

Item	Closing fair value			Total
	Level 1 Measurement of fair value	Level 2 Measurement of fair value	Level 3 Measurement of fair value	
Continuous fair value measurement				
Financial assets held for trading	6,054,088.59			6,054,088.59
Classified as financial assets measured at fair value through profit or loss	6,054,088.59			6,054,088.59
Funds	6,054,088.59			6,054,088.59
Total assets measured at fair value on a recurring basis	6,054,088.59			6,054,088.59

### (II) Basis for determining the market price of continuous and non-continuous Level 1 Measurement of fair value items

For Financial assets held for trading, the fair value is determined based on the daily fund net value announced by the fund management company.

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (I) Related parties

#### 1. Parent company of the Company

(1) *Parent company of the Company*

The Company has no parent company and is controlled by a natural person, Zheng Pan. As of December 31, 2023, the shareholding and voting rights of the actual controller are as follows:

<b>Name of natural person</b>	<b>Shareholding in the Company (%)</b>	<b>Percentage of voting rights in the Company (%)</b>
Zheng Pan	25.6655	29.4253

(2) *Other explanations*

Zheng Pan directly holds 20.8978% of the Company's shares (with a voting right ratio of 21.1640%), indirectly holds 1.1115% of the Company's shares (with a voting right ratio of 4.5271%) through Hangzhou Yantai Investment Partnership (Limited Partnership) (研泰投資合夥企業(有限合夥)), and indirectly holds 3.6562% of the Company's shares (with a voting right ratio of 3.7342%) through Hangzhou Hengtai Brand Management Partnership (Limited Partnership) (杭州衡泰品牌管理合夥企業(有限合夥)). Zheng Pan directly and indirectly holds a total of 25.6655% of the shares of the Company, and holds a total of 29.4253% of the voting rights of the Company, and is the actual controller of the Company.

2. Please refer to Note VII to the financial statements for details of the subsidiaries of the Company.

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (I) Related parties (Continued)

#### 3. Other related parties of the Company

Name of other related parties	Relationship between other related parties and the Company
Hangzhou Henghua Property Service Co., Ltd. (杭州衡華物業服務有限公司)	An enterprise controlled by the mother of the de facto controller, Li Zhenhua, a supervisor of the Company, who serves as an executive director
Shanghai Yaoyuan Hospital Management Co., Ltd. (上海曜原醫院管理有限公司)	A legal person controlled by Shi Haoying (史浩穎), the spouse of the Company's non-executive director Hu Xubo
Yu Fei	Executive Director and R&D Director of the Company
Shi Yonghui	Executive Director and Secretary to the Board of the Company
Liu Xiu	Executive Director and Chief Financial Officer of the Company
Hu Xubo [Note 1]	Non-executive Directors of the Company
Mao Shuo	Non-executive Directors of the Company
Gao Yun	Non-executive Directors of the Company
Xu Fangling (徐方玲)	Deputy general manager
Lan Yi (蘭毅)	Deputy general manager
Li Lihua	Independent Non-executive Directors of the Company
Ho Kin Cheong Kelvin	Independent Non-executive Directors of the Company
Wang Chunfeng	Independent Non-executive Directors of the Company
Cheng Hua	Independent Non-executive Directors of the Company
Gao Jian [Note 2]	Independent Non-executive Directors of the Company
Li Zhenhua	Supervisor of the Company
Zhao Zhiheng	Supervisor of the Company
Lyu Cheng	Supervisor of the Company

[Note 1] Hu Xubo was appointed as a non-executive director of the Company from October 19, 2021 to December 26, 2023

[Note 2] Gao Jian served as an independent non-executive director of the Company from October 19, 2021 to December 6, 2022

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (II) Related party transactions

#### 1. Related party transactions of purchase and sale of goods, provision and acceptance of services

(1) Related party transactions in relation to purchase of goods and receipt of services

Related parties	Content of related party transactions	Current period	Same period of last year
Hangzhou Henghua Property Service Co., Ltd. (杭州衡華物業服務有限公司)	Property charges	1,336,488.32	1,140,470.04

(2) Related party transactions of selling goods and providing services

Related parties	Content of related party transactions	Current period	Same period of last year
Shanghai Yaoyuan Hospital Management Co., Ltd. (上海曜原醫院管理有限公司)	Sales of goods	10,088.50	

#### 2. Compensation of key management personnel

Item	Current period	Same period of last year
Compensation of key management personnel	6,676,700	8,099,200

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (II) Related party transactions (Continued)

#### 3. Directors' and supervisors' remuneration

Item	Current period						Total
	Fees	Salaries, bonuses, allowances and subsidies	Housing Provident fund	Pension insurance	Other social insurance premiums	Benefit in kind	
Executive Directors:							
Zheng Pan		1,009,618.00	19,200.00	28,565.76	20,593.96		1,077,977.72
Yu Fei		935,382.61	18,924.00	6,876.74	4,958.22		966,141.57
Shi Yonghui		1,275,080.00	19,200.00	6,876.74	4,958.22		1,306,114.96
Liu Xiu		677,952.03	35,994.00	6,876.74	4,958.22		725,780.99
Non-executive Directors:							
Hu Xubo							
Mao Shuo							
Gao Yun							
Independent Non-executive Directors:							
Li Lihua	99,996.00						99,996.00
Ho Kin Cheong Kelvin	206,286.08						206,286.08
Wang Chunfeng	99,996.00						99,996.00
Cheng Hua	99,996.00						99,996.00
Gao Jian							
Supervisors:							
Li Zhenhua		339,710.39	17,088.00	6,876.74	4,958.22		368,633.35
Zhao Zhiheng		178,612.74	11,520.00	6,876.74	4,958.22		201,967.70
Lyu Cheng							
Total	506,274.08	4,416,355.77	121,926.00	62,949.46	45,385.06		5,152,890.37

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (II) Related party transactions (Continued)

#### 3. Directors' and supervisors' remuneration (Continued)

Item	Fees	Salaries, bonuses, allowances and subsides	Same period of last year				Benefit in kind	Total
			Housing Provident fund	Pension insurance	Other society Insurance premium			
Executive Directors:								
Zheng Pan		999,882.00	17,288.16	29,064.00	21,125.38		1,067,359.54	
Yu Fei		961,053.41	18,925.80	6,924.75	5,033.36		991,937.32	
Shi Yonghui		1,200,580.00	7,687.20	6,924.75	5,033.36		1,220,225.31	
Liu Xiu		701,424.20	32,240.64	6,924.75	5,033.36		745,622.95	
Non-executive Directors:								
Hu Xubo								
Mao Shuo								
Gao Yun								
Independent Non-executive Directors:								
Li Lihua	108,059.85						108,059.85	
Ho Kin Cheong Kelvin	196,781.30						196,781.30	
Wang Chunfeng	108,059.85						108,059.85	
Cheng Hua	6,451.00						6,451.00	
Gao Jian	101,608.85						101,608.85	
Supervisors:								
Li Zhenhua		321,714.10	17,088.00	6,924.75	5,033.36		350,760.21	
Zhao Zhiheng		163,353.61	7,040.00	6,924.75	5,033.36		182,351.72	
Lyu Cheng								
Total	520,960.85	4,348,007.32	100,269.80	63,687.75	46,292.18		5,079,217.90	

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (II) Related party transactions (Continued)

#### 4. Five highest paid employees

The five highest paid employees during the year included 1 (2022: 2) director, details of whose remuneration are set out in note XI (II) 3 to the financial statements. The aggregate of the emoluments in respect of the remaining 4 (2022: 3) non-director employees are as follows:

Item	Current period	Same period of last year
Salaries, bonuses, allowances and subsidies	5,443,767.39	4,079,011.47
Housing Provident funds	53,200.00	47,392.80
Pension insurance	27,506.96	36,345.75
Other social insurance premiums	19,832.88	26,418.37
Total	5,544,307.23	4,189,168.39

The remunerations of the 4 (2022: 3) non-director employees were within the following bands:

Item	Number of individuals for the period	Number of persons in the same period of last year
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	2	
HK\$2,000,001 to HK\$2,500,000		1

# NOTES TO FINANCIAL STATEMENTS

2023

## XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (III) Amounts due from/to related parties

#### Amounts due to related parties

<b>Project Name</b>	<b>Related parties</b>	<b>Closing balance</b>	Closing balance of last year
Other payables	Lan Yi	<b>40,083.87</b>	
	Shi Yonghui	<b>20,908.48</b>	2,576.51
	Liu Xiu	<b>3,244.69</b>	9,212.00
	Zhao Zhiheng	<b>430.00</b>	3,699.00
	Xu Fangling		3780.00
Sub-total		<b>64,667.04</b>	19,267.51

## XII. COMMITMENTS AND CONTINGENCIES

### (I) Significant commitments

Except for the matters described in Note V (I) 15 Assets under restricted ownership or use rights, as at the balance sheet date, the Company had no other significant commitments that need to be disclosed.

### (II) Contingent matters

As at the balance sheet date, the Company had no significant contingencies to be disclosed.

# NOTES TO FINANCIAL STATEMENTS

2023

## XIII. EVENTS AFTER THE BALANCE SHEET DATE

### (I) Progress on the Share Buy-back

1. According to the resolution of “Proposed Adoption of the 2022 H Share Award and Trust Scheme” considered and approved at the 2021 annual general meeting, the Company plans to establish a trust to repurchase no more than 8,510,000 shares of the Company. The source of funds is internal funds of the Company. The repurchased shares will be used to reward selected incentive employees. From January 1, 2024 to March 27, 2024, the Company’s trust account purchased 181,300 shares of the Company through the secondary market, accounting for 0.04% of the total share capital of the Company, with a payment of HK\$945,958.15 (excluding transaction costs).
2. According to the resolution of the general meeting of the Company held on May 18, 2023, the Board of the Company was granted a general mandate to repurchase H shares. The Company plans to repurchase no more than 17,384,044 shares of the Company by May 18, 2024. The repurchase price shall not be higher than 5% of the average closing price of the five trading days prior to the implementation of each repurchase, and the total amount of funds shall not exceed HK\$150,000,000. The repurchase of shares will carry out deregistration procedures under the Company Law of the People’s Republic of China to reduce the registered capital of the Company. From January 1, 2024 to March 27, 2024, the Company’s securities account purchased 1,300,800 shares of the Company through the secondary market, accounting for 0.31% of the total share capital of the Company, with a payment of HK\$6,219,241.00 (excluding transaction costs).

- (II) Except for the above, as of the date of approval of the financial statements, the Company has no other significant events after the balance sheet date.

## XIV. OTHER SIGNIFICANT MATTERS

### (I) SEGMENT INFORMATION

The Company is principally engaged in the manufacture and sale of BGMS, CGMS and insulin pump systems. The Company regards this business as a whole to implement management and evaluate operating results. Therefore, the Company does not need to disclose segment information. Details of the breakdown of the Company’s revenue please refer to Note V (II) 1 to the financial statements.

- (II) On April 4, 2023, due to the distribution agreement dispute, MED TRUST Handelsges.m.b.H., a customer of the Company, applied to the International Court of Arbitration of the International Chamber of Commerce to provide the Company’s sales information in the country under the agreement and compensate the compensation amount determined based on the sales information. At present, the parties to the case have reached a settlement and signed the Settlement Agreement on November 8, 2023.

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

### (I) Notes to items in the balance sheet of the parent company

#### 1. Account Receivable

##### (1) Breakdown

##### 1) Breakdown by category

Type	Book balance		Closing balance		Book value
	Amount	Percentage (%)	Bad debt provision		
			Amount	Provision Percentage (%)	
Provision for bad debts on individual basis	1,780,095.32	1.16	1,780,095.32	100.00	
Provision for bad debts by portfolio	151,226,450.71	98.84	3,778,794.50	2.50	147,447,656.21
<b>Total</b>	<b>153,006,546.03</b>	<b>100.00</b>	<b>5,558,889.82</b>	<b>3.63</b>	<b>147,447,656.21</b>

Type	Book balance		Closing balance of last year		Book value
	Amount	Percentage (%)	Bad debt provision		
			Amount	Provision Percentage (%)	
Provision for bad debts on individual basis	1,164,996.72	1.47	1,164,996.72	100.00	
Provision for bad debts by portfolio	77,841,115.01	98.53	3,775,849.91	4.85	74,065,265.10
<b>Total</b>	<b>79,006,111.73</b>	<b>100.00</b>	<b>4,940,846.63</b>	<b>6.25</b>	<b>74,065,265.10</b>

- 2) At the end of the period, there were no significant account receivable for which bad debt provision was made individually.
- 3) Account receivable with provision for bad debts made on a collective basis

Item	Closing balance		Provision ratio (%)
	Book balance	Bad debt provision	
Aging portfolio	65,452,715.59	3,778,794.50	5.77
Related party portfolio within the scope of consolidation	85,773,735.12		
<b>Sub-total</b>	<b>151,226,450.71</b>	<b>3,778,794.50</b>	<b>2.50</b>

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 1. Account Receivable (Continued)

(1) Breakdown (Continued)

4) Account receivable for which bad debt provision has been made using aging portfolio

Age	Closing balance		
	Book balance	Bad debt provision	Provision ratio (%)
Within 1 year	60,687,563.30	2,178,683.52	3.59
1-2 years	2,798,966.29	660,835.94	23.61
2-3 years	1,816,519.94	831,602.83	45.78
3-4 years	131,289.29	92,296.37	70.30
4-5 years	18,376.77	15,375.84	83.67
Sub-total	65,452,715.59	3,778,794.50	5.77

(2) Ageing analysis

Age	Closing balance			Closing balance of last year		
	Book balance	Bad debt provision	Provision ratio (%)	Book balance	Bad debt provision	Provision ratio (%)
Within 1 year	116,386,038.05	2,178,683.52	1.87	69,402,182.69	1,954,029.13	2.82
1-2 years	30,457,355.98	935,191.26	3.07	7,869,252.72	1,460,362.68	18.56
2-3 years	4,804,095.52	1,127,952.41	23.48	689,674.46	496,139.56	71.94
3-4 years	388,315.03	349,322.11	89.96	318,146.75	303,460.15	95.38
4-5 years	257,793.77	254,792.84	98.84	282,870.72	282,870.72	100.00
Over 5 years	712,947.68	712,947.68	100.00	443,984.39	443,984.39	100.00
Total	153,006,546.03	5,558,889.82	3.63	79,006,111.73	4,940,846.63	6.25

The ageing analysis of account receivable is based on the month in which the amount actually occurs. The amount initially incurred shall be settled in priority during the capital turnover period.

The credit period granted by the Company to its customers is generally 1 to 9 months. Overdue receivables are reviewed regularly by management.

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 1. Account Receivable (Continued)

##### (3) Changes in bad debt provision

Item	Opening balance	Provision	Changes in the current period			Closing balance
			Recoveries or reversals	Written-off	Others	
Provision for bad debts on individual basis	1,164,996.72	615,098.60				1,780,095.32
Provision for bad debts by portfolio	3,775,849.91	195,570.52		192,625.93		3,778,794.50
Total	4,940,846.63	810,669.12		192,625.93		5,558,889.82

##### (4) Accounts receivables actually written off in the period

##### 1) Accounts receivables written-off

Item	Amount written off
Accounts receivables actually written off	192,625.93

##### 2) No significant accounts receivables were written off in the period.

##### (5) Top 5 accounts receivables

Company name	Closing book balance	Percentage in the closing balance of accounts receivables (%)	Provision for bad debts of accounts receivables
Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司)	85,773,735.12	56.06	
China Resources Hubei Pharmaceutical Co., Ltd. (華潤湖北醫藥有限公司)	23,739,732.45	15.52	852,256.39
Health Medica Care (HMC)	3,722,518.24	2.43	337,258.58
Nipro Medical Corporation	3,050,038.26	1.99	109,496.37
MED TRUST Handelsges.m.b.H.	2,359,559.01	1.54	84,708.17
Sub-total	118,645,583.08	77.54	1,383,719.51

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 2. Other receivables

(1) Classification by nature

Nature of amount	Closing book balance	Book balance at the end of the previous year
Current accounts	<b>60,767,989.20</b>	10,978,786.53
Security deposit	<b>209,404.95</b>	186,724.95
Reserve funds	<b>129,811.98</b>	170,540.68
Export tax refund		1,202,584.03
Others	<b>86,420.00</b>	
Total	<b>61,193,626.13</b>	12,538,636.19

(2) Ageing

Age	Closing book balance	Book balance at the end of the previous year
Within 1 year	<b>50,143,019.90</b>	11,845,591.48
1-2 years	<b>10,472,466.77</b>	686,524.71
2-3 years	<b>574,019.46</b>	
4-5 years		5,000.00
Over 5 years	<b>4,120.00</b>	1,520.00
Total	<b>61,193,626.13</b>	12,538,636.19

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 2. Other receivables (Continued)

(3) Provision for bad debts

1) Breakdown by category

Type	Book balance		Closing balance		Book value
	Amount	Percentage (%)	Bad debt provision	Provision	
				Amount	
Provision for bad debts by portfolio	61,193,626.13	100.00			61,193,626.13
Total	61,193,626.13	100.00			61,193,626.13

Type	Book balance		Closing balance of last year		Book value
	Amount	Percentage (%)	Bad debt provision	Provision	
				Amount	
Provision for bad debts by portfolio	12,538,636.19	100.00			12,538,636.19
Total	12,538,636.19	100.00			12,538,636.19

2) Other receivables for which bad debt provision is made on a collective basis

Name of portfolio	Closing balance		Provision ratio (%)
	Book balance	Bad debt provision	
Related party portfolio within the scope of consolidation	60,767,989.20		
Low risk fund portfolio	425,636.93		
Sub-total	61,193,626.13		

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 2. Other receivables (Continued)

##### (4) Top five other receivables

Company name	Nature of amount	Closing book balance	Age	Percentage in the balance of other receivables (%)	Closing bad debt provision
Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司)	Current accounts	40,660,919.46	Within 1 year 30,593,409.70; 1-2 years 9,611,175.25; 2-3 years 456,334.51	66.45	
Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司)	Current accounts	19,203,737.35	Within 1 year	31.38	
Hangzhou Jienuotong Technology Materials Co., Ltd. (杭州捷諾通科技材料有限公司)	Current accounts	903,332.39	Within 1 year 49,640.87; 1-2 years 853,691.52	1.48	
Dore Chin Mark	Reserve funds	109,108.25	Within 1 year	0.18	
Beijing Taichao Commerc (北京泰巢商業管理有限公司)	Security deposit	87,746.95	2-3 years	0.14	
Sub-total		60,964,844.40		99.63	

#### 3. Long-term equity investments

##### (1) Breakdown

Item	Closing balance			Closing balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investment in subsidiaries	60,037,225.00		60,037,225.00	39,037,225.00		39,037,225.00
Total	60,037,225.00		60,037,225.00	39,037,225.00		39,037,225.00

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (I) Notes to items in the balance sheet of the parent company (Continued)

#### 3. Long-term equity investments (Continued)

##### (2) Investment in subsidiaries

Investee entity	Opening balance		Changes in the current period				Closing balance	
	Book value	Provision for impairment	Additional investment	Reduction of investment	Provision for impairment	Others	Book value	Provision for impairment
Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司)	20,000,000.00		20,000,000.00				40,000,000.00	
Hangzhou Jienuotong Technology Materials Co., Ltd. (杭州捷諾通科技材料有限公司)	1,000,000.00						1,000,000.00	
MTM AIDEX Europe GmbH	18,037,225.00						18,037,225.00	
Hangzhou MicroTech Medical Electronics Co., Ltd. (杭州微泰醫療電子有限公司)			1,000,000.00				1,000,000.00	
Sub-total	39,037,225.00		21,000,000.00				60,037,225.00	

### (II) Notes to the parent company income statement

#### 1. Operating income/operating cost

##### (1) Breakdown

Item	Current period		Same period of last year	
	Revenue	Cost	Revenue	Cost
Income from principal operations	239,410,876.47	128,565,719.41	168,238,896.43	93,575,979.67
Other operating income	5,026,238.69	2,515,759.89	3,928,384.32	776,429.24
Total	244,437,115.16	131,081,479.30	172,167,280.75	94,352,408.91
Including: Revenue from contracts with customers	240,508,981.54	130,308,162.24	168,926,652.35	93,903,973.28

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (II) Notes to the parent company income statement (Continued)

#### 1. Operating income/operating cost (Continued)

##### (2) Breakdown of revenue

- 1) Disaggregation of revenue from contracts with customers by types of goods or services

Item	Current period		Same period of last year	
	Revenue	Cost	Revenue	Cost
Glucose Monitoring System	96,869,060.05	73,253,463.64	66,437,562.03	54,135,387.66
Insulin Pump System	72,470,898.10	19,449,961.96	64,633,402.85	20,125,384.95
CGMS	68,829,294.62	35,479,611.09	36,875,253.39	19,047,183.82
Others	2,339,728.77	2,125,125.55	980,434.08	596,016.85
Sub-total	240,508,981.54	130,308,162.24	168,926,652.35	93,903,973.28

- 2) Disaggregation of revenue from contracts with customers by geographical areas of operations

Item	Current Period		Same Period of Last Year	
	Revenue	Cost	Revenue	Cost
Domestic	162,095,362.71	83,360,932.72	126,687,546.60	64,105,899.01
Foreign countries	78,413,618.83	46,947,229.52	42,239,105.75	29,798,074.27
Sub-total	240,508,981.54	130,308,162.24	168,926,652.35	93,903,973.28

- 3) Revenue from contracts with customers is disaggregated by timing of transfer of goods or services

Item	Current period	Same period of last year
	Revenue recognized at a point in time	240,508,981.54
Sub-total	240,508,981.54	168,926,652.35

- (3) Revenue recognized in the current period that was included in the book value of contract liabilities at the beginning of the period was RMB11,579,847.89.

# NOTES TO FINANCIAL STATEMENTS

2023

## XV. NOTES TO MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS (Continued)

### (II) Notes to the parent company income statement (Continued)

#### 2. Research and development expenses

<b>Item</b>	<b>Current period</b>	Same period of last year
Employee remuneration	<b>33,732,797.43</b>	26,562,650.87
Service fees	<b>17,159,159.46</b>	17,933,809.81
Materials expenses	<b>13,282,336.19</b>	10,907,460.11
Depreciation and amortization expenses	<b>3,028,845.72</b>	3,442,946.63
Others	<b>2,895,271.46</b>	2,239,254.56
Total	<b>70,098,410.26</b>	61,086,121.98

#### 3. Investment income

<b>Item</b>	<b>Current period</b>	Same period of last year
Investment income from disposal of financial assets held for trading	<b>-4,367.42</b>	
Total	<b>-4,367.42</b>	

# NOTES TO FINANCIAL STATEMENTS

2023

## XVI. OTHER SUPPLEMENTARY INFORMATION

### (I) Non-recurring profit or loss

#### 1. Breakdown of non-recurring profit or loss

Item	Amount	Description
Gains or losses from disposal of non-current assets, including the offset part of the provision for asset impairment	-160,895.05	
Government grants included in profit or loss for the current period, except for those closely related to the Company's normal business operations, in compliance with national policies and regulations, in accordance with determined standards, which have a continuous impact on the Company's profit or loss	10,098,014.52	
Gains or losses on changes in fair value arising from financial assets and financial liabilities held by non-financial enterprises and gains or losses on disposal of financial assets and financial liabilities, except for effective hedging activities related to the Company's normal business operations	-19,987.13	
Fund occupation fee charged to non-financial enterprises included in profit and loss for the period		
Profit or loss from entrusting others to invest or manage assets		
Gains or losses from entrusted loans		
Loss of assets due to force majeure such as natural disasters		
Reversal of provision for impairment of receivables subject to individual impairment test		
Gains arising from the fair value of the identifiable net assets of the investee at the time of acquisition when the investment cost of acquisition of subsidiaries, associates and joint ventures is less than the investment cost		
Net profit or loss of subsidiaries from the beginning of the period to the combination date arising from business combination under common control		
Gains or losses from exchange of non-monetary assets		
Profit or loss from debt restructuring		
One-off expenses incurred by the enterprise due to the discontinuity of relevant business activities, such as expenses for resettlement of employees		
One-off impact on profit and loss for the period due to the adjustment of tax, accounting and other laws and regulations		
One-off share-based payment expenses recognized due to cancelation and modification of share incentive scheme		
For cash-settled share-based payments, gains or losses arising from changes in fair value of employee remuneration payable after the vesting date		
Gains or losses arising from changes in fair value of investment properties subsequently measured at fair value		
Gain arising from transactions with obviously unfair transaction price		
Profit or loss from contingencies unrelated to the normal business of the Company		

# NOTES TO FINANCIAL STATEMENTS

2023

## XVI. OTHER SUPPLEMENTARY INFORMATION (Continued)

### (I) Non-recurring profit or loss (Continued)

#### 1. Breakdown of non-recurring profit or loss (Continued)

Item	Amount	Description
Custody fee income from entrusted operation		
Other non-operating income and expenses other than the above items	-4,418,927.40	
Other profit or loss items that meet the definition of non-recurring profit or loss		
Sub-total	5,498,204.94	
Less: Impact of corporate income tax (decrease in income tax is represented by "-")		
Impact of minority interests (after tax)		
Net non-recurring profit or loss attributable to owners of the parent company	5,498,204.94	

#### 2. The impact of the implementation of the Explanatory Announcement on Information Disclosure by Companies Offering Securities to the Public No. 1 – Non-recurring Gains and Losses (2023 Revision) on the amount of non-recurring gains and losses in 2022

Item	Amount
Net non-recurring profit or loss attributable to owners of the parent in 2022	22,557,301.15
Net non-recurring profit or loss attributable to owners of the parent company in 2022 calculated in accordance with the requirements of the Explanatory Announcement on Information Disclosure by Companies Offering Securities to the Public No. 1 – Non-recurring Profit or Loss (2023 Revision)	22,493,400.44
Differences	63,900.71

### (II) Return on net assets and earnings per share

#### 1. Breakdown

Profit for the Reporting Period	Weighted average net assets Rate of return (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	-5.82	-0.29	-0.29
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	-6.07	-0.31	-0.31

# NOTES TO FINANCIAL STATEMENTS

2023

## XVI. OTHER SUPPLEMENTARY INFORMATION (Continued)

### (II) Return on net assets and earnings per share (Continued)

#### 2. Calculation process of weighted average return on net assets

Item	Serial number	Amount for the period
Net profit attributable to ordinary shareholders of the Company	A	-125,015,870.94
Non-recurring profit or loss	B	5,498,204.94
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	C=A-B	-130,514,075.88
Opening net assets attributable to ordinary shareholders of the Company	D	2,212,032,256.84
New net assets attributable to ordinary shareholders of the Company arising from issuance of new shares or debt-to-equity swap	E	
Total number of months from the next month following the increase in net assets to the end of the Reporting Period	F	
Net assets attributable to ordinary shareholders of the Company decreased due to repurchase or cash dividends	G1	2,898,362.72
Total number of months from the next month following the reduction of net assets to the end of the Reporting Period	H1	1
Net assets attributable to ordinary shareholders of the Company decreased due to repurchase or cash dividends	G2	23,347,975.93
Total number of months from the next month following the reduction of net assets to the end of the Reporting Period	H2	0
Others		
Increase in net assets from translation of foreign currency financial statements	I1	314,512.45
Total number of months from the next month to the end of the Reporting Period	J1	6
Number of months during the Reporting Period	K	12
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	2,149,440,047.37
Weighted average return on net assets	$M = A/L$	-5.82%
Weighted average return on net assets after deducting non-recurring profit or loss	$N = C/L$	-6.07%

# NOTES TO FINANCIAL STATEMENTS

2023

## XVI. OTHER SUPPLEMENTARY INFORMATION (Continued)

### (II) Return on net assets and earnings per share (Continued)

#### 3. Calculation process of basic and diluted earnings per share

(1) Calculation process of basic earnings per share

Item	Serial number	Amount for the period
Net profit attributable to ordinary shareholders of the Company	A	-125,015,870.94
Non-recurring profit or loss	B	5,498,204.94
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	C=A-B	-130,514,075.88
Total number of shares at the beginning of the period	D	425,742,600
Increase in number of shares due to conversion of capital reserve into share capital or share dividend distribution	E	
Increase in number of shares by issuance of new shares or debt-to-equity swap	F	
Cumulative number of months from the month following the increase in shares to the end of the Reporting Period	G	
Number of shares decreased due to repurchase, etc.	H1	714,000
Cumulative number of months from the month following the share reduction to the end of the Reporting Period	I1	1
Number of shares decreased due to repurchase, etc.	H2	4,640,700
Cumulative number of months from the month following the share reduction to the end of the Reporting Period	I2	0
Reduction of shares during the Reporting Period	J	
Number of months during the Reporting Period	K	12
Weighted average number of ordinary shares in issue	$L=D+E+F \times \frac{G}{K} - H \times \frac{I}{K} - J$	425,683,100
Basic earnings per share	$M=A/L$	-0.29
Basic earnings per share after deducting non-recurring profit or loss	$N=C/L$	-0.31

(2) The calculation process of diluted earnings per share is the same as that of basic earnings per share.

# NOTES TO FINANCIAL STATEMENTS

2023

## XVI. OTHER SUPPLEMENTARY INFORMATION (Continued)

### (III) Explanation on differences between domestic and foreign accounting standards

The Company prepares the financial report in accordance with the Accounting Standards for Business Enterprises. In 2023, the Company decided to adopt the Accounting Standards for Business Enterprises to prepare financial statements for information disclosure on the Hong Kong Stock Exchange in accordance with the “Consultation Conclusions on Acceptance of Mainland Incorporated Companies Listed in Hong Kong on the Adoption of Chinese Accounting Standards and Appointment of Mainland Accounting Firms” published by the Hong Kong Stock Exchange in December 2010.

MicroTech Medical (Hangzhou) Co., Ltd.  
March 27, 2022

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“13th Five-Year Plan”	outline of the 13th Five Year Plan for national economic and social development of the PRC (中華人民共和國國民經濟和社會發展第十三個五年規劃綱要)
“AGM” or “Annual General Meeting”	annual general meeting of the Company
“Articles of Association”	the Articles of Association of the Company, as amended from time to time
“artificial pancreas”	an integrated diabetes management system that tracks blood glucose levels using a continuous glucose monitor and automatically delivers the insulin when needed using an insulin pump according to its control algorithm
“Audit Committee”	the audit committee of the Board
“BGMS”	blood glucose monitoring system
“blood glucose”	blood glucose, also referred to as blood sugar, is the amount of glucose in your blood, an indicator of diabetes monitoring
“Board”	the board of Directors of the Company
“calibration-free”	also known as “factory-calibrated”, the ability to use the sensor without the need for BGMS calibration; while users may opt to calibrate at his/her own discretion, a calibration-free CGMS does not require the user to perform a finger stick blood glucose calibration before displaying the glucose values
“CE marking”	a certification marking that indicates conformity with health, safety, and environmental protection standards for products sold within the European Economic Area
“CEO” or “Chief Executive Officer”	chief executive officer of our Company
“CG Code”	the Corporate Governance Code set out in Appendix C1 of the Listing Rules
“CGMS”	continuous glucose monitoring system
“Chairman”	chairman of the Board
“China” or “PRC”	People’s Republic of China, but for the purpose of this report and for geographical reference only and except where the context requires otherwise, references in this report to “China” and the “PRC” do not apply to Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Company”, “MicroTech” or “MicroTech Medical”	MicroTech Medical (Hangzhou) Co., Ltd.* (微泰醫療器械(杭州)股份有限公司), a limited liability company incorporated in the PRC on January 20, 2011 and converted into a joint stock limited liability company incorporated in the PRC on November 6, 2020, whose stock code is: HK2235
“Core Product”	Equil Patch Insulin Pump System, the designated “core product” as defined under Chapter 18A of the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by our Company, with a nominal value of RMB1.0 each, which are subscribed for or credited as paid in Renminbi
“Dr. Zheng”	Dr. Zheng Pan (鄭攀), the Chairman, an executive Director, the Chief Executive Officer and a member of the Single Largest Group of Shareholders
“Employment Incentive Platforms”	Hangzhou Yantai and Hangzhou Hengtai
“FDA”	U.S. Food and Drug Administration
“Global Offering”	the Hong Kong public offering and the international offering of the Shares
“GMP”	good manufacturing practices, the aspect of quality assurance that ensures that medicinal products are consistently produced and controlled to the quality standards appropriate to their intended use and as required by the product specification
“Group”	the Company and its subsidiaries from time to time
“H Share(s)”	overseas listed foreign share(s) in the share capital of our Company with a nominal value of RMB1.0 each, which is/are subscribed for and traded in HK dollars and listed on the Hong Kong Stock Exchange
“H Share Registrar”	Tricor Investor Services Limited
“H Share Scheme”	As approved by the Shareholders at the general meeting of the Company on June 22, 2022, the Company adopted the 2022 H Share Award and Trust Scheme
“Hangzhou Hengtai”	Hangzhou Hengtai Brand Management Partnership (Limited Partnership) (杭州衡泰品牌管理合夥企業(有限合夥)), a limited partnership established in the PRC on December 11, 2019, of which Dr. Zheng is the sole general partner, one of the Employee Incentive Platforms
“Hangzhou Yantai”	Hangzhou Yantai Investment Partnership (Limited Partnership) (杭州研泰投資合夥企業(有限合夥)), a limited partnership established in the PRC on January 2, 2018, of which Dr. Zheng is the sole general partner, one of the Employee Incentive Platforms
“HbA1C”	hemoglobin A1C, one of the indicators in the monitoring and management of diabetes
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“IVD”	in vitro diagnostic medical devices, referring to devices such as reagent, calibrator, control material, kit, specimen receptacle, software, instrument, apparatus, equipment, or system, whether used alone or in combination, intended by the manufacturer for tests performed on samples taken from the human body, such as swabs of mucus from inside the nose or back of the throat, or blood taken from a vein or fingerstick
“Latest Practicable Date”	April 18, 2024 being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
“Listing”	the listing of the shares on the Main Board of the Stock Exchange
“Listing Date”	October 19, 2021, being the date on which the Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM of the Hong Kong Stock Exchange
“MicroTech E-Commerce”	Hangzhou MicroTech E-Commerce Co., Ltd. (杭州微泰電子商務有限公司), a limited liability company established under the laws of the PRC on September 19, 2019 and our Company’s subsidiary
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules
“NMPA”	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
“Nomination Committee”	the nomination committee of the Board
“Prospectus”	the prospectus of the Company dated October 6, 2021, in relations of its Global Offering
“R&D”	research and development
“Remuneration and Assessment Committee”	the remuneration and assessment committee of the Board
“Reporting Period”	the year ended 31 December 2023
“RMB or “Renminbi””	Renminbi, the lawful currency of the PRC

# DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

“Schemes”	the employee incentive schemes dated January 2, 2018 (as amended on September 21, 2020) and December 25, 2019 (as amended on September 21, 2020) respectively
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai-Hong Kong Stock Connect”	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shanghai, including Southbound Trading and Northbound Trading
“Share(s)”	ordinary share(s) in the capital of our Company with a nominal value of RMB1.0 each
“Shareholder(s)”	holder(s) of our Share(s)
“Single Largest Group of Shareholder(s)”	Dr. Zheng Pan, Hangzhou Yantai and Hangzhou Hengtai
“Strategy Committee”	the strategy committee of the Board
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of our Company
“Unlisted Foreign Share(s)”	ordinary share(s) issued by our Company, with a nominal value of RMB1.0 each, which is/are subscribed for or credited as paid in a currency other than Renminbi, held by foreign investors and not listed on any stock exchange
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

*For the purpose of this annual report and for illustration purpose only, conversion of HK\$ to RMB is based on the exchange rate of HK\$1 to RMB0.9062.*

