愛康醫療控股有限公司

AK Medical Holdings Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code : 1789

Annual Report 2021

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Li Zhijiang *(Chairman of the Board and Chief Executive Officer)*
Ms. Zhang Bin
Mr. Zhang Chaoyang
Ms. Zhao Xiaohong

Non-executive Director

Dr. Wang David Guowei

Independent Non-executive Directors

Mr. Kong Chi Mo
Dr. Li Shu Wing David
Mr. Eric Wang

COMPANY SECRETARY

Ms. Han Yu

AUTHORIZED REPRESENTATIVES

Ms. Zhang Bin
Ms. Han Yu

AUDIT COMMITTEE

Mr. Kong Chi Mo *(Chairman)*
Dr. Li Shu Wing David
Dr. Wang David Guowai

REMUNERATION COMMITTEE

Dr. Li Shu Wing David *(Chairman)*
Mr. Kong Chi Mo
Mr. Li Zhijiang

NOMINATION COMMITTEE

Mr. Li Zhijiang *(Chairman)*
Dr. Li Shu Wing David
Mr. Kong Chi Mo

REGISTERED OFFICE

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

PRINCIPLE PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA (THE PRC)

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10 Baifuquan Road
Changping District Science and Technology Park
Beijing
China

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road East
Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

HONG KONG LEGAL ADVISER

Mayer Brown
16th–19th Floors, Prince's Building
10 Chater Road, Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

Link Market Services (Hong Kong) Pty Limited
Suite 1601, 16/F, Central Tower
28 Queen's Road Central
Central, Hong Kong

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

Agricultural Bank of China
Bank of China
Bank of Communications
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited

LISTING INFORMATION AND STOCK CODE

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 1789.HK)

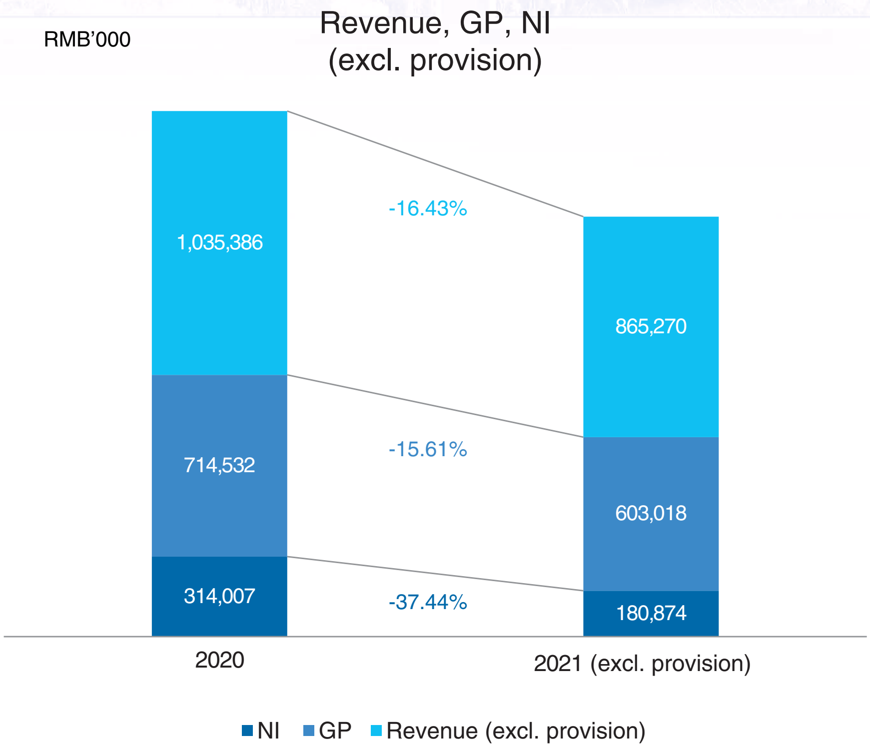
FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2021	2020	Variance
	RMB'000	RMB'000	%
Revenue	**761,441**	1,035,386	-26.5%
Gross profit	**499,189**	714,532	-30.1%
Profit for the year	**92,619**	314,007	-70.5%
Profit for the year attributable to equity shareholders of the Company	**92,619**	314,007	-70.5%
Earnings per share			
Basic	**RMB0.08**	RMB0.28	
Diluted	**RMB0.08**	RMB0.28	

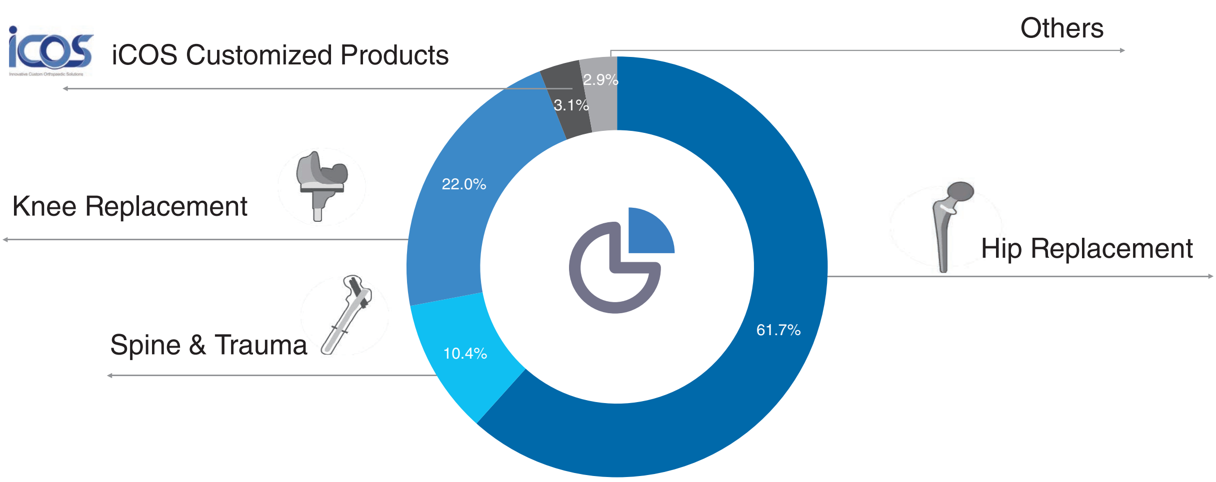
For the year ended 31 December 2021, the Group achieved revenue of RMB761.4 million, representing a decrease of 26.5% as compared to 2020. The decline in revenue was mainly attributable to the less purchase of joint implants by distributors (being the customers of the Group) for stock reduction and the provision of RMB103.8 million for the price discount of future sales in relation to certain specific joint implants due to the price decrease under the prevailing national joint implant volume-based procurement policy. Along with the decreasing revenue, profit of the Group for the year ended 31 December 2021 decreased significantly by 70.5% as compared to the year of 2020, which was primarily due to the decrease in revenue stated above, the increase in R&D and marketing expenses, and incurrence of a one-off expenses due to the relocation of a wholly-owned subsidiary of the Group located in Beijing, China.

The Directors have resolved to recommend the payment of a final dividend of HK$2.5 cents per share for the year ended 31 December 2021 (2020: HK$4.0 cents per share).

Revenue, Gross Profit, Net Profit (excl. provision)



Revenue Breakdown by Major Products (excl. Provision)



FIVE YEARS' FINANCIAL SUMMARY

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**761,441**	1,035,386	926,705	600,562	372,700
Profit for the year	**92,619**	314,007	266,992	144,936	105,376
Assets					
Non-current assets	**670,913**	624,085	364,167	267,811	126,039
Current assets	**1,934,371**	1,902,821	1,118,059	824,989	731,568
Total assets	**2,605,284**	2,526,906	1,482,226	1,092,800	857,607
Liabilities					
Current liabilities	**489,435**	417,838	327,877	228,486	179,362
Non-current liabilities	**84,298**	66,292	38,339	22,556	10,262
Total liabilities	**573,733**	484,130	366,216	251,042	189,624
Total equity	**2,031,551**	2,042,776	1,116,010	841,758	667,983

CHAIRMAN'S STATEMENT

2021 was an extraordinary and challenging year in the history of AK Medical. The COVID-19 pandemic and centralized volume-based procurement of artificial joints exceeded our predictions on market impact made at the beginning of the year. The COVID-19 pandemic made it impossible to implement the Group's international market coordination. Under the distributor-based sales model, the centralized volume-based procurement policy for artificial joints caused the Group's performance to suffer a severe setback in the current period, especially in the pilot provincial procurement projects for certain provinces and regions. This caused an even more serious impact on the sales growth of the Group. Libeier, which has just joined AK Medical, suffered from the double impact of "volume-based procurement in twelve provinces on trauma products" and relocation, its spinal and trauma business lagging behind in securing supplies, resulting in business losses. The situation was not relieved until December 2021. Centralized volume-based procurement for artificial joints not only had an impact on the business model and sales growth of the Group, but also created a large number of temporary impacts on the entire product supply chain system of the Group. In order to solve these problems, the Group actively adjusted its production capacity strategy, and this adjustment of production capacity brought temporary challenges to production, personnel arrangement, overall efficiency and benefits of the Group.

Faced with these challenges, we continued to innovate and break through in 2021. This year, AK Medical won the bids for three brands and four product lines as part of the centralized volume-based procurement for artificial joints, winning nearly 20% of Chinese market share and becoming the leading brand for artificial joints in the country. This year, AK Medical's R&D continued to maintain a high investment and a high output, with new projects for hip and knee joints replacement diagnosis and treatment being awarded first prize at the Beijing Municipal Science and Technology Progress Award. This year, AK

Medical achieved remarkable results in customized product technology, launching the ICOS customization platform for customized implanted prostheses and surgical planning, which helped simplify the complicated surgery required. This year, AK Medical – Libeier launched its range of self-locking interbody fusion devices and personalized vertebral products, which have become new tools for driving the sales growth of spine products. This year, ITI Medical Equipment took a big step forward in both R&D and production, with its core instruments now completely self-produced. This year, JRI's main product lines passed MDR certification. In the middle of 2021, Chen Jining, Mayor of Beijing, during an on-site visit to the Group, fully affirmed various innovative achievements of AK Medical in the field of orthopedics, and encouraged AK Medical to lead technological progress and promote high-quality development of the industry through continuous innovation.

At the end of 2021, we formulated the Group's transformation strategy for 2022. In 2022, taking full advantage of 3D printing customization technology, AK Medical will increase its share in the mid-to-high-end market, enhance its image of an innovative practitioner in the field of Orthopedics, consolidate its mass market, and strengthen the leading status of AK Medical in the market. Laying a solid foundation for its long-term objective of becoming the world's leading innovative and efficient medical company by 2030. In order to achieve this objective, the Group will launch long-term share award incentives in 2022 to improve the enthusiasm and creativity of its employees, with the aim of sharing the achievements of corporate development with its employees.

In 2022, we will continue to further promote technical innovation and organizational structural reform, control costs, and improve the overall operating efficiency of the Group. Faced with changes in the orthopedic industry and new market competition, we will enhance our core competitiveness with customized 3D printing technology and products, and serve patients and customers with precise and intelligent surgical technology. On this new round of orthopaedic market transformation, AK Medical will realize its transformation and move on from a product provider to a systematic technology-based enterprise. In addition, we will further enhance our corporate governance, pursue the sustainable growth of the Company under today's complex and changing external environment, and repay our shareholders, customers and society.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

2021 was a year full of changes and challenges for us. The macroeconomic environment and industry policies posed great difficulties and challenges to the whole orthopedics industry.

The COVID-19 pandemic continued its adverse impact on the industry. Despite a little improvement in the pandemic situation and most hospitals therefore resumed performing operations, COVID-19 came back in many places occasionally, with the control policy further tightened. As a result, the volume of surgeries in hospitals was once again negatively affected.

In terms of industry policies, the reform of medical system was further deepened, and volume-based procurement ("**VBP**") became a norm in the medical device industry. In 2021, the National Healthcare Security Administration ("**NHSA**") conducted VBP on joint implants nationwide. As a result, the retail price for products covered by VBP dropped sharply, exerting a significant impact on the industry.

However, after the introduction of VBP on joint implants nationwide, the industry is developing in a gradually clear direction, and the competition landscape will be reshaped in the next few years. The R&D and innovation ability, as well as the ability to develop new products and technologies in a sustained way, will play a more important role in the future competition. The Group keeps improving its R&D capabilities. In 2021, we have successfully launched three new products based on 3D printing technology and were awarded the First Prize for Beijing Science and Technology Progress.

Despite the uncertainty of the external environment, the Group still responded in an active and flexible manner with its abundant product lines and strong R&D ability. All its three brands of products won the bid in the nationwide VBP and obtained the largest volume of operations, which helps the Group maintain its leading position in the orthopedics industry. Although the number of surgeries was still stable, as of December 31, 2021, the Group recorded sales revenue of RMB761.4 million, and net profit of RMB92.6 million, representing a decrease of 26.5% and 70.5% respectively compared to the previous year due to the less purchase from distributors and making provision of RMB103.8 million for the price discount under the expectation of price drop.

Industry Policies

In recent years, the ever-changing industry policies have been attracting the attention of all stakeholders in the industry, and have also brought uncertainties and challenges to the operation and business development of the Group. The Group will conduct thorough analysis on the industry policies promulgated by the Chinese government for the purpose of getting a better understanding of the national planning in respect of the industry. The Group will closely monitor the industry development and new policies promulgated so as to formulate appropriate business development strategies to maintain its leading position in the industry.

In November 2020, the NHSA conducted the first nationwide VBP on high-value medical consumables, namely the coronary stents. At the same time, the NHSA conducted the pilot VBP on joint implants at the provincial level. In June 2021, on the basis of the pilot VBP on joint implants at the provincial level and the rules of coronary stents, the NHSA announced nationwide VBP on joint implants, and completed the bidding process for VBP in September 2021. The retail price of all selected products decreased by 82%, averagely.

This round of nationwide VBP on joint implants mainly involved primary artificial total hip system and primary artificial total knee system. In 2022, approximately 306,000 pieces of the three product lines of primary hip system will be purchased according to the procurement contract while approximately 232,000 pieces of knee system will be purchased, totaled 538,000 pieces. The procurement cycle will last for two years, and the purchase volume for the second year will not be less than that for the first year in principle.

During the process of VBP, all the three brands and four product lines owned by the Group won the bidding, and ranked first among all brands involved in terms of the volume of operations demanded by hospitals. The products of our Group covered by the VBP will be procured by more than 90% of key provincial and municipal hospitals participating in VBP, further increasing the number of hospitals the Group covers. In the past, key provincial and municipal hospitals mainly purchased imported products. These hospitals operate a large number of surgeries and require high technical standard for products. The Group will expand the market share of joint implants leveraging on its products and technical advantages through cooperating with these hospitals under nationwide VBP.

With the orderly centralized purchasing of joint implants, the market scale may fluctuate in the short term, but in the long run, it will promote the steady development of the whole industry. On the one hand, small brands without scale of economy will gradually phase out which will accelerate the industrial consolidation, so that the leading brands will further expand their market share; on the other hand, price drop will reduce the burden on patients and promote their demand for surgery, thereby increasing the market scale throughout the industry. Import substitution will also speed up as the imported brands will no longer enjoy favourable prices.

In July 2021, Henan Province organized alliance purchasing of medical consumables for orthopedic trauma treatment among twelve provinces/autonomous regions/municipalities, and the price of the selected products dropped by 88.7%, averagely. With the increasingly normalized VBP of drugs and high-value consumables, the VBP on products for spinal surgery and trauma treatment is also expected to be carried out nationwide in 2022.

Hip and Knee Impants Business

In 2021, the Group reclassified its product lines. The hip and knee implants under this section include those manufactured by regular technology and those by 3D printing technology. The Group provides customers and patients with a full line of joint implants manufactured by different technologies, including hip and knee implants and instruments suitable for primary, complicated, revision, and reconstructive surgeries.

Considering the expectation that nationwide VBP might lead to a decline in the retail price, the distributors, the main customers of the Group, mainly consumed their own inventory and therefore reducing the total number of purchases. In 2021, the Group made a provision of RMB103.8 million for the price discount of future sales in relation to certain specific primary hip and knee systems, which further resulted in the decrease of revenue. In 2021, the Group's income from hip and knee implants was RMB636.9 million, a year-on-year decrease of 31.9%.

Spinal and Trauma Implants Business

The Group acquired the regular spinal and trauma product lines by the acquisition of Beijing Libeier Bio-engineering Institute Co., Ltd. ("**Libeier**"). Combined with the Group's own 3D printing technology, the Group forms a well-established product portfolio to meet different customers' needs. Through continuous research and development of new products, the Group currently focuses on providing comprehensive solutions for spine fusion surgery featured with 3D printing technology.

In 2021, the combination of regular spine products with 3D printing products helped surgeons solve clinical problems, which faciliated the Group's products to penetrate into many well-known Class III A hospitals.

In 2021, the Group's income from spinal and trauma implants reached RMB79.3 million, a year-on-year increase of 14.5%.

Customised Products and Services

The Group offers customised products in the form of orthopedic implants manufactured using patient matching design and 3D printing technology based on different patients' differentiated lesions and pathological characteristics. At present, the Group has two Class-III 3D-printed customised products registration certificates approved by the China National Medical Products Administration ("**NMPA**"), as well as 28 customised products filings with cooperating hospitals.

With the aid of Innovative Customised Orthopedic Solution ("**ICOS**"), as well as its advantages in 3D printing and image processing, the Group is committed to building an innovative orthopedic customization platform. On the platform, the Group will offer both services and products including preoperative planning, bone model printing, customised vetting guide, 3D-printed customised implants, etc., covering joint, spine, trauma, bone tumor, etc. Moreover, relying on this platform, the Group will cooperate with hospitals nationwide to develop and establish 3D-printed customised orthopedics workstations to promote the R&D, registration and popularisation of relevant customised products. At present, the Group has established cooperation with top Class III A hospitals, such as Beijing Jishuitan Hospital, Peking University Third Hospital and Peking University People's Hospital.

In 2021, the Group's income from customised product and services reached RMB23.3 million, a year-on-year increase of 303.1%.

Research and Development

As a company with research and development ("**R&D**") as its core driving force, despite the uncertainty of the external environment, the Group still continuously increases its investment in R&D and improves its R&D capabilities.

In 2021, AK Medical Beijing, a subsidiary of the Group, obtained three Class-III medical devices registration certificates approved by the NMPA, including 3D-printed artificial total knee system, 3D-printed porous interbody cage, and 3D-printed porous artificial vertebral body. As of December 31, 2021, AK Medical Beijing had 39 registration certificates for Class-III medical devices approved by NMPA, 4 CE certificates approved by European regulatory agencies, and one certificate approved by FDA. The Group's affiliate, Changzhou ITI Medical Co. Ltd., had 7 registration certificates for Class-III medical devices approved by NMPA, while Libeier had 15 registration certificates for Class-III medical devices approved by NMPA. JRI had 9 CE certificates approved by European regulatory agencies and 2 registration certificates for Class-III medical devices approved by NMPA.

Our R&D strategy has also been adjusted according to the industry policies. With our advantages in 3D printing technology, we are more focusing on innovative technologies and products that meet clinical needs.

In 2021, we launched a new product specially suitable for the treatment of early-stage femoral head necrosis. The bone trabecula-like porous structure of the prosthesis formed by 3D printing technology can induce new bone ingrowth, thus achieving self-hip reservation. We also launched TMK knee prosthesis system, which can provide different solutions for knee replacement with the help of 3D technology, such as primary, complicated and revision surgery. Especially, it can be used to treat different degrees of bone defects during surgery, thus strengthening our technical advantages in revision cases and cases with bone defects. We have also made arrangements in the field of digital orthopedic technology.

As of December 31, 2021, the Group had 100 invention patents, 313 utility patents and 10 authorized PCT patents. Our project "establishment, popularization and application of new diagnosis and treatment technology for hip and knee replacement" was awarded the First Prize for Beijing Science and Technology Progress, reflecting the Group's ability of continuous innovation in R&D.

Sales and Marketing

Joint products

In 2021, the Group continued to implement the "Master Plan" with the aim of building a 3D platform composed of an innovative product platform, a superior technology platform and a customer platform. We promoted surgeon education programs around new products, new technologies and new surgical operations, built academic exchange platforms at different levels in different training directions, and have systematically published a series of academic articles based on this platform to build an academic highland.

At the product level, the Group, as a leader in the 3D printing orthopedic industry, launched:

1) 3D customization platform. 3D-printed implant customization was filed with national top hospitals such as the Beijing Jishuitan Hospital, Peking University Third Hospital, Peking University People's Hospital, and Shandong Provincial Hospital. Meanwhile, the corresponding products were introduced into these hospitals. Customised products cover joints, spine, trauma, bone tumors, extremities and other parts of the body, which helps the surgeons treat patients with higher level of precision. Also, personalized solutions are provided for patients to improve clinical efficacy.

2) 3D metal printing Ring - fix acetabular component system. Leveraging on the expertise of the Group in overall hip treatment, the creative restrictive lining design has remarkable effects on patients with high risk of dislocation due to neuromuscular disorders, past dislocation history or myasthenia gravis.

3) Orthopedic hip reservation product – 3D-printed AVN Cage product, filling the gap of 3D-printed metal hip reservation products worldwide. The launch of this product means that the Group has further expanded its overall solutions, providing an active treatment scheme and prosthesis for patients with early stage of Avascular Necrosis. Before the product was officially launched nationwide, we conducted a single-center follow-up study in Beijing Jishuitan Hospital, where more than 100 patients were successfully implanted with the product, with a three-year survival rate of 99%.

4) China's first 3D-printed biological knee system registration certificate, 3D ACT – NewBone™ System ("**NBS**"), a knee revision system with segments to solve various problems of bone defects more conveniently. At present, the Group is the only company in China providing all kinds of knee products including primary, complex, regular revision, 3D-printed revision, and bone tumor products, further expanding its advantages in knee products.

Academic Platform:

1) An academic platform for surgeons has been built for cooperating with top experts in China. As for the Group products, a number of high-quality articles have been published in core journals both domestically and abroad, including The Journal of Bone and Joint Surgery, Clinical Orthopaedics and Related Research, Journal of the Chinese Medical Association, and Orthopedic Journal of China, further enhancing the academic high ground of the Company.

2) Relying on the 3D ACT platform, the Group has established 3D printing customization centers nationwide. Six national customization centers have been built to actively cooperate with key experts in promoting the establishment of "3D Printing Technology Expert Consensus" and "Technical Guidelines for 3D Printing".

3) In 2021, leveraging on the "Master Plan" platform, the Group has launched a number of online and offline academic activities surrounding the promotion of hip and knee revision products and training on the minimally invasive technology platform with the focus on the professional upgrading needs of doctors, and has established eight provincial level training centres, accumulatively covering approximately 1,300 key hospitals and 100,000 trainees.

Spinal and trauma products:

The implementation of the 3D spinal fusion centre programme is an important strategy for the AK-Libeier brand and has far-reaching strategic significance in promoting the market expansion and exploration of 3D spinal and Libeier internal fixation technology. Such programme consists of the establishment of a series of fusion centres. Five Class III A hospitals have been established nationwide as customisation centres for in-depth collaboration with clinical experts to promote the development of 3D printing customised products and technology, which is expected to drive the volume of customised implantations, leveraging the leading edge of 3D printing customisation to solve clinical challenges.

Outlook

Despite the change of industry policies, the Group, a leader in China's orthopedics industry, will make strategic adjustments in due course to actively respond to the changing external environment, including but not limited to:

1. With its advantages in 3D printing customization technology, the Group can expand its market share in the middle and high-end markets and strengthen its image as an orthopedic innovation practitioner

3D printing technology has always been one of the core advantages of the Group, and we are also the only Chinese enterprise with registration certificates for 3D-printed customised products. As surgeons and patients have increasingly higher requirements and growing specific needs, customised products will have wider applications. The nationwide VBP held in 2021 helped domestic brands penetrate into more hospitals, especially middle and high-end Class III A hospitals. We will seize this opportunity to take advantage of 3D printing technology to strengthen our cooperation with hospitals and further expand our market share in the middle and high-end markets.

2. The Group will consolidate the distribution channel advantages and its leading position in the mass market

As a Chinese brand with a long history, we have formed a wide-ranging sales network. In the nationwide VBP, relying on the advantages of our products and network, we ranked first among all brands in terms of volume of operations demanded by hospitals. As VBP is carried out, the retail prices of some joint products will drop sharply, thereby increasing the surgical needs of patients and promoting the popularization of primary joint replacement surgery. We will further consolidate our leading position in the mass market by virtue of our own channel advantage.

3. The Group will strengthen its R&D capabilities to continuously launch innovative technologies and products

In the context of VBP, traditional products will be under strict price control, while only real innovative technologies and products will enjoy a price premium. As a company with R&D as its core driving force, we will further strengthen our R&D capabilities, leveraging on the advantage of localized R&D capability to continuously launch real innovative products that can be used to solve clinical problems. In the future, we will gradually increase the proportion of innovative products in our overall product portfolio to help the Group improve its profitability.

4. The Group will improve its corporate governance and strengthen internal control to cope with the ever-changing external environment

Some challenges have been posed to corporate governance over the past few years owing to fluctuation of industry policies. The external regulators are gradually increasing their requirements for corporate governance and compliance. The Group will actively communicate with all stakeholders, recruit talented personnel, improve its internal control level so as to maintain stable business operation and sustainable growth in the ever-changing external environment.

FINANCIAL REVIEW

Overview

	Year ended 31 December		
	2021	2020	**Variance**
	RMB'000	RMB'000	%
Revenue	**761,441**	1,035,386	-26.5%
Gross profit	**499,189**	714,532	-30.1%
Profit for the year	**92,619**	314,007	-70.5%
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Earnings per share			
Basic	**RMB0.08**	RMB0.28	
Diluted	**RMB0.08**	RMB0.28	

For the year ended 31 December 2021, the Group achieved revenue of RMB761.4 million, representing a decrease of 26.5% as compared to 2020. The decline in revenue was mainly attributed to the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing nationwide VBP of joint implants as well as making provision of RMB103.8 million for price discount of future sales in relation to certain specific joint implants.

In 2021, due to the impact of VBP on joint implants, distributors reduced their procurement of primary joint implants, thus causing significant negative impact on the revenue derived from primary joint implants. Riding on active marketing initiatives and effective promotion in hospitals, the Company successfully tapped into more new hospitals in 2021, resulting in a relatively stable implantations for surgery. Meanwhile, the Company established its brand image by making good use of 3D printing technology and the 3D ACT platform. The Company also introduced its ICOS products and surgical value-added services to multiple hospitals, which recorded a sharp increase of 303.1% in revenue. By actively exploring and penetrating into overseas markets, the Company's overseas sales business has grown 26.4% as compared to 2020.

The following discussions are based on the financial information and notes set out in this report below and should be read in conjunction with them.

Revenue

	Year ended 31 December		
	2021	2020	**Variance**
	RMB'000	RMB'000	%
Hip replacement implants [1]	**469,493**	676,806	-30.6%
Knee replacement implants [2]	**167,385**	258,068	-35.1%
Spinal and trauma implants [3]	**79,320**	69,295	14.5%
Customised products and services [4]	**23,319**	5,785	303.1%
Third party orthopedic products	**1,536**	8,556	-82.0%
Others [5]	**20,388**	16,876	20.8%
Total	**761,441**	1,035,386	-26.5%

Notes:

(1) Including 3D-printed hip replacement implants;

(2) Including 3D-printed knee replacement implants;

(3) Including 3D-printed spinal and trauma implants;

(4) Including customised joint, pelvis and spinal and trauma implants and also customised surgical value-added service;

(5) Others primarily include surgical instruments and medical irrigators.

The revenue of the Group amounted to RMB761.4 million for the year ended 31 December 2021, representing a decrease of 26.5% as compared with RMB1,035.4 million for the year ended 31 December 2020. The decline in revenue was mainly attributable to the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing nationwide VBP on joint implants as well as making provision for price discount of future sales in relation to certain specific joint implants. In 2021, due to the impact of VBP on joint implants, distributors reduced their procurement of primary joint products, thus causing significant impact to the revenue derived from primary joint products. Apart from the sales of primary joints, which was more affected by VBP, the spinal and trauma products marked growth of 14.5% as compared with 2020. In 2021, the customised products and surgical value-added services recorded a remarkable growth rate of 303.1% thus achieving revenue at RMB23.3 million.

Hip and Knee Implants Products

Our hip and knee replacement implants products include regular knee implants and hip implants as well as 3D-printed standardised hip and knee replacement implants. For the year ended 31 December 2021, hip implants registered a revenue of RMB469.5 million, representing a drop of 30.6% as compared to that of RMB676.8 million for the year ended 31 December 2020. For the year ended 31 December 2021, knee implants registered a revenue of RMB167.4 million, representing a drop of 35.1% as compared to that of RMB258.1 million for the year ended 31 December 2020. The drop in revenue of hip and knee implants was mainly attributable to the fall in the purchase of primary joint implants by distributors caused by the expected drop in price under the aforesaid VBP on joint implants and making a provision of RMB103.8 million for price discount of future sales in relation to primary joint products, in spite of the stable volume of implantations in hospitals.

Spinal and Trauma Implants Products

Our spinal and trauma implants products include regular spinal implants and trauma implants, which are under the Libeier brand, as well as 3D-printed spinal implants. For the year ended 31 December 2021, our spinal and trauma implants products registered a revenue of RMB79.3 million, representing an increase of 14.5% as compared to that of RMB69.3 million for the year ended 31 December 2020. In 2021, the revenue from trauma products declines due to the VBP of alliance of 12 provinces on trauma products, while the Company's sales of spinal products expanded through the innovation and excellent function of 3D printing technology.

Customised products and services

Customised products and services include customised joint, pelvis, spinal and trauma implants products as well as customised surgical value-added services. In 2021, the Group enhanced the promotion of customised surgery and surgical value-added services, and successfully penetrated into a few Class III A hospitals, which allowed the Group to record significant growth of 303.1% in revenue from customised products and services compared to that in 2020.

Third Party Orthopedic Products

To enrich the Group's product portfolio, the Group also distributes orthopedic products produced by third parties. In 2021 and 2020, the Group's revenue from distributing third party orthopedic products amounted to RMB1.5 million and RMB8.6 million, representing 0.2% and 0.8% of its revenue, respectively. As the Group's own-brand product lines become more extensive, the proportion of the Group's revenue deriving from distributing third party orthopedic products has continued to decline.

Domestic and Overseas Sales

Most of the Group's revenue came from China with small proportion of the revenue from overseas sales. A breakdown of the Group's sales revenue from China and the overseas is as follows:

	Year ended 31 December		
	2021	2020	**Variance**
	RMB'000	RMB'000	%
China	**631,131**	932,256	-32.3%
Other Countries	**130,310**	103,130	26.4%
Total	**761,441**	1,035,386	-26.5%

The sales revenue derived from the overseas for the year ended 31 December 2021 was approximately RMB130.3 million, representing an increase of 26.4% as compared with last year; this was mainly due to an increase in the number of surgeries resulted from the active exploration in overseas markets by the Company. The revenue from China for the year ended 31 December 2021 was RMB631.1 million, representing a decrease of 32.3% as compared to last year. This was mainly affected by the fall in the purchase of joint implants by distributors caused by the expected drop in price under the prevailing VBP on joint implants and making provision of RMB103.8 million for price discount of future sales in relation to certain specific joint products.

Cost of Sales

For the year ended 31 December 2021, the Group's cost of sales was RMB262.3 million, representing a decrease of 18.3% as compared with RMB320.9 million for the year ended 31 December 2020. The decrease in cost of sales was primarily due to a decrease in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit decreased by 30.1% to RMB499.2 million for the year ended 31 December 2021 from RMB714.5 million for the year ended 31 December 2020. The decrease in gross profit was primarily driven by the decrease in the Group's revenue and the aforesaid provision of RMB103.8 million for price discount. The gross margin for the year ended 31 December 2021 was 65.6%, lower than that of 69.0% for the year ended 31 December 2020 due to the provision for price discount, in spite of the decrease in procurement cost of main raw materials.

Other Income, net

The Group's other income for the year ended 31 December 2021 was RMB6.0 million, representing an increase of RMB0.7 million as compared with RMB5.3 million for the year ended 31 December 2020. Other income in 2021 was primarily from government grants and subsidy for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB187.3 million for the year ended 31 December 2021, representing an increase of 21.6% as compared with RMB154.1 million for the year ended 31 December 2020. The increase was primarily due to the suspension of market activities in 2020 as a result of the pandemic and the reduction or waiver of certain social insurance payments to employees by the Chinese government. In 2021, as the pandemic subsided and market activity resumed, the Company actively carried out marketing activities and promotions for customised and revision products as well as product trainings, thus relevant marketing expenses, travelling costs and the remuneration and social insurance payments for employees increased.

General and Administrative Expenses

General and administrative expenses amounted to RMB105.3 million for the year ended 31 December 2021, representing an increase of 26.9% as compared with RMB83.0 million for the year ended 31 December 2020. The increase was mainly due to the relocation of Libeier and therefore generation of one-off relocation expenses. Meanwhile, the social insurance payments for management and charity donations increased.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2021 was RMB113.1 million, representing an increase of 7.7% as compared with RMB105.0 million for the year ended 31 December 2020. The increase was mainly due to the increase in labor costs for R&D staff and R&D materials as a result of the carrying out of innovative R&D projects, such as digital orthopaedic technology, and further R&D team building.

Net Finance Income

Net finance income was RMB9.1 million for the year ended 31 December 2021, representing an increase of RMB1.4 million from RMB7.7 million for the year ended 31 December 2020. Such increase was primarily attributable to the increase in exchange gain in 2021.

Income Tax Expenses

Income tax expense was RMB15.9 million for the year ended 31 December 2021, representing a decrease of 74.5% as compared with RMB62.6 million for the year ended 31 December 2020. Such decrease was primarily attributable to the decline in profit before tax resulted from the combined effect of revenue decrease and expense increase. Meanwhile, in 2021, the additional tax deduction ratio on R&D costs increased from 75% to 100% in accordance with the national policy, and the Company further benefited from income tax incentives.

Liquidity and Financial Resources

As at 31 December 2021, the Group had cash and cash equivalents of RMB475.6 million, structured deposits of RMB361.2 million, time deposits over 3 months of RMB106.5 million and import tariff monthly settlement deposits of RMB5.0 million, amounting to RMB948.3 million in aggregate, as compared with RMB956.1 million as at 31 December 2020. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

The Group had net current assets of RMB1,444.9 million as at 31 December 2021, representing a decrease of RMB40.1 million as compared with RMB1,485.0 million as of 31 December 2020. Such decrease primarily represents the proceeds from the operations of the Group and comprehensive impact of provision for price discount.

Foreign Exchange Exposure

The Group's principal business is located in China and is exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US$ and Euro. For the year ended 31 December 2021, the Group recorded an exchange gain of RMB1.7 million, as compared with an exchange loss of RMB4.0 million for the year ended 31 December 2020. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the year ended 31 December 2021, the Group's total capital expenditure amounted to approximately RMB106.1 million (as of 31 December 2020: RMB100.3 million), which was primarily used in (i) procurement of equipment, machinery, and software for manufacturing and R&D activities; (ii) purchase of patents; and (iii) purchase of land.

Charge of Assets/Pledge of Assets

As of 31 December 2021, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2021, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2021, the gearing ratio of the Group was nil (as of 31 December 2020: nil).

Contingent Liabilities

As of 31 December 2021, the Group did not have any material contingent liabilities (as of 31 December 2020: Nil).

Significant Investments

As of 31 December 2021, the Group did not hold any significant investments in any other equity interests.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

For the year ended 31 December 2021, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Future Plans for Material Investments and Capital Assets

As of 31 December 2021, the Group plans to acquire approximately 50 acres of land in Changping New Town East District for the integration of offices in different locations to improve operational efficiency. The project is expected to start construction in 2022 and be completed in 2025. The project cost is approximately RMB300.0 million and is expected to be funded by own cash. As of the date of this report, the land payment had been settled.

Employee and Remuneration Policy

As of 31 December 2021, the Group had 908 employees (31 December 2020: 1,019 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2021 amounted to RMB204.5 million (for the year ended 31 December 2020: RMB164.8 million). The increase in staff remuneration was primary due to the increase in social insurance payments for employees. Under the impact of the pandemic, in 2020, the Chinese government had reduced or waived some of the social insurance payments for employees. Meanwhile, Libeier had wholly relocated in 2021 and thus generated one-off dimission compensation expenses. Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. In addition to salary payments, other staff benefits include social insurance and housing provident contribution made by the Group, performance-based compensation and bonus and share option scheme. The Group also provides trainings to the employees from time to time to enhance their knowledge and skills.

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HK$477.0 million. The net proceeds were used in the manner consistent with that disclosed in the prospectus of the Company dated 7 December 2017 under the section headed "Future Plans and Use of Proceeds" and there was no material change in the use of proceeds. The amount has been totally used as at 31 December 2020.

Use of Proceeds from placement and top-up subscription

The Group completed a placement and top-up subscription exercise in the first half of 2020. A total of 53,500,000 placing shares were placed at a placing price of HK$15.0 per share to no fewer than six independent placees whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

The Group received total net proceeds of approximately HK$783.9 million from the top-up subscription, a portion of which was used for the acquisition of Libeier (being approximately HK$313.6 million) and as general working capital of the Group (being approximately HK$350.5 million). Up to the date of this report, the net proceeds had not been fully utilised by the Group. It is expected that the remaining proceeds (being approximately HK$119.8 million) will be used for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022. These no material change in the case of proceeds as previously disclosed.

Subsequent Events

As of date of this report, the Group has had no materiel events since 31 December 2021.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 54, is the chairman of the Board, the chief executive officer of the Company and an executive Director, primarily responsible for the overall strategic planning and development of the Group. He was appointed as a Director on 17 July 2015 and was designated as the chairman of the Board, the chief executive officer of the Company and an executive Director on 6 April 2016. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Li is the spouse of Ms. Zhang Bin, an executive Director and a senior vice president of the Company, and the brother-in-law of Mr. Zhang Chaoyang, an executive Director and a senior vice president of the Company.

Mr. Li is one of the founders of the Group and has over 20 years of experience in the clinical and orthopedic industry. He has been a director of AK Medical Investments Limited, AK Medical International Limited, Bright AK Limited (formerly known as OrbiMed Asia AK Limited), Beijing AK Medical Co., Ltd* (北京愛康宜誠醫療器材有限公司) ("**AK Medical Beijing**") (formerly known as 北京愛康宜誠醫療器材股份有限公司), Beijing Ximai Kesi Medical Device Limited* (北京西麥克斯醫療器械有限公司) and ITI Medical Co. Ltd*（天衍醫療器材有限公司）since 21 July 2015, 28 July 2015, 15 March 2016, 8 May 2003, 11 November 2009 and 28 March 2016, respectively. Mr. Li has resigned as a director of Beijing Ximai Kesi Medical Device Limited since 5 March 2018. He has been appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. He has also been the general manager of AK Medical Beijing since May 2003, and resigned on 29 December 2020. Prior to establishing the Group in May 2003, Mr. Li worked in the surgical department of Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China from 1988 to 1999.

Mr. Li completed the Executive MBA Programme and obtained a Master of Business Administration (MBA) from China Europe International Business School (中歐國際工商學院) in August 2014. He completed a diploma program in medicine and graduated from Beijing Staff Medical College (北京職工醫學院) in July 1998.

Ms. Zhang Bin (張斌), aged 54, is an executive Director and a senior vice president of the Company, primarily responsible for the overall management and operations including management of the capital markets, human resources and administrative matters of the Group. She was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of the Company on 6 April 2016. Ms. Zhang is the spouse of Mr. Li Zhijiang, the chairman of the Board, an executive Director and the chief executive officer of the Company, and the sister of Mr. Zhang Chaoyang, an executive Director and a senior vice president of the Company.

Ms. Zhang has over 20 years of experience in the medical industry. She has been a director of Bright AK Limited (formerly known as OrbiMed Asia AK Limited) and AK Medical Beijing since 15 March 2016 and 30 July 2015, respectively. She has also been a vice general manager of AK Medical Beijing since December 2009. Prior to joining the Group, Ms. Zhang served several roles including as a physician, the head of the hospital chief executive office and a radiologist in the CT room of the radiological department in Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China from 1988 to 2002.

Ms. Zhang obtained an Executive Master of Business Administration (EMBA) from the Shanghai Advanced Institute of Finance of the Shanghai Jiao Tong University (上海交通大學上海高級金融學院) in December 2016. She completed a diploma program in medicine and graduated from Shougang College of Health (首都鋼鐵公司衛生學校) in August 1988.

Mr. Zhang Chaoyang (張朝陽), aged 52, is an executive Director and a senior vice president of the Company, primarily responsible for product development, planning, construction, operation and management of the new production facilities of the Group. He was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of the Company on 6 April 2016. Mr. Zhang is brother of Ms. Zhang Bin, an executive Director and a senior vice president of the Company, and brother-in-law of Mr. Li Zhijiang, the chairman of the Board, an executive Director and the chief executive officer of the Company.

Mr. Zhang is one of the founders of the Group and has over 10 years of experience in the orthopedic medical device industry. He has been a director of AK Medical Investments Limited, AK Medical International Limited, AK Medical Beijing and ITI Medical Co. Ltd.* (天衍醫療器材有限公司) since 21 July 2015, 28 July 2015, 30 July 2015 and 28 March 2016, respectively. He has also been a director of Beijing Libeier Bio-engineering Institute Co., Ltd.*(北京理貝爾生物工程研究所有限公司) and vice general manager of AK Medical Beijing since April 2020 and May 2003 respectively. He was appointed as the chairman of AK Medical Beijing since 24 December 2020. Prior to joining the Group, Mr. Zhang served as a vice director of workshop and a vice president of labor union of Shougang Mining Company Sintering Plant (首鋼礦業公司燒結廠) from September 1988 to March 2003, respectively.

Mr. Zhang obtained an Executive Master of Business Administration (EMBA) from China Europe International Business School (中歐國際工商學院) in November 2016. He obtained his diploma in economics management from the Correspondence Institute of the Party School of the Central Committee of Communist Party of China (中央黨校函授學院) in June 2001.

Ms. Zhao Xiaohong (趙曉紅), aged 44, is an executive Director of the Company, primarily responsible for overseeing the sales management and business operation of the Group. She was appointed as a Director on 29 February 2016 and was designated as an executive Director the Company on 6 April 2016. Ms. Zhao was appointed as a vice president of the Company on 21 December 2018.

Ms. Zhao has over 10 years of experience in the accounting industry. She has served as a director of Beijing Libeier Bio-engineering Institute Co., Ltd.*(北京理貝爾生物工程研究所有限公司) since 24 April 2020. She was appointed as a director and chief executive officer of AK Medical Beijing since 20 May 2020 and 28 December 2020 respectively. She was appointed as a non-executive director of JRI Orthopedics Limited on 10 April 2018. She has been the finance director and operation director of AK Medical Beijing from September 2010 to April 2019 and from December 2014 to December 2016. She was the Chief Financial Officer of the Company from 6 April 2016 to 28 December 2020. Prior to joining the Group, she worked as an auditor in Ernst & Young Hua Ming LLP from August 2004 to September 2009. Ms. Zhao has been a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants since 27 November 2009 and an associate member of the Association of International Accountants since 27 February 2015.

Ms. Zhao received her master degree in corporate management from Renmin University of China (中國人民大學) in June 2004 and her bachelor degree in international corporate management in Central University of Finance and Economics (中央財經大學) in June 2001.

Non-executive Director

Dr. Wang David Guowei (王國瑋), aged 60, is a non-executive Director primarily responsible for providing advice on the strategy of the Group. He was appointed as a Director on 29 February 2016 and was designated as a non-executive Director on 6 April 2016. He is a member of the Audit Committee of the Company.

Dr. Wang has over 10 years of experience in the medical industry. Dr. Wang is the senior managing director of Asia at OrbiMed Advisors LLC, an investment fund with a focus on the healthcare industry, where he has worked since August 2011. Dr. Wang is a director of Gracell Biotechnologies Inc. (a company listed in NASDAQ, stock code: GRCL). From April 2006 to July 2011, he served as managing director at WI Harper Group, responsible for investment activities in life sciences and healthcare areas. From March 2010 to July 2012, he served on the board of directors of Edan Instruments, Inc. (a company listed in the Shenzhen Stock Exchange, stock code: 300206), a provider of advanced electronic medical equipments, where he also served on both the audit committee and strategic committee. He ceased to be a director of Suzhou Medical System Technology Co., Ltd. (a company listed in the Shanghai Stock Exchange, stock code: 603990) on 6 May 2019 and a non-executive director of Union Medical Healthcare Limited (a company listed in the Hong Kong Stock Exchange, stock code: 2138) on 24 April 2020 and ceased to be a director of Amoy Diagnostics Co., Ltd. (a company listed in the Shenzhen Stock Exchange, stock code: 300685) on 13 August 2021.

Dr. Wang received his doctorate in developmental biology from the California Institute of Technology in June 1995. He received his bachelor degree in medicine from Beijing Medical University (北京醫科大學) (currently known as Peking University Health Science Center (北京大學醫學部)) in July 1986.

Independent Non-executive Directors

Mr. Kong Chi Mo (江智武) *CESGA®, FSA, FCCA, CPA, FCG, HKFCG*, *FHKIoD & MHKSI*, aged 46, is an independent non-executive Director primarily responsible for overseeing the management of the Group independently. Mr. Kong joined the Company on 17 November 2017, when he was appointed as an independent non-executive Director. Mr. Kong is also the chairman of the Audit Committee and a member of both the Nomination Committee and Remuneration Committee of the Board.

Mr. Kong has more than 20 years of experience in accounting and audit, corporate finance, investor relations, company secretarial affairs and governance with an additional concern on enterprise value and sustainability. Mr. Kong currently holds several directorships in listed companies including serving as an independent non-executive director and chairman of audit committee of New Hope Service Holdings Limited (stock code: 03658), an independent non-executive director and chairman of audit committee of Beijing Capital Jiaye Property Services Co., Limited (stock code: 02210), and an independent non-executive director and chairman of audit committee of ZACD Group Ltd. (stock code: 08313). All of the above-mentioned public companies are listed on the Hong Kong Stock Exchange.

Prior to joining the Company, Mr. Kong started his career as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited, an indirect wholly-owned subsidiary of Hutchison Telecommunications Hong Kong Holdings Limited (stock code: 00215), from June 1997 to March 1998. Mr. Kong worked as a tax associate in PricewaterhouseCoopers, an international accounting firm from March 1998 to October 1999 and worked in KPMG, another international accounting firm from October 1999 to December 2007, during which his last position held in KPMG was audit senior manager. Mr. Kong successively served as an executive director, chief financial officer, company secretary and authorized representative during his employment with China Vanadium Titano-Magnetite Mining Company Limited (stock code: 00893) from May 2008 to March 2020. Mr. Kong served as an independent non-executive director of Huazhang Technology Holding Limited (stock code: 01673) from May 2013 to December 2021, an independent non-executive director of Aowei Holding Limited (stock code: 01370) from June 2013 to March 2021, and an independent non-executive director of Starlight Culture Entertainment Group Limited (stock code: 01159) from May 2017 to May 2019. All of the above-mentioned public companies are listed on the Hong Kong Stock Exchange.

Mr. Kong is accredited as (i) an European Federation of Financial Analysts Societies (EFFAS) Certified ESG Analyst, the first internationally recognized ESG Professional Accreditation in Hong Kong and (ii) a Value Reporting Foundation's (VRF) Fundamentals of Sustainability Accounting Credential Holder.

Aside from the above-mentioned ESG- and sustainability-related qualifications, in aspects of accounting, company secretarial affairs and governance, Mr. Kong is also admitted as (i) a Fellow of the Association of Chartered Certified Accountants (ACCA) in the United Kingdom, (ii) a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA), (iii) a Fellow of both The Chartered Governance Institute (CGI) in the United Kingdom and The Hong Kong Chartered Governance Institute (HKCGI) with the designations of Chartered Secretary and Chartered Governance Professional, (iv) a Fellow of The Hong Kong Institute of Directors (HKIoD), and (v) an Ordinary Member of Hong Kong Securities and Investment Institute (HKSI). Mr. Kong graduated from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration in December 1997.

Dr. Li Shu Wing David (李澍榮), aged 57, is an independent non-executive Director primarily responsible for overseeing the management of the Group independently. He joined the Group on 17 November 2017, when he was appointed as an independent non-executive Director. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company.

Dr. Li has substantial experience in management in the retailing industry and medical industry. Dr. Li is the sole director of Great Bonus Development Limited, a management consulting company founded in July 2012. From July 2010 to January 2013, he served as the senior director of Medtronic Weigao Orthopedic Device Company Limited, specialized in research and development, production and sale of spine, trauma and joint orthopedic implants. Dr. Li worked in G2000 (Apparel) Limited, from November 2007 to January 2008. He was the managing director in Stryker China Limited from July 2001 to 2006.

Dr. Li obtained a Master of Business Research degree and a Doctor of Business Administration degree from SBS Swiss Business School in March 2018 and February 2020, a Master of Business Administration degree from Chaminade University of Honolulu in December 1986 and a Bachelor of Business Administration degree from University of Hawaii at Hilo in May 1986. He attended Stryker Advanced Leadership Academy Program in Harvard University in March 2005 and INSEAD Hewlett-Packard Management Academy in April 1999. He also obtained the Registered Corporate Coach Certification from Worldwide Association of Business Coaches.

Mr. Eric Wang, aged 54, is an independent non-executive Director primarily responsible for overseeing the management of the Group independently. He joined the Group on 15 June 2020, when he was appointed as an independent non-executive Director.

Mr. Wang has extensive experience in legal advisory field. He is currently the general counsel of Asia Pacific region of NXP Semiconductors ("**NXP**"), responsible for managing full range of legal, risk, regulatory and compliance issues relating to NXP's operation. Mr. Wang began his career as an attorney in 2000. Prior to joining NXP, he practiced law with Testa, Hurwitz & Thibeault LLP in Boston, Kaye Scholer LLP in Shanghai and Sheppard Mullin Richter & Hampton LLP in Shanghai where he advised and assisted private and public companies in a broad range of industries as well as private equity funds in many aspects of corporate operation and development.

Mr. Wang is a member of the State Bar of Massachusetts. He obtained his associate degree in Computer Science from East China Normal University in 1987 and a Bachelor of Arts with Magna Cum Laude in Liberal Studies from Southern Connecticut State University in 1997. He obtained his Juris Doctor Degree at Vanderbilt University School of Law in 2000.

Senior Management

For the biographical details of Mr. Li Zhijiang (李志疆), Ms. Zhang Bin (張斌), Mr. Zhang Chaoyang (張朝陽), and Ms. Zhao Xiaohong (趙曉紅), please see "Directors – Executive Directors" of this section.

Ms. Liu Aiguo (劉愛國), aged 48, is a vice general manager of AK Medical Beijing and has been appointed to be the Vice president of the Company and the CEO of ITI Medical Co., Limited* (天衍醫療器材有限公司) since December 2020. Ms. Liu has over 12 years of experience in the orthopedic medical device industry. She worked in Beijing Bearing Factory (北京軸承廠) from January 1996 to October 2003. She joined the Group in October 2003 as the head of production of AK Medical Beijing and was appointed as a vice general manager of AK Medical Beijing in July 2012, primarily responsible for quality control management and legal and regulatory affairs of AK Medical Beijing. Since January 2017, her responsibility has been re-designated to the management of the legal and regulatory department of AK Medical Beijing. She has been appointed as the General Manager of ITI Medical Co., Ltd. since 29 December 2020.

Ms. Liu has enrolled in the program of Executive Master of Business Administration of Cheung Kong Graduate School of Business (長江商學院) and received her diploma in information management and Application from Beijing Union University (北京聯合大學) in July 1998.

Ms. Wang Caimei (王彩梅), aged 49, is the director of the research center of AK Medical Beijing, primarily responsible for overseeing management of the research center of AK Medical Beijing. Ms. Wang has over 10 years of R&D experience in orthopedic implants. She joined the Group in October 2010 as the supervisor of the research center of AK Medical Beijing and was promoted to the director of the research center of AK Medical Beijing in December 2014.

Prior to joining the Group, Ms. Wang worked in Baimtec Material Company Limited (北京百慕航材高科技股份有限公司), a company principally engaged in the research, development and distribution of high technology products based on aeronautical materials, manufacturing process and technology, from March 2001 to September 2010.

Ms. Wang received her doctorate in vehicle engineering from China Agricultural University (中國農業大學) in June 2009.

Ms. Han Yu (韓鈺), aged 39, is our company secretary, primarily responsible for capital markets matters and company secretarial matters of the Group. Ms. Han has over 7 years of experience in the finance industry. She joined the Group in September 2015 as the senior financial analysis manager of AK Medical Beijing until 31 December 2015. She has become the secretary to the board of directors of AK Medical Beijing since 1 January 2016. She was appointed as one of our joint company secretaries on April 6, 2016.

Prior to joining the Group, Ms. Han was a business analyst of Hang Seng Bank in China from June 2008 to December 2010. She worked at the PBC School of Finance, Tsinghua University (清華大學五道口金融學院) from June 2014 to August 2015, and was responsible for curriculum development.

Ms. Han received her master degree in statistics from Yale University in May 2007. She obtained her bachelor degree in science from University of Victoria in May 2006. Ms. Han was awarded the Chartered Governance Professional qualification from The Hong Kong Institute of Chartered Secretaries with effect from 31 December 2020.

Ms. Liang Kun (梁堃), aged 37, has been the Chief Financial Officer of the Company since December 2020. She is primarily responsible for the financial management and accounting affairs of the Group. Ms. Liang has rich experience in accounting and auditing. She worked as an auditor in Ernst & Young Hua Ming LLP from July 2007 to July 2014. From July 2014 to December 2016, she worked as an auditing manager in United Technologies Corporation. Ms. Liang joined the Company as a senior financial manager since December 2016. She graduated from Tianjin University of Finance and Economics with a Bachelor Degree in Accounting. She is a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants.

Mr. Sun Hanzhong (孫漢忠), aged 51, has been appointed as the vice president of Human Resources of AK Medical Group since May 2021, and is fully responsible for the human resources management of AK Medical and all its subsidiaries. Prior to joining the Group, Mr. Sun had held various human resources leadership roles in Hong Kong listed companies such as Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (Stock Code: 0520), Yashili International Holdings Ltd (Stock code: 01230) and China Mengniu Dairy Company Limited (stock code: 02319). Before that, he also worked in human resource management in Kimberley-Clark (China) Limited* (金佰利(中國)有限公司), Microsoft (China) Co., Ltd., Alcoa Asia Ltd. (美國鋁業亞洲公司) and China National Light Industrial Products Import & Export Corporation (中國輕工業品進出口總公司).

Mr. Sun graduated from Cornell University in 2005 with a master's degree in human resource management, and received a bachelor’s degree in economics from Renmin University of China in 1992.

* The English translations of Chinese entities are for identification purpose only.

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited (the "**Company**") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE

The nationwide volume-based procurement policy and the following expected drop of retail prices of the products have negatively impacted the business of the Group. For the year ended 31 December 2021, the Group recorded sales revenue of RMB761.4 million, and net profit of RMB92.6 million, representing a decrease of 26.5% and 70.5% respectively compared to the year of 2020.

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the section headed "Management Discussion and Analysis" from page 9 to page 20 of this annual report.

An analysis of the Group's performance during the year ended 31 December 2021 using financial key performance indicators is provided in the section headed "Financial Highlights" on pages 4 to 6 of this annual report.

The likely future development of the Company are set out in the section headed "Management Discussion and Analysis-Prospects" of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

COVID-19 risk

The COVID-19 pandemic continued its adverse impact on the industry. Despite a little improvement in the pandemic situation and most hospitals therefore resumed performing operations, COVID-19 comes back in many places occasionally, with the control policy further tightened. As a result, the volume of surgeries in hospitals may be once again negatively affected.

Policy risk

NHSA has conducted volume-based procurement on joint implants nationwide in 2021, and the result will be implemented in 2022. The company has won the bid for all three brands and four product lines with the largest volume of operations submitted by the hospitals. Provincial governments are responsible for the implementation of the result of the bid, and the concrete implementation is not clear yet. It is possible that the market share of the Group does not ramp up as fast as we expected.

KEY RELATIONSHIP

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

Employees

We regard our employees are the most significant resources of the Group. Our recruiting policy emphasizes the importance of attracting competent employees through a combination of competitive salary incentives, on-the-job training and opportunities for development. We place significant emphasis on staff training and development. We invest in continuing education and training programs to our management staff and other employees to upgrade their skills and knowledge.

Customers

The Group's principal customers are distributors, hospitals, physicians and surgeons, and patients. We uphold the principle of providing high-quality products and customer-centered services throughout our operation, which we believe is vital to achieving customer satisfaction and maintaining our reputation.

We provide training sessions on product knowledge to our distributors. Our sales and marketing team also assists our distributors with their sales and marketing efforts. We believe this helps us nurture mutually beneficial long-term relationships with our distributors.

To strengthen the relationship with our key opinion leaders and external industry experts, we organize and attend industrial and academic seminars. We invite experts to attend conferences that we organize to promote and discuss our products and relevant surgical techniques. Especially, we provide 3D ACT Solutions to the surgeons to assist them to better complete the surgeries.

We also strive to enhance user experience by collecting feedback from surgeons and making relevant improvements to our products. Our customer service team is responsible for handling customer complaints. We have established a customer service hotline to handle complaints about our products from our customers. The relevant complaints will be forwarded to our relevant departments for follow-up.

Suppliers

We firmly believe that our suppliers are equally important in providing high-quality medical services. We select our raw material suppliers based on a number of factors, including their business scale, reputation in the market, equipment capacity, staff capacity, technical skills and their ability to deliver materials that meet our quality standards in a timely manner. We have developed stable relationships with all of our key suppliers.

ENVIRONMENTAL POLICY

We are subject to various PRC and United Kingdom (the "**UK**") laws, rules and regulations with regard to environmental matters, at both the national level and local environmental protection bureaus level. We have established dust treatment and recycling systems which have improved the working environment and have passed the necessary environmental impact evaluations and environmental facilities construction completion examinations. To comply with relevant environmental laws and regulations, we have engaged professional waste management companies to manage the disposal of hazardous wastes. We have also implemented waste treatment and disposal procedures with respect to the handling of hazardous wastes, such as wastes from hazardous chemicals. During the year ended 31 December 2021, the Group complied with all relevant environmental laws and regulations.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China and UK while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong. In 2021, our businesses were in compliance with all the relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong in all material aspects.

DONATIONS

The Group made charitable donations totalling approximately RMB6.0 million during the year ended 31 December 2021.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2021 and the state of affairs of the Group at that date are set out in the consolidated financial statements.

The Directors have resolved to recommend the payment of a final dividend of HK$2.5 cents per ordinary share for the year ended 31 December 2021 (2020: HK$4.0 cents) to the shareholders whose names appear on the register of members of the Company on Thursday, 23 June 2022. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on Wednesday, 15 June 2022, will be payable on or around Wednesday, 13 July 2022.

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

CLOSURE OF REGISTER OF MEMBERS

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

(a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 10 June 2022 to Wednesday, 15 June 2022, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Link Market Services (Hong Kong) Pty Ltd. at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Thursday, 9 June 2022.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Thursday, 23 June 2022, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Link Market Services (Hong Kong) Pty Ltd. at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Monday, 20 June 2022.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on page 6 of this annual report. The summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

As of 31 December 2021, the Group has no borrowings.

PLEDGE OF ASSETS

As of 31 December 2021, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, sales to the Group's five largest customers accounted for approximately 17.9% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB40.9 million, which amounts to approximately 5.4% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 54.0% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB64.3 million, which amounts to approximately 32.2% of the Group's total purchases.

None of the directors or any of their close associates or any shareholders that to the knowledge of our Directors own more than 5% of the issued share capital of the Company had any interest in any of our five largest customers and suppliers during the year ended 31 December 2021.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2021 are set out in note 28 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2021 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB965.9 million.

DIRECTORS

Directors during the year and up to the date of this annual report are:

Executive Directors
Mr. Li Zhijiang
Ms. Zhang Bin
Mr. Zhang Chaoyang
Ms. Zhao Xiaohong

Non-executive Director
Dr. Wang David Guowei

Independent Non-executive Directors
Mr. Kong Chi Mo
Dr. Li Shu Wing David
Mr. Eric Wang

In accordance with Article 84 of the Company's Articles of Association, Mr. Zhang Chaoyang, Mr. Kong Chi Mo and Dr. Li Shu Wing David shall retire by rotation at the AGM, and are eligible to offer themselves for re-election at the AGM. All of them will offer themselves for re-election.

SERVICE CONTRACTS OF DIRECTORS

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

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

EMOLUMENT POLICY

During the year ended 31 December 2021, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, which is determined with reference to the Group's operating results, individual performance and responsibilities and comparable market practices. The Group also adopted the Share Option Scheme and Share Award Scheme to provide incentives to directors of the Company and employees of the Group.

The emoluments of the senior management of the Company were within the following bands:

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in notes 9 to 10 to the consolidated financial statements in this annual report.

The annual remuneration of the Executive Directors and the senior management by band for the year ended 31 December 2021 is as follows:

Annual Income	Number of Persons
Below RMB500,000	1
RMB500,000 to RMB999,999	6
Over RMB1,000,000	2

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules for the year ended 31 December 2021.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at any time during the year ended 31 December 2021.

CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2021 or at any time during the year ended 31 December 2021. No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries subsisted at the end of the year ended 31 December 2021 or at any time during the year ended 31 December 2021.

NON-COMPETE UNDERTAKINGS

Each of Ximalaya Limited, Summer Limited, Mr. Li Zhijiang, Ms. Zhang Bin and Rainbow Holdings Limited (collectively the "**Covenantors**") has entered into the deed of non-competition dated 17 November 2017 (the "**Deed**") in favour of the Company. Pursuant to the Deed, each of the Covenantors shall not and shall procure that its/his/her close associates (other than members of the Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its/his/her own account or with each other or in conjunction with or on behalf of any person or company, any business in competition with or likely to be in competition with the existing business activities of the Group. For further details of the Deed, please refer to the prospectus of the Company dated 7 December 2017.

The Company has received confirmations from the Covenantors of their compliance with the terms of the Deed. The Covenantors declared that they had fully complied with the Deed for the year ended 31 December 2021. The independent non-executive directors have reviewed on the confirmations from the Covenantors and concluded that the Deed has been complied with and has been effectively enforced.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2021 or subsisted at the end of the year.

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

As at 31 December 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (a) 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 are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**"), were as follows:

Interest in the Shares or underlying Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Interest In the Company (Note 2)
Mr. Li Zhijiang (Note 3)	Founder of a discretionary trust	505,157,500 (L)	45.28%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin (Note 4)	Interest of controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	45.28%
Mr. Zhang Chaoyang (Note 5)	Founder of a discretionary trust	58,818,500 (L)	5.27%
Ms. Zhao Xiaohong (Note 6)	Beneficial owner	2,000,000 (L)	0.18%

Notes:

(1) The letter "L" denotes our Directors' long position in the Company's shares.

(2) The percentage is calculated based on the total number of 1,115,700,000 shares in issue as at 31 December 2021.

(3) The 505,157,500 shares of the Company were held by Ximalaya Limited which is indirectly wholly-owned by Trident Trust Company (HK) Limited which is the trustee of LZY Trust, a discretionary trust established by Mr. Li Zhijiang as settlor, and the beneficiaries are Mr. Li Zhijiang and certain of his family members. Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 505,157,500 long position in the Company's shares. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr.Li Zhijiang is deemed to be interested in Ms Zhang Bin's interest in the Company's shares pursuant to the SFO.

(4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares of the Company. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhang Bin is the wife of Mr. Li Zhijiang. Therefore, Ms. Zhang Bin is deemed to be interested in Mr. Li Zhijiang's interest in the Company's shares pursuant to the SFO.

(5) The 58,818,500 shares of the Company were held by Suntop Limited which is indirectly wholly-owned by Trident Trust Company (HK) Limited which is the trustee of Bamboo Trust, a discretionary trust established by Mr. Zhang Chaoyang as settlor. Mr. Zhang Chaoyang, being the founder of Bamboo Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 58,818,500 long position in the Company's shares.

(6) These interests consist of (i) 1,000,000 shares held by Ms. Zhao Xiaohong; and (ii) 1,000,000 underlying share relating to the share options granted by the Company to Ms. Zhao Xiaohong pursuant to the Pre-IPO Share Option Scheme.

Save as disclosed above, as at 31 December 2021, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) 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 he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 31 December 2021, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) and entities had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust Interest of spouse	505,157,500 (L) 10,125,000 (L)	45.28% 0.91%
Ms. Zhang Bin	Interest of controlled corporation Interest of spouse	10,125,000 (L) 505,157,500 (L)	0.91% 45.28%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	505,157,500 (L)	45.28%
Ximalaya Limited (Note 3)	Beneficial owner	505,157,500 (L)	45.28%
Mr. Zhang Chaoyang	Founder of a discretionary trust	58,818,500 (L)	5.27%
Suntop Limited (Note 4)	Beneficial owner	58,818,500 (L)	5.27%
Bamboo Group Management Limited (Note 4)	Interest of a controlled corporation	58,818,500 (L)	5.27%
Trident Trust Company (HK) Limited (Note 3 & 4)	Trustee of a discretionary trust	563,976,000 (L)	50.55%
Hillhouse Capital Advisors, Ltd. (Note 5)	Investment manager	75,738,000 (L)	6.79%
Gaoling Fund, L.P. (Note 5)	Beneficial owner	71,025,000 (L)	6.37%

Notes:

(1) The letter "L" denotes a person's long position in the Company's shares.

(2) The percentage is calculated based on the total number of 1,115,700,000 shares in issue as at 31 December 2021.

(3) Ximalaya Limited is indirectly wholly-owned by LYZ Trust. LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Rainbow Holdings Limited, which holds 100% of the issued share capital of Ximalaya Limited. Therefore, each of Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO.

(4) Suntop Limited is indirectly wholly-owned by Bamboo Trust. Bamboo Trust is a discretionary trust established by Mr. Zhang Chaoyang as settlor, with Trident Trust Company (HK) Limited acting as trustee. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Bamboo Group Management Limited, which holds 100% of the issued share capital of Suntop Limited. Therefore, each of Trident Trust Company (HK) Limited and Bamboo Group Management Limited is deemed to be interested in Suntop Limited's interest in the Company's shares pursuant to the SFO.

(5) Hillhouse Capital Advisors, Ltd. is the sole investment manager and the general partner of Gaoling Fund, L.P. and YHG Investment, L.P. respectively. Each of Gaoling Fund, L.P. and YHG Investment, L.P. held 71,025,000 shares and 4,713,000 shares, respectively. Hillhouse Capital Advisors, Ltd. is deemed to be interested in the aggregate number of 75,738,000 Shares held by Gaoling Fund, L.P. and YHG Investment, L.P.

Save as disclosed above, as at 31 December 2021, so far as the Directors were aware, no other persons (other than the Directors or chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

The Company adopted a share award scheme 8 December 2020 (the "**Share Award Scheme**"). During the year ended 31 December 2021, the trustee purchased 6,524,000 ordinary shares of the Company on the open market at a total cost of RMB49,833,000 for the purpose of granting share awards to eligible participants under the Share Award Scheme.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2021 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate; and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year ended 31 December 2021.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

The Pre-IPO share option scheme was adopted pursuant to a written resolution passed by the shareholders of the Company on 17 November 2017 (the "**Pre-IPO Share Option Scheme**") for the purpose of recognising the contribution of certain employees, executives and officers made or may have made to the growth of the Group and/or the listing of the shares of the Company on the Main Board of the Hong Kong Stock Exchange.

As at 31 December 2021, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 9,025,000, representing approximately 0.81% of the shares of the Company in issue.

All options under the Pre-IPO Share Option Scheme were granted on 17 November 2017. The exercise price of the option granted under the Pre-IPO Share Option Scheme is HK$1.34 per share.

The options granted under the Pre-IPO Share Option Scheme shall be valid for a period of ten years commencing on the date upon which such options are granted and accepted in accordance with the rules of the Pre-IPO Share Option Scheme (the "**Option Period**").

The grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise his/her options in the following manner:

(aa) For the purpose of this paragraph:

"**Vesting Conditions**" means (i) the revenue of the Group as shown in the audited consolidated financial statements of the Group for the relevant financial year represents an increase of 30% or more of the revenue of the Group as shown in the audited consolidated financial statements of the Group for the immediately preceding financial year (adjusted to exclude the effect of any acquisition by the Group); (ii) the profit attributed to shareholders as shown in the audited consolidated financial statements of the Group for the relevant financial year (adjusted to exclude the effect of the listing expenses, the options granted, any withholding tax arising from profit generated by the Group companies in the PRC and any acquisition by the Group) represents an increase of 25% or more of the profit attributes to shareholders as shown in the audited consolidated financial statements of the Group for the preceding financial year (adjusted to exclude the effect of the listing expenses, the options granted, any withholding tax arising from profit generated by the Group companies in the PRC and any acquisition by the Group); and (iii) the relevant grantee has passed the annual performance appraisal scheme established by the Group for the relevant financial year.

(bb) Options granted to the grantees will vest in four portions and the grantees shall be entitled to exercise, on the first business day immediately following 1 May of the relevant year until the end of the Option Period (both days inclusive):

(I) 25% of the total number of options granted when the Vesting Conditions are met for the first time during the Option Period;

(II) 25% of the total number of options granted when the Vesting Conditions are met for the second time during the Option Period;

(III) 25% of the total number of options granted when the Vesting Conditions are met for the third time during the Option Period; and

(IV) 25% of the total number of options granted when the Vesting Conditions are met for the fourth time during the Option Period.

(cc) Any options granted will lapse if the conditions for exercise under paragraph (bb) above have not been met within the Option Period.

(dd) The grantees shall enter into service contracts with the Group for a term of no less than four years from the date of grant of the options (as the case may be).

(ee) The Board has the sole and absolute discretion to amend the relevant vesting conditions of the pre-IPO share options from time to time and the consent from each grantee has to be obtained prior to any amendment in the event that such amendment is prejudicial to such grantee.

(ff) During the Option Period, if the grantee terminates its service contract with the Group under paragraph (dd) above or commits a material breach of any restrictive covenant in respect of the Group that the grantee is subject to (e.g. a non-competition undertaking), (i) to the extent not already exercised, the options granted to such grantee shall lapse automatically and not be exercisable, and (ii) to the extent already exercised, the Company may demand the grantee to return any entitlement or interest obtained from the exercise of the options granted. In 2019, the Directors have resolved not to demand any grantee of the pre-IPO share options to return any entitlement or interest obtained from the exercise of the options granted even though the grantee terminated its service contract with the Group during the Option Period, to the extent already exercised.

During the period from 1 January 2021 to 31 December 2021 (the "**Reporting Period**"), no share options were granted under the Pre-IPO Share Option Scheme.

The details of movements in the options granted under the Pre-IPO Share Option Scheme during the Reporting Period by category of grantees are set out below:

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2021	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 31 December 2021	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	1,000,000	0	0	0	1,000,000	10 YEARS	HK$1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	8,425,000	0	200,000	200,000	8,025,000	10 YEARS	HK$1.34
Total		**9,425,000**	**0**	**200,000**	**200,000**	**9,025,000**		

The terms of the Pre-IPO Share Option Scheme are disclosed in the Company's prospectus dated 7 December 2017.

Details of the Pre-IPO Share Option Scheme are set out in note 25 to the consolidated financial statements.

(b) Share Option Scheme

The Company adopted a share option scheme approved by the written resolution passed by the shareholders of the Company on 17 November 2017 (the "**Share Option Scheme**"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from 20 December 2017 (the "**Listing Date**").

A summary of the Share Option Scheme of the Company is as follows:

1. Purpose

To recognize and acknowledge the contributions the Eligible Participants (as defined below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2.	Participants	The Board may, at its discretion, offer to grant an option to subscribe for such number of new shares as the Board may determine at an exercise price determined in accordance with the terms set out in the Share Option Scheme to the following persons (the "**Eligible Participants**"): (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries; (iii) any advisors, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are: (aa) contribution to the development and performance of the Group; (bb) quality of work performed for the Group; (cc) initiative and commitment in performing his/her duties; and (dd) length of service or contribution to the Group.
3.	Total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of the annual report	100,000,000 ordinary shares and 8.96% of the existing issued share capital.
4.	Maximum entitlement of each participant	The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of the Company but subsequently canceled to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company to the shareholders containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the shareholders in general meeting and/ or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of the shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

(aa) the Eligible Participant's name, address and occupation/ position;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Hong Kong Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of shares in respect of which the option is offered;

(ff) the exercise price and the manner of payment of such price for the shares on and in consequence of the exercise of the option;

(gg) the date of the expiry of the option;

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in item 7 below; and

(ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

5.	Period within which the securities must be taken up under an option	An option may be taken up in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and may be exercised thereupon and prior to the expiry of the period as notified by the Board to each Grantee provided that such period of time shall not exceed a period of ten years from that date.
6.	Minimum period, if any, for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
7.	Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for shares may be accepted in respect of less than the number of shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.
8.	Basis of determining the exercise price	The exercise price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, except that such price will not be less than the highest of: (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
9.	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 19 December 2027.

There is no outstanding share option as at 1 January 2021 and during the year ended 31 December 2021, no share options were granted, exercised, cancelled or lapsed. On 31 March 2022, the Company granted (i) 8,582,362 share options (representing approximately 0.77% of the issued share capital of the Company as at the date of this report and approximately 0.76% of the enlarged issued share capital of the Company upon exercise in full of the Options, respectively) (the "**Options**") at an exercise price of HK$4.66 per share to 112 employees of the Group (the "**Grantees**"). The validity period of the Options granted were from 31 March 2022 to 30 March 2032 (both dates inclusive). The closing price of the shares on the date of grant was HK$4.66 per share.

The vesting period and conditions of the Options granted were as follows:

(i) 1,716,472 Options, representing 20% of the total Options granted, will be vested on 31 March 2023 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee;

(ii) 1,716,472 Options, representing 20% of the total Options granted, will be vested on 31 March 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee;

(ii) 2,574,709 Options, representing 30% of the total Options granted, will be vested on 31 March 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee; and

(iv) 2,574,709 Options, representing 30% of the total Options granted, will be vested on 31 March 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee.

Among the Options granted, 660,304 Options were granted to Ms. Zhao Xiaohong ("**Ms. Zhao**"), an executive Director. The grant of Options to Ms. Zhao was approved by all the independent non-executive Directors pursuant to Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme. Save as disclosed above, none of the Grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) as at the date of this report.

For details, please refer to the announcement of the Company dated 31 March 2022.

SHARE AWARD SCHEME

The share award scheme of the Company ("**Share Award Scheme**") was adopted by the Board on 8 December 2020 ("**Adoption Date**"). Summary of principal terms of the Share Award Scheme are set forth below:

PURPOSES OF THE SHARE AWARD SCHEME

The purposes of the Share Award Scheme are to recognise and reward the contribution of certain Eligible Participants (as defined below) to the growth and development of the Group, to give incentives to Eligible Participants (as defined below) in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

ADMINISTRATION

The Share Award Scheme shall be subject to the administration of the Board whose decisions on all matters arising in relation to the Share Award Scheme or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby, provided that such administration shall not prejudice (i) the powers of the trustee ("**Trustee**") as provided under the trust deed entered into between the Company and the Trustee ("**Trust Deed**"); and (ii) the powers of the remuneration committee of the Board on recommending and/or deciding (on and subject to the terms and conditions provided under the Share Award Scheme) the selection of the selected participants ("**Selected Participants**"), the number of awarded Shares to be awarded to the respective Selected Participants and other related matters as expressly provided under the Share Award Scheme.

ELIGIBILITY

Under the rules constituting the Share Award Scheme, the following classes of participants (excluding the excluded participants) ("**Eligible Participants**") are eligible for participation in the Share Award Scheme:

(a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiary ("**Subsidiary**") or any of its invested entity ("**Invested Entity**") (an "**Employee**");

(b) any non-executive director (including independent non-executive directors) of the Company, any Subsidiary or any Invested Entity;

(c) any adviser (professional or otherwise), consultant to or expert in any area of business or business development of any member of the Group or any invested entity; and

(d) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Share Award Scheme, the award may be made to any company wholly owned by one or more of the above participant.

The eligibility of any of the Eligible Participants to an award shall be determined by the Board from time to time on the basis of the Board's opinion as to his contribution and/or future contribution to the development and growth of the Group.

SHARES POOL

In order to satisfy any award to be granted under the Share Award Scheme from time to time, the Trustee shall maintain a shares pool ("**Shares Pool**") which shall comprise the following:

(a) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the funds allocated by the Board out of the Company's resources, subject to the scheme limit as described under the paragraph headed "The Share Award Scheme – Scheme limit" below;

(b) such Shares as may be subscribed for by the Trustee by utilising the funds allocated by the Board out of the Company's resources, subject to the scheme limit as described under the paragraph headed "The Share Award Scheme – Scheme Limit" below;

(c) such Shares as may be allotted or issued to the Trustee as a holder of Shares, whether by way of scrip dividend or otherwise; and

(d) such Shares which remain unvested and revert to the Trustee due to the lapse of the award.

The Trustee may purchase the Shares on the Stock Exchange at the prevailing market price (subject to such maximum price as may be from time to time prescribed by the Board and the scheme limit as described under the paragraph "The Share Award Scheme – Scheme Limit" below), or off the market. In the event that the Trustee effects any purchases by off-market transactions, the purchase price for such purchases shall not be higher than the lower of the following: (i) the closing market price on the date of such purchase, and (ii) the average closing market price for the five (5) preceding trading days on which the Shares were traded on the Stock Exchange.

Where any award is proposed to be made to a connected person and the relevant award of the awarded Shares is to be satisfied by an allotment and issue of new Shares, the award shall be separately approved by the Shareholders in general meeting with such connected person and his associates abstaining from voting and shall comply with all other requirements of Chapter 14A of the Listing Rules applicable to such award.

AWARD OF SHARES

The Board shall, subject to and in accordance with the rules of the Share Award Scheme, be entitled to, at any time during the continuation of the Share Award Scheme, make an award out of the Shares Pool to any of the Eligible Participants such number of Shares as it shall determine pursuant to the Share Award Scheme.

The Board shall notify the Trustee in writing upon the making of an award under the Share Award Scheme by giving the Trustee an award notice.

The making of an award to any connected person of the Company shall be subject to compliance with the applicable requirements under the Listing Rules.

No award may be made by the Board during the periods as prescribed under the paragraph "Black-out Period" below.

VOTING RIGHTS OF THE SHARES IN THE SHARES POOL

The Trustee shall not exercise the voting rights in respect of the Shares held under trust constituted by the Trust Deed (including but not limited to any Shares in the Shares Pool, the awarded Shares, the further Shares, the returned Shares, any bonus Shares and scrip Shares). The Selected Participants shall not have any right to receive any awarded Shares (including, without limitation, the voting rights) set aside for them unless and until the Trustee has transferred and vested the legal and beneficial ownership of such awarded Shares to and in the Selected Participants.

VESTING OF THE AWARDED SHARES

The Board may from time to time, at its discretion, determine the earliest vesting date ("**Vesting Date**") and other subsequent date(s), if any, upon which the awarded Shares held by the Trustee upon trust and which are referable to a Selected Participant shall vest in that Selected Participant.

During the vesting period ("**Vesting Period**"), any dividends and other distributions ("**Other Distributions**") declared and made in respect of any awarded Shares shall belong to the Trustee and the relevant Selected Participant shall not have any right whatsoever in such Other Distributions in respect of any awarded Shares or otherwise unless and until the relevant awarded Shares are vested in such Selected Participant. Such Other Distributions shall be applied to subscription for and/or purchase of Shares for the purpose of satisfying any further awards by the Board and, upon termination of the Share Award Scheme, shall be treated and dealt with as income of the trust fund under the Trust Deed generally.

At any time prior to a Vesting Date, unless the Board otherwise determines, in respect of a Selected Participant who:

(a) died, all the awarded Shares of the Selected Participant shall be deemed to be vested on the Selected Participant on the day immediately prior to his death; or

(b) (in the case of a Selected Participant who is an Employee) retired at his normal retirement date, all the awarded Shares of the Selected Participant shall be deemed to be vested on the Selected Participant on the day immediately prior to his normal retirement date; or

(c) (in the case of a Selected Participant who is an Employee) retired at an earlier retirement date (with prior written agreement given by the Company or the Subsidiary or the Invested Entity), all the awarded Shares of the Selected Participant shall be deemed to be vested on the Selected Participant on the day immediately prior to his earlier retirement date.

If there is an event of change in control, as defined in the Hong Kong Codes on Takeovers and Mergers and Share Repurchases from time to time, of the Company by way of general or partial takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner made to all the Shareholders, all the unvested award Shares shall vest at any time before the expiry of the period of ten (10) Business Days following the date on which the offer becomes or is declared unconditional.

BLACK-OUT PERIOD

For so long as the Shares are listed on the Stock Exchange:

(a) an award or, as the case may be, any instruction of the Board to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool may not be made or given when inside information has come to the Company's knowledge until such inside information has been published in accordance with the SFO; and

(b) the Board may not make any award to any Eligible Participant or give any instruction to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company. In particular, during the period preceding the publication of financial results in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company and up to the date of publication of the relevant financial results, no award may be made and no instruction may be given by the Board to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool.

LAPSE OF AWARD

Unless the Board determines otherwise, in the event that a Selected Participant who is an Employee ceases to be an Employee by virtue of a corporate reorganisation of the Group or the invested entity, then any award made to such Selected Participant shall forthwith lapse and be cancelled.

An award (or, as the case may be, the relevant part of the award) shall, under the following circumstances and subject to the terms of the Share Award Scheme, automatically lapse forthwith and all the Shares awarded (or, as the case may be, the relevant Shares awarded) shall become returned Shares:

(a) the Selected Participant ceases to be an Employee, other than for reason of death, normal retirement or early retirement (with prior written agreement given by the Company or the Subsidiary or the Invested Entity); or

(b) the Subsidiary or Invested Entity by which a Selected Participant is employed or, in respect of a deceased or retired Selected Participant, was employed immediately prior to his death or retirement, ceases to be a Subsidiary or Invested Entity of the Company (or of a member of the Group); or

(c) the Board shall at its absolute discretion determine in respect of a Selected Participant that (i) the Selected Participant or his associate has committed any breach of any contract entered into between the Selected Participant or his associate on one part and any member of the Group or any invested entity on the other part as the Board may in its absolute discretion determine; or (ii) the Selected Participant has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (iii) the Selected Participant could no longer make any contribution to the growth and development of any member of the Group or the invested entity by reason of the cessation of its relationship with the Group or the invested entity or by any other reasons whatsoever; or

(d) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company (subject to certain exceptions stipulated in the Share Award Scheme); or

(e) a Selected Participant is found to be an excluded participant; or

(f) subject to the terms of the Share Award Scheme, a Selected Participant fails to return duly executed transfer documents prescribed by the Trustee for the relevant awarded Shares within the stipulated period.

SCHEME LIMIT

The maximum number of Shares to be subscribed for and/or purchased by the Trustee by applying the Group contribution for the purpose of the Share Award Scheme shall not exceed 10% of the total number of issued Shares as at 8 December 2020 being the date on which the Scheme is adopted by the Board (the "**Adoption Date**"). The Board shall not instruct the Trustee to subscribe for and/or purchase any Shares for the purpose of the Share Award Scheme when such subscription and/or purchase will result in such threshold being exceeded.

The maximum number of Shares which may be subject to an award or awards to a Selected Participant shall not in aggregate exceed 1% of the issued share capital of the Company as at the Adoption Date.

RIGHTS ATTACHING TO THE AWARDS AND THE AWARDED SHARES

An award shall be personal to the Selected Participant and shall not be transferable or assignable and no Selected Participant shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any security or adverse interest whatsoever in favour of any third party over or in relation to an award or enter or purport to enter into any agreement to do so prior to the vesting of the award.

The Selected Participants shall not have any right to receive any awarded Shares (including, without limitation, the voting rights) set aside for them under any award unless and until the Trustee has transferred and vested the legal and beneficial ownership of such awarded Shares to and in the Selected Participants in accordance with the terms of the Share Award Scheme.

ALTERATION OF THE SHARE AWARD SCHEME

The rules of the Share Award Scheme may be altered by the prior sanction of a Board resolution together with the prior written consent of the Trustee, provided that no such alteration shall operate to affect adversely any rights of any Selected Participant in respect of his awarded Shares which remain unvested except with the consent in writing of the majority of the Selected Participants whose awarded Shares remained unvested on that date as would be required of the holders of Shares under the articles of association of the Company for a variation of the rights attached to such Shares.

DURATION OF THE SHARE AWARD SCHEME AND TERMINATION OF THE SHARE AWARD SCHEME

The Share Award Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but may be terminated earlier as determined by the Board.

If, at the date of the termination of the Share Award Scheme, the Trustee holds any Share which has not been set aside in favour of any Selected Participant or retains any unutilised funds received as the Group contribution or otherwise, then the Trustee shall, within twenty-one (21) Business Days after receiving actual notice of such termination, sell such Shares at the prevailing market price and remit the proceeds of sale (after making appropriate deductions in respect of stamp duty and other costs, liabilities and expenses in accordance with the Trust Deed) together with such unutilised funds to the Company. Upon termination of the Share Award Scheme, subject to the decision of the Board and to the terms of the Share Award Scheme, the relevant Vesting Date of the awarded Shares shall be unaffected and the awarded Shares shall remain transferable to and to be vested in such Selected Participant in accordance with the terms set out in the award notice, save in respect of any lapse of the award.

MOVEMENTS OF AWARDED SHARES

During the financial year ended 31 December 2021, there were 89,754,000 Shares held in trust by the trustee under the Share Award Scheme and no awarded Shares were granted under the Share Award Scheme.

On 31 March 2022, the Company offered to grant a total of 838,784 Awarded Shares at nil consideration to 112 Selected Participants who are employees of the Group as an incentive to retain and attract talents for the Group. The grant of 838,784 Awarded Shares is subject to acceptance by the Selected Participants and the vesting period and conditions. The 838,784 Awarded Shares will be satisfied with the existing issued Shares held by the Trustee.

For details, please refer to the announcement of the Company dated 31 March 2022.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2021, there were no non-exempt connected transactions or continuing connected transactions of the Company. All such related party transactions as disclosed in note 31 to the consolidated financial statements are either (i) not regarded as connected transaction within the meaning of the Listing Rules or (ii) regarded as connected transaction within the meaning of the Listing Rules but are fully exempted. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or their respective associates has any interest in a business which competes or may compete with the business of the Group during the year ended 31 December 2021.

DIVERSITY OF DIRECTORS

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will consider a number of factors, including but not limited to gender, age, educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board. Details on the biographies and experience of the Directors are set out on pages 21 to 24 of this annual report.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times as at the date of this annual report.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

The Board is not aware of any tax relief available to shareholders of the Company by reason of their holding of the Company's securities.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Wednesday, 15 June 2022. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 49 to 61 of this annual report.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto subject to the Hong Kong Companies Ordinance. Such provision was in force during the year ended 31 December 2021 and remained in force as at the date of this annual report. The Company has also arranged appropriate directors' and officers' liability insurance for the directors and officers of the Group.

MANAGEMENT CONTRACT

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 year 31 December 2021.

SUBSEQUENT EVENTS

No material events have occurred since 31 December 2021.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2021. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint KPMG as the auditor of the Company.

On behalf of the Board
Li Zhijiang
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 24 March 2022

The board of directors (the "**Directors**") of the Company (the "**Board**") is pleased to present this Corporate Governance Report for the year ended 31 December 2021 in the Company's annual report for the year ended 31 December 2021.

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 and its subsidiaries (the "**Group**") to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") as previously contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rule**").

On 1 January 2022, the amendments to the Corporate Governance Code (the "**New CG Code**") came into effect and the requirements under the New CG code will apply to corporate governance reports for financial year commencing on or after 1 January 2022. The Board will continue to review and enhance its corporate governance practice of the Company to ensure compliance with the New CG Code and align with the latest developments.

The Board is of the view that throughout the year ended 31 December 2021, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (which has been renumbered as code provision C.2.1 since 1 January 2022) (the details of which are set forth below).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 2021.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Li Zhijiang	*(Chairman of the Board, Chief Executive Officer, Chairman of Nomination Committee and Member of Remuneration Committee)*
Ms. Zhang Bin	
Mr. Zhang Chaoyang	
Ms. Zhao Xiaohong	

Non-executive Director

Dr. Wang David Guowei	*(Member of Audit Committee)*

Independent Non-executive Directors

Mr. Kong Chi Mo	*(Chairman of Audit Committee and Member of Remuneration Committee and Nomination Committee)*
Dr. Li Shu Wing David	*(Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee)*
Mr. Eric Wang	

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 21 to 24 of this Annual Report.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Board of Directors and Senior Management" on pages 21 to 24.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

The attendance record of each Director at the Board meetings and the general meeting of the Company held during the year is set out in the table below:

	Attendance/Number of Meetings	
Name of Directors	**Board Meetings**	**Annual General Meeting**
Executive Directors		
Mr. Li Zhijiang *(Chairman)*	6/6	1/1
Ms. Zhang Bin	6/6	1/1
Mr. Zhang Chaoyang	6/6	1/1
Ms. Zhao Xiaohong	6/6	1/1
Non-executive Director		
Dr. Wang David Guowei	6/6	1/1
Independent Non-executive Directors		
Mr. Kong Chi Mo	6/6	1/1
Dr. Li Shu Wing David	6/6	1/1
Mr. Eric Wang	5/6	1/1

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code (which has been renumbered as code provision C.2.1 since 1 January 2022) stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and chief executive officer of the Company are held by Mr. Li Zhijiang, who is one of the founders of the Group and has extensive experience in the industry.

The Board believes that Mr. Li Zhijiang can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

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

Independent Non-executive Directors

During the year ended 2021, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules for the year ended 31 December 2021. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Non-executive Directors

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

The Articles of Association of the Company (the "**Articles of Association**") provide that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

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

Responsibilities of the Board and Management

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

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

All Directors, including Non-executive Director 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 for discharging their duties to the Company.

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

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

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

Continuous Professional Development of Directors

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

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

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

The record of CPD relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2021 are summarized as follows:

Name of Directors	**Attending Internally-facilitated Briefings or Training, Attending seminars, Reading materials**
Executive Directors	
Mr. Li Zhijiang *(Chairman)*	✓
Ms. Zhang Bin	✓
Mr. Zhang Chaoyang	✓
Ms. Zhao Xiaohong	✓
Non-executive Director	
Dr. Wang David Guowei	✓
Independent Non-executive Directors	
Mr. Kong Chi Mo	✓
Dr. Li Shu Wing David	✓
Mr. Eric Wang	✓

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee (the "**Audit Committee**"), Remuneration Committee (the "**Remuneration Committee**") and Nomination Committee (the "**Nomination Committee**"), for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the websites of the Company and Stock Exchange 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.

Audit Committee

The Audit Committee consists of two Independent Non-executive Directors, namely Mr. Kong Chi Mo and Dr. Li Shu Wing David, and one Non-executive Director, namely Dr. Wang David Guowei. Mr. Kong Chi Mo is the chairman of the Audit Committee. The composition of the Audit Committee has complied with the requirements as set out in Rule 3.21 of the Listing Rules that majority of the members of the Audit Committee should be Independent Non-Executive Directors.

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

1. Relationship with the Company's external auditors;

2. Review of the Company's financial information;

3. Oversight of the Company's financial reporting system, risk management and internal control systems; and

4. Performing the Company's corporate governance functions.

The Audit Committee held two meetings to review, in respect of the year ended 2021, the interim and annual financial results and reports, major internal audit issues, significant issues on the financial reporting, the effectiveness of the risk management and internal control systems, and appointment of external auditors.

The Audit Committee also met the external auditors two times during the year ended 2021.

The attendance record of each Director at the said Audit Committee meetings of the Company held in 2021 is set out in the table below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Kong Chi Mo *(Chairman)*	2/2
Dr. Li Shu Wing David	2/2
Dr. Wang David Guowei	2/2

Remuneration Committee

The Remuneration Committee consists of three members, including two Independent Non-exeutive Directors, namely Dr. Li Shu Wing David and Mr. Kong Chi Mo, and one Executive Director namely Mr. Li Zhijiang. Dr. Li Shu Wing David is the chairman of the Remuneration Committee. The composition of the Remuneration Committee has complied with the requirements as set out in Rule 3.25 of the Listing Rules that a majority of the members of the Remuneration Committee should be Independent Non-Executive Directors and chaired by an Independent Non-Executive Director.

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

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

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

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

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

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

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

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

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

9. To consider and approve the grant of share options to eligible participants pursuant to the share option scheme;

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

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

The Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the Directors and senior management and other related matters.

The attendance record of each Director at the said Remuneration Committee meeting of the Company held in 2021 is set out in the table below:

Name of Directors	Attendance/ Number of Meetings
Dr. Li Shu Wing David *(Chairman)*	1/1
Mr. Li Zhijiang	1/1
Mr. Kong Chi Mo	1/1

The remuneration of the Directors and the senior management by band for the year ended 31 December 2021 is set out below:

Annual Income	Number of Persons
Below RMB500,000	1
RMB500,000 to RMB999,999	6
Over RMB1,000,000	2

Nomination Committee

The Nomination Committee consists of three members, including one Executive Director, namely Mr. Li Zhijiang, and two Independent Non-executive Directors, namely Mr. Kong Chi Mo and Dr. Li Shu Wing David. Mr. Li Zhijiang is the chairman of the Nomination Committee.

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

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

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

3. To assess the independence of Independent Non-executive Directors;

4. To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

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

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

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, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. For details of nomination procedures and nomination policy, please refer to the section headed "Director Nomination Policy" and "Procedures for Nomination of Directors" below.

The Nomination Committee met once to review the structure, size and composition of the Board, the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

The attendance record of each Director at the said Nomination Committee meeting of the Company held in 2021 is set out in the table below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Li Zhijiang *(Chairman)*	1/1
Dr. Li Shu Wing David	1/1
Mr. Kong Chi Mo	1/1

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board and is available on the website of the Company. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

Pursuant to the Board Diversity Policy, Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity. The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the Board Diversity Policy in selection of Board candidates. Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The Nomination Committee will develop and review measurable objectives to implement the Board Diversity Policy and monitor the progress on achieving these measurable objectives.

At present, the Nomination Committee considered that the Board is sufficiently diverse.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Director Nomination Policy

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

The Company has adopted a director nomination policy ("**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 the 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:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- 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;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committees of the Company.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and reelection of Directors at general meetings.

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the CG Code. During the year ended 31 December 2021, the Board 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 Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

All divisions/departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress.

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2021.

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

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems for the year ended 31 December 2021, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns such as criminal offence, financial impropriety or other matters of the Company.

The Company has developed its inside information policy which provides a general guide to the Company's Directors, officers and all relevant employees of the Company to ensure that inside information of the Company is disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2021.

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, KPMG, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 86 to 93 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, KPMG, in respect of audit services for the year ended 31 December 2021 is set out below:

Service Category	**Fees Paid/Payable** RMB
Audit Services	3,955
Non-audit Services	–
Total	3,955

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

JOINT COMPANY SECRETARIES

Ms. Han Yu and Ms. Li Yan Wing Rita served as the Company's joint company secretaries throughout the year ended 31 December 2021. Ms. Li Yan Wing Rita is an executive director of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services. Ms. Li Yan Wing Rita resigned as a joint company secretary on 4 January 2022 and Ms. Han Yu served as the sole company secretary of the Company with effect from 4 January 2022.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Ms. Han Yu, one of the joint company secretaries, has been designated as the primary contact person at the Company which would work and communicate with external parties on the Company's corporate governance and secretarial and administrative matters.

For the year ended 31 December 2021, Ms. Han Yu and Ms. Li Yan Wing Rita have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

To safeguard shareholder interests and rights, separate resolutions 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 poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Articles 58 of the Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association. Members who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries 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.10 Baifuquan Road, 2nd Floor, Xingye Building, Changping District, 102200 Beijing, China (For the attention of the Company Secretary)
Fax:	(86) 10 8010-9583
Email:	ir@ak-medical.net

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at (86) 10 8010-9581 for any assistance.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a policy on payment of dividends ("**Dividend Policy**"). The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT OF AK MEDICAL

AK Medical is one of the leading orthopedic total solution providers in China. We are committed to offering domestically produced products with high quality to patients and we strive to become an innovative leading company in the orthopedic sector. In the development of the Company, we pay attention to the issues related to environment, society and governance, making efforts to achieve sustainability of the Company's development.

THE STATEMENT OF THE BOARD

AK Medical is committed to improving sustainable business practices, establishing and improving the ESG working mechanism, striving to protect society and the environment and creating long-term stable social, environmental and corporate values.

The Board of AK Medical is the highest responsible decision-making body for ESG matters, and assumes full responsibility for the Company's ESG strategy and reporting issues. In order to effectively fulfill the management and supervision responsibilities of the Board on environmental, social and governance issues, the Company's executive directors and senior vice presidents are specifically responsible for and implement various ESG resolutions of the Board, review ESG risks and monitor the development of specific ESG issues. In 2021, the Company continued to standardize the ESG governance and management work process, improve the ESG Working Group Management Measures and the working mechanism of the ESG working group, extend the ESG work function and regularly report the work progress to the Board, ensuring all ESG work were effectively performed.

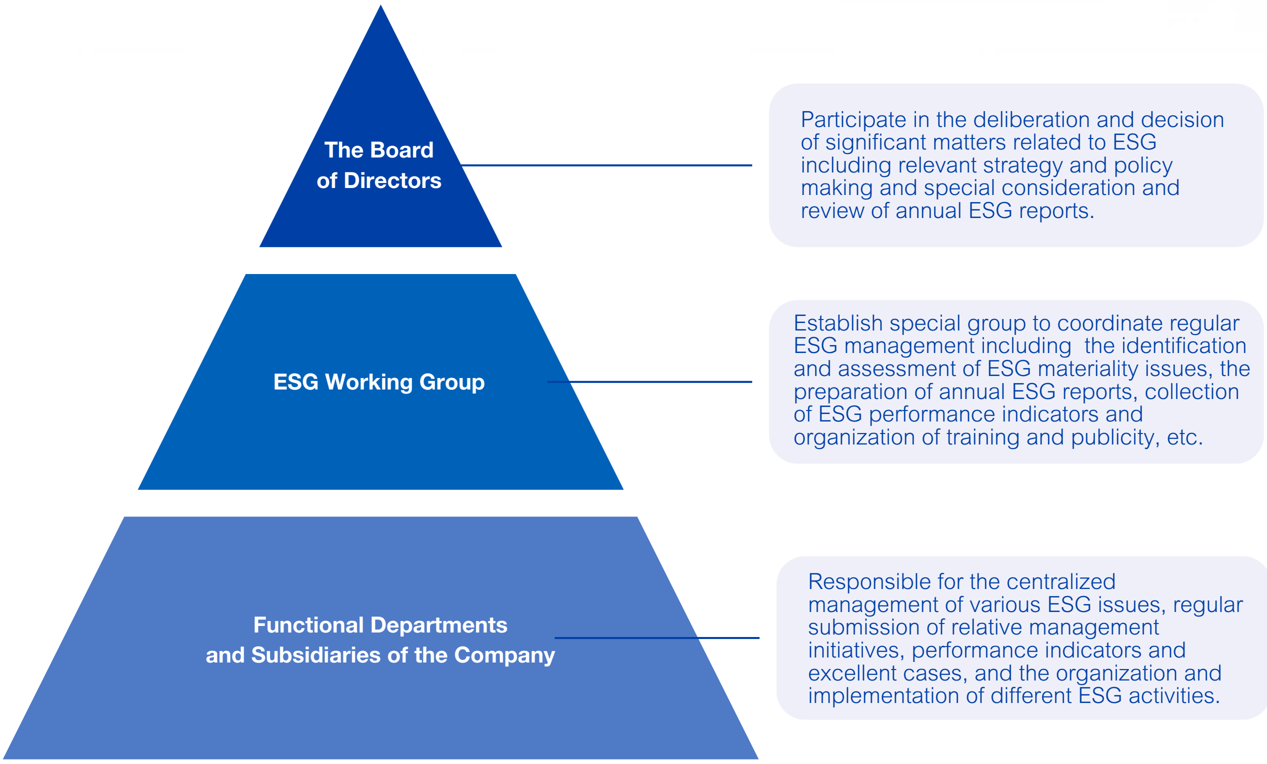
AK Medical regards sustainable development as an important part of the Company's strategy establishment. The Company attaches great importance to ESG risk identification and determination, optimizes the ways in which stakeholders participate in communication, identifies, evaluates and manages important ESG issues, summarizes the results and main issues of AK Medical's materiality analysis in 2021, and compares the main differences in the analysis results of previous years. The Company places emphasis on ESG information disclosure. The ESG working group is responsible for the preparation of the annual ESG report, which will be reviewed by the Board finally to ensure the authenticity and effectiveness of information disclosed.

In 2021, the Company completed the identification and assessment of the risks of climate change. We developed climate risk response measures, set environmental targets covering carbon emissions and energy consumption and safety production target and actively carried out energy saving, emission reduction and safety production actions. The Company will regularly monitor and review the progress of the targets, and the ESG working group will report the achievement of the targets to the management and the Board on a regular basis, in an effort to constantly adjust and promote the Company's sustainable development by monitoring and drawing reference from the domestic and international sustainability trends and those of its peers.

This report fully discloses the progress and effectiveness of AK Medical's ESG work in 2021, and was reviewed and approved by the Board on 24 March 2022. The Board of AK Medical and all directors guarantee that there is no false or misleading information or major omission in the contents of this report, and take individual and joint responsibilities for the truth, accuracy and completeness of the content.

ESG GOVERNANCE

According to the characteristics of the industry in which the business is placed, AK Medical sorts out the statistics and processes towards identified ESG issues in accordance with the *"Environmental, Social and Governance Reporting Guide"* (hereinafter collectively referred to as "**ESG Reporting Guide**") set out in Appendix 27 to the *Rules Governing the Listing of Securities* on the Stock Exchange of Hong Kong Limited and gradually improves the relevant management mechanism.



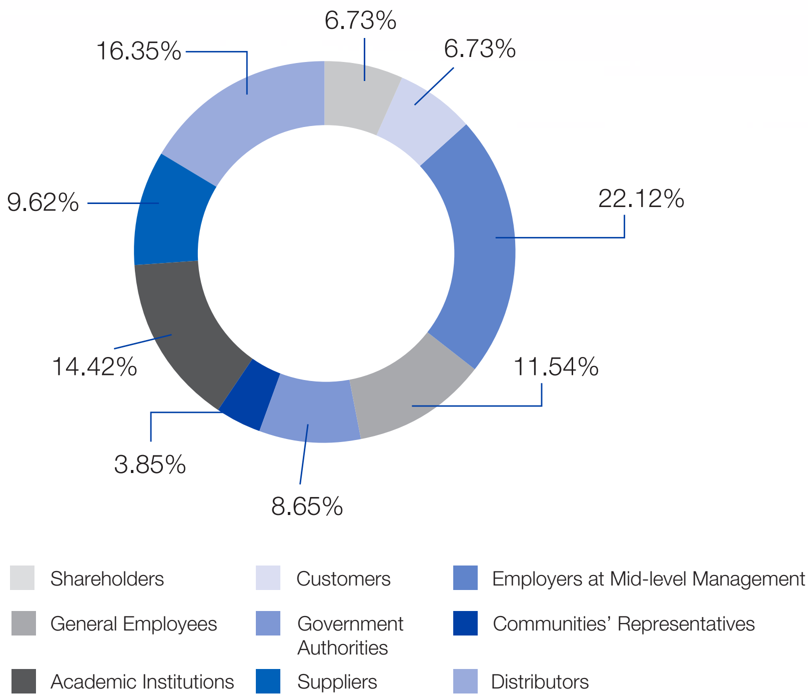
In accordance with the *ESG Working Group Management Measures (《ESG工作小組管理辦法》)* established internally by the Company, AK Medical formed a three-level management structure comprising of the Board of Directors, ESG working group and functional departments and subsidiaries. The Board of Directors is responsible for reviewing the significant matters and reports related to ESG. The working group is responsible for organizing information collection, training and publicity and report preparation for ESG issues. Each functional department and subsidiary has also appointed ESG specialists to collect and collate the relevant data, measurements and cases so as to support the development and implementation of ESG activities.

STAKEHOLDERS ENGAGEMENT

We have established a diversified engagement mechanism to fully understand the expectations and demand of key stakeholders, such as government authorities, shareholders, customers, suppliers, employees and the community, and take actions to satisfy their reasonable expectations, which also provide guidance for our own sustainable business development and promote the healthy and steady development of the Company.

Stakeholders	Expectations and Demand	Communication and Response
Government Authorities	Implement national policies and laws and regulations Promote local economic development Stimulate local employment	Report submission Advice and suggestions Special report
Shareholders	Revenue and return Compliance operation	Company announcement Special report Field trip
Customers and Distributor	Performance of contract pursuant to the laws Integrity operation Products and services of high quality Protection of customer's privacy	Business communication Customer feedback Communication and discussion Negotiation and cooperation
Academic Institutions	Collaborate to promote clinical research Products and technologies innovation Industry development and improvement	Signed cooperation agreement Academic communication
Suppliers	Continuous and stable cooperation Performance of contract pursuant to the laws Business communication	Negotiation and cooperation Bidding platform
Employees	Protection of rights and interests Occupational Health Compensation and benefits Career Development	Collective negotiation Democratic communication platform Remuneration committee
Communities and the Public	Improve community environment Participate in good causes Open and transparent information	Company website Company announcement Interview and communication

In 2021, the ESG working group of the Company began a questionnaire survey on stakeholders to have a systematical and comprehensive understanding of the stakeholders' comments on our ESG relative activities and obtained related recommendations on ESG matters for an important reference of future continuous improvement. In 2021, AK Medical collected a total of 104 valid questionnaires and composition of stakeholders is as follow:



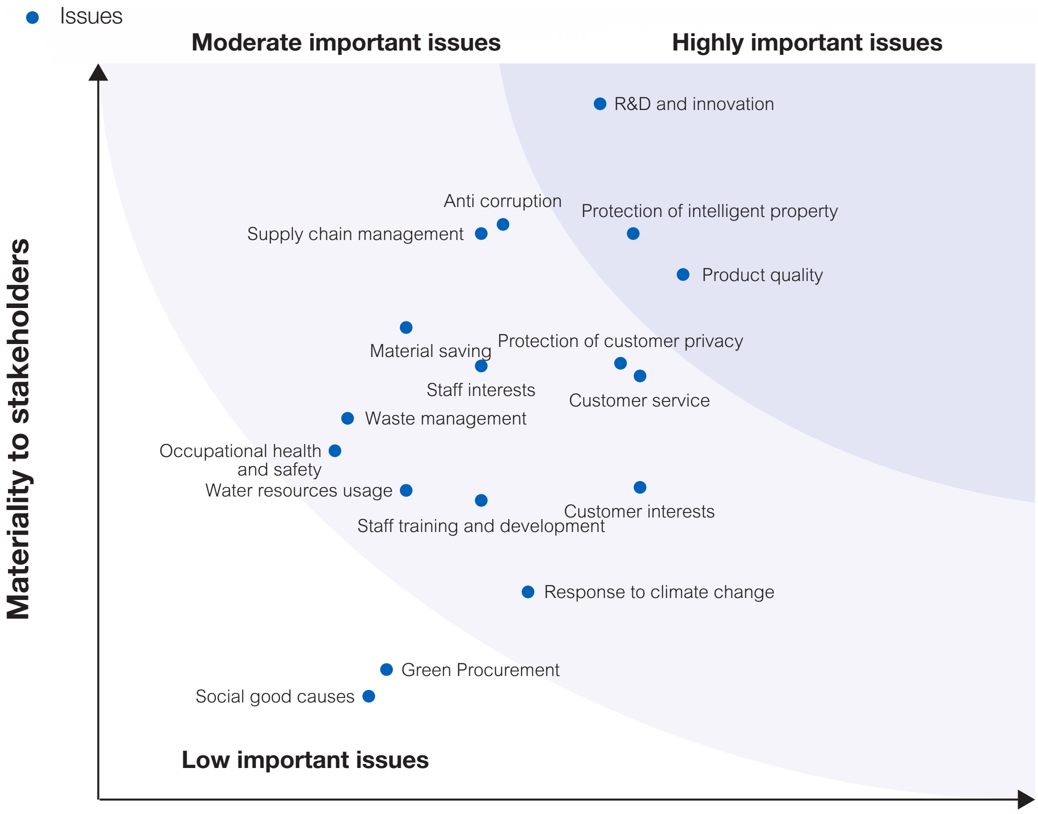
RESPONSE TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

Materiality: In order to clarify the key areas of corporate ESG practices and information disclosure, enhancing the pertinence and responsiveness of the report, AK Medical identified the ESG issues and determined the materiality in accordance with ESG Reporting Guide to ensure that the information disclosed in the report covers the key issues which are related with the Company's development and the stakeholders' concerns. The deciding factors mainly refer to:

- The Company's values, policies, strategies, operation management systems, long-term and short-term goals
- Relevant laws, regulations, international agreements or voluntary agreements that have a strategic value to the Company and its stakeholders
- The materiality assessment results of information disclosure on environment, society and governance among peers
- Demand and expectations clearly expressed by stakeholders
- The views of the management

Through the identification process, AK Medical has identified the most relative ESG issues to the corporate sustainable development. Based on the judgment of the management of the Company and the extensive stakeholders' questionnaire, we have decided the corresponding materiality as shown below:

Materiality to the sustainable development of AK Medical in 2021



Quantitative: The Company disclosed or interpreted all indicators related to the "environment" and "social" category according to "Key Performance Indicator" requirements in "ESG Reporting Guide", strived to provide comparative data for three consecutive years in the "environment" category, and if necessary, explained some of the data.

Consistency: The Company set up a unified ESG information collection system after listing to clarify the statistical method of ESG information. In 2018, AK Medical, a company listed on the Main Board of Hong Kong Stock Market, its core subsidiary is Beijing AK Medical Co., Ltd., (hereinafter referred to as "**AK Medical Beijing**") completed the acquisition of 100% share capital of a British medical device company JRI Orthopaedics Limited (hereinafter referred to as "**JRI**"). In 2019, ITI Medical Co., Ltd. (hereinafter referred to as "**ITI Medical**") officially started operation. In 2020, it completed the acquisition of all the equity interest of Beijing Libeier Bio-engineering Institute Co., Ltd.* (北京理貝爾生物工程研究所有限公司) (hereinafter referred to as "**Libeier**"). Unless otherwise stated, the report includes the coverage of AK Medical Holdings Limited into the disclosure scope. The period in this report is from 1 January 2021 to 31 December 2021 which is consistent with the previous years.

ENVIRONMENT

AK Medical understands that climate change has become a major challenge affecting the development of human society and the global political and economic landscape. While actively tackling climate risks, AK Medical proactively contributes to the country's double carbon goal by standardizing emission management, improving the efficiency of energy and resource utilization, advocating green office practices, and so on to achieve Company's sustainable development.

Tackling climate change

AK Medical actively identifies climate-related risks and opportunities, and has developed a climate risk response strategy and formulated measures in light of its business characteristics.

For tackling climate change, the Company has established a climate change management system:

Level	Responsibility
Top level	• The authority ultimately responsible for matters related to climate change, with executive director(s) as the person-in-charge; • Responsible for monitoring and approving issues related to climate change, including formulating strategies, managing policies and monitoring performance targets; • Convenes regular meetings with the Board to discuss climate change-related risks and opportunities, strategic changes, targets setting and other related topics, incorporate climate-related risks and financial impacts in the future consideration scope, and approve the introduction of incentives to manage climate-related issues.
Execution level	• Being responsible by the ESG working group, which assumes the highest governance responsibilities under the Board; • Assesses and analyzes climate-related risks and opportunities quarterly; • Develops and implements management policies for tackling climate change, including setting and regularly reviewing the Company's environmental targets and managing the Company's energy efficiency, and reporting to the Board the climate change-related risks of the Company regularly.
Internal control team	• Responsible for conducting independent review of the adequacy and effectiveness of climate risk management.

Based on the classification of climate Risk of TCFD[1], we have identified the following major climate change-related risks and formulated adaptation measures:

Type of risk	Specific risk	Description of risks	Countermeasures
Entity risks	**Acute risks**	**Impact of extreme weather:** Impact of extreme weather such as cyclones and extreme precipitation, which may damage the infrastructures of the Company (e.g. electricity, water supply, transport and communication) and have adverse impact on the supply chain, manufacturing and product delivery of the Company.	• Establish an early warning mechanism for natural disasters, fully taking into consideration the operating conditions in extreme weather; • Strengthen the resilience of the supply chain, regularly identify supply chain risks arising from climate change, select multiple suppliers for procurement, and require suppliers to develop plans to address climate change.
Transition risks	**Policy and legal risks**	**Environmental information disclosure:** International and domestic regulators and capital market rating indices are increasing their requirements for companies to disclose environmental information, the Company will subject to compliance risk if it does not disclose such information as required.	• Mitigate the impact of relevant policies on our operations, monitor and study existing environmental and carbon disclosure policies, and adjust our adaptation strategies in a timely manner according to relevant policies and regulations and the conditions of the carbon market.
	Reputation risks	**Challenged by the public:** Amid widespread concern over climate change, the Company's environmental performance is under the close scrutiny of stakeholders such as regulators, investors, customers and the public. Failure to take timely and effective environmental protection measures will have a negative impact on the Company's image and result in loss of revenue.	• Comprehensively and systematically organize our operations and adopt energy-saving and emission reduction measures in product procurement, production and transportation; • Actively communicate with our stakeholders, such as customers, suppliers, distributors and investors, and regularly disclose our strategies and other information related to climate change, and hold discussions on climate change, energy saving and emission reduction;

[1]Note: The TCFD is the Task Force on Climate-related Financial Disclosures (TCFD), which refers to the framework provided by TCFD for corporate climate change-related content for disclosure.

Type of risk	Specific risk	Description of risks	Countermeasures
	Market risks	**Shift in customer preference to low-carbon consumption:** Under the dual carbon goals of China, consumers prefer low-carbon and environmentally-friendly products and services, or the Company may experience loss in market share if the carbon footprint of its products is high.	• Conduct regular training for distributor and require distributors to communicate with customers on the Company's climate strategy and practices and product carbon footprint; • Disclose and report carbon emission performance through public media (e.g. ESG report, official website, etc.).

Through the analysis of environmental data and future development forecasts, focusing on our business development plan and operational characteristics, the Company has set a greenhouse gas emissions reduction intensity target, committing to a 32% reduction in carbon emissions intensity by 2030, using 2020 as base year, the detailed data of this target are as follows:

Scope	Base year (2020)	Target year (2030)	Reduction rate
Scopes 1 and 2 emission of greenhouse gas	0.044 tons CO_2e/ RMB10,000	0.030 tons CO_2e/ RMB10,000	32%

The Company emphasizes on the control and management of greenhouse gas emissions. Since the establishment of carbon emission target since 2020, the Company has rigorously monitored and managed energy consumption in production, construction and the office. In 2021, the QHSE (Quality, Health, Safety and Environment) department of the Company carried out the carbon footprint measurement and tracking to gain in-depth understanding of the production process that involves high carbon emissions, thus allowing the Company to make targeted management improvements. Looking forward, we will actively consider conducting verification and certification by third-parties in regard to carbon emissions to enhance the scientificity and authenticity of carbon emissions management. In 2021, the Company emitted 0.055 tons of CO_2 equivalent per RMB10,000 of output value. The comparison of the Company's greenhouse gas emissions in recent three years is as follows[1]:

Type	2021	2020	2019
Scope 1 (direct emissions) (tons of CO_2 equivalent)	**331.2**	394.9	529.5
Scope 1 (direct emissions) Emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.004**	0.004	0.005
Scope 2 (indirect emissions) (tons of CO_2 equivalent)	**3,911.7**	4,196.2	2,451.5
Scope 2 (indirect emissions) Emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.051**	0.041	0.025
Total (tons of CO_2 equivalent)	**4,242.8**	4,591.1	2,981.0
Total emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.055**	0.045	0.030

[1]Note: Electricity emission factors in China are based on the 2017 Baseline Emission Factors for Emissions Reduction Project in China's Regional Grid (《2017年度減排項目中國區域電網基準線排放因子》); Electricity emission factors in the UK are based on the CRC Energy Efficiency Scheme; Emission factors for fossil fuel are based on the 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

ENVIRONMENTAL MANAGEMENT

AK Medical strictly complies with the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) during the Reporting Period. We have formulated the *Occupational Health, Safety and Environmental Management Manual* (《職業健康、安全、環境管理手冊》) in accordance with ISO 14001:2015 and established a comprehensive environmental management system. We have also established an EHS organization structure with the Chairman as the person-in-charge, and set environmental management targets, linking environmental management with performance to promote green and sustainable development of the Company. During the Reporting Period, the Company has obtained ISO 14001:2015 environmental management system certification.

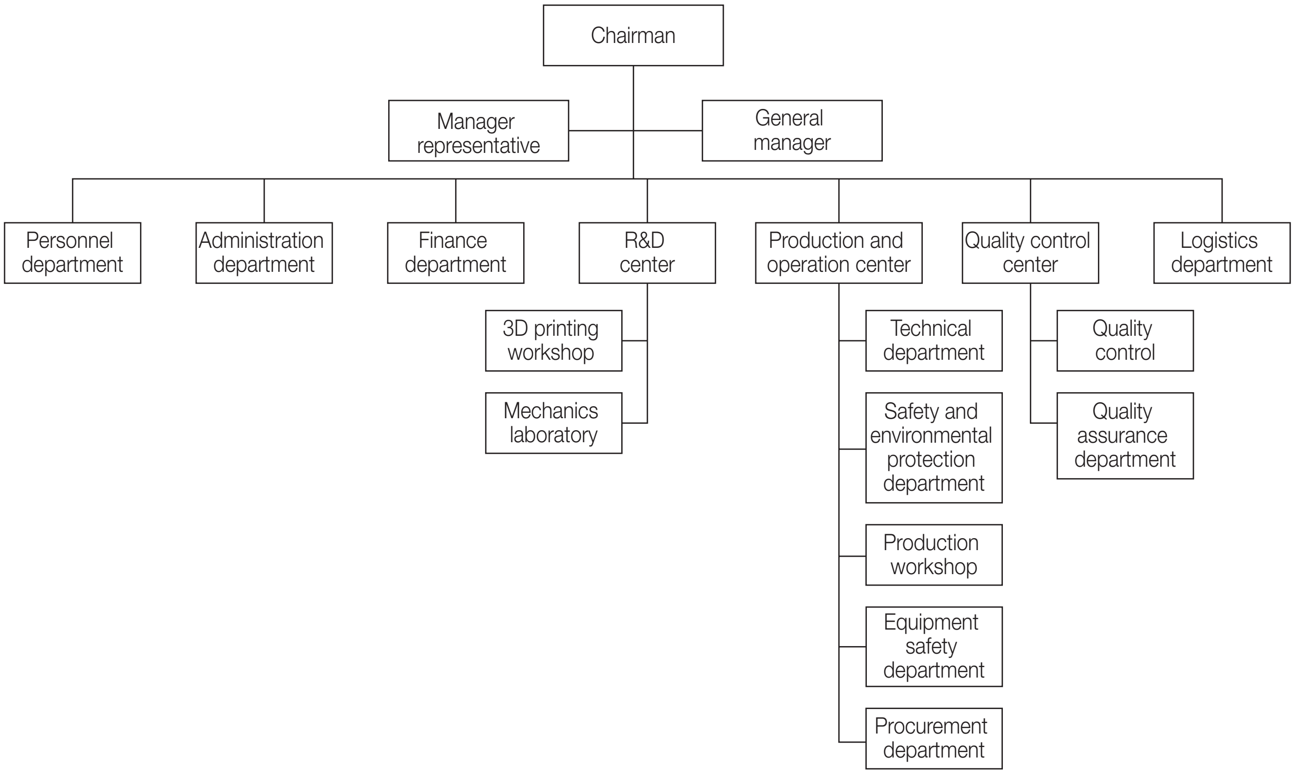


Chart: The EHS organizational structure of AK Medical

Table: Environmental management targets and compliance rate of AK Medical

Material pollution incident of zero in 2021
Pollutant (water, noise, dust, gas, solid and hazardous waste) emission compliance rate of 100% in 2021
Training rate of environmental awareness education for all employee of 100% in 2021

JRI which operates in the UK strictly complies with environmental laws and regulations during the Reporting Period such as *British Environmental Permitting (England and Wales) Regulations 2010*, *Environment Protection Act* and other industry-related environmental laws and regulations such as *EC Regulation 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals*. It formulates the *Environmental Control Procedure*, regularly studies and sorts out the regulation requirements in emission management and resource management to ensure its normal operation. The environmental committee of JRI is responsible for the coordination of the company's environmental related work, including external compliance and internal operation and management. The committee also communicates with employees regularly, listens to their environmental improvement suggestions and works with all employees to carry out governance work.

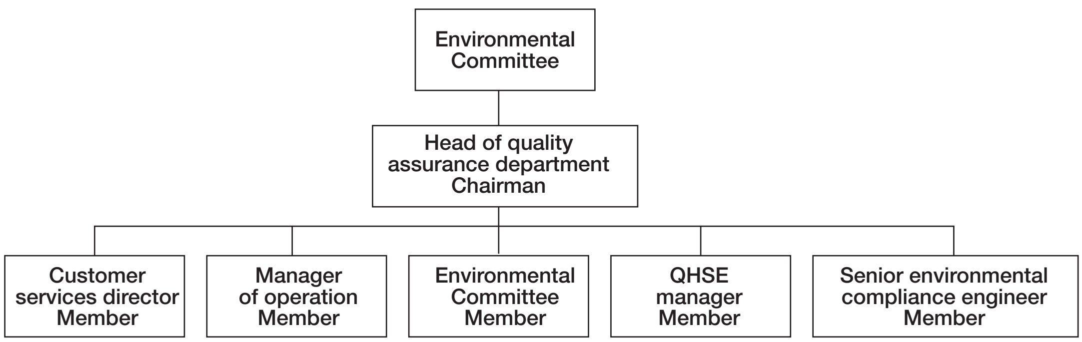


Chart: Structure of Environmental Committee of JRI

During the Reporting Period, there was no environmental non-compliance with relevant laws and regulations reported relating to air and greenhouse emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

WASTE MANAGEMENT

AK Medical strictly manages waste in accordance with the laws and regulations in the places where it operates. During the Reporting Period, we strictly comply with the national laws and regulations during the Reporting Period including the *Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)*, the *Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》)*, the *Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》)*, the *Law of the PRC 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》)*, *National Safety Management Ordinance for Hazardous Chemicals (《危險化學品安全管理條例》)* and the *Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》)*. We have established the *Management System for Waste Gas, Waste Water, Dust and Noise (《廢氣、廢水、粉塵噪聲管理制度》)* to control emissions effectively and monitor and record them regularly. For the waste whose measurement results do not meet the management indicators, the relevant departments of the Company will find out the reasons and make rectification in accordance with the *Control Procedures for Non-conformity, Rectification Measures and Preventive Measures (《不符合、糾正措施和預防措施控制程序》)*, and report to the management department.

In 2021, AK Medical's business operations do not have a significant impact on the environment and there have been no significant changes from the past. The main pollutants of the Company are wastewater, dust, toxic and hazardous waste, non-hazardous solid waste and noise.

With the goal of continuously reducing waste emissions, AK Medical has achieved its goal of reducing emissions by upgrading its processes and standardising its operations in the production process. In order to properly handle different types of waste, we formulated special administration regulations according to the characteristics of waste. For solid waste, we have formulated *Regulations on the Administration of Solid Waste (《固體廢棄物管理規定》)* to regulate the collection, classification, storage and treatment of solid waste to reduce the pollution caused by solid waste to the environment. For dust pollution, the Company has formulated the *Regular Cleaning and Dust Removal Management System for the Polishing and Grinding Teams (《拋光打磨班組定期清掃除塵管理制度》)* to regulate the cleaning work of polishing and grinding sites to prevent the dust concentration in the air from exceeding the standard. Regarding hazardous chemicals or hazardous wastes with greater environmental impact and toxicity, we established the *Safety Management System for Hazardous Chemicals (《危險化學品安全管理制度》)* in order to strictly manage the storage, usage and disposal of such chemicals. For the hazardous waste incurred, they will be disposed by qualified third parties in accordance with the *Regulations on the Administration of Hazardous Waste Transfer (《危險廢棄物轉移聯單管理辦法》)*.

Table: Main waste and treatment measures

Type of pollutant	Main sources	Treatment measures
Water	Product cleaning and polishing	Waste water is pre-treated to remove the main pollutants such as particulate and raw material grinding particles by precipitation and then discharged into sewage treatment plants, which strictly fulfill the criteria of the *Wastewater Discharge Standard* (《水污染排放標準》) of Beijing and the *British Law of Water Industry in 1991* (《英國1991年水工業法》);
Waste gas (mainly dust)	Grinding	Dust is treated and collected by the recycling system and then handled by professional company in accordance with the *Comprehensive Emission Standard of Atmospheric Pollution* (《大氣污染物綜合排放標準》) of Beijing;
Toxic and hazardous waste	The use of saponification fluid, waste cutting oil, and toxic and hazardous chemicals	They are collected, sorted and stored in temporary storage for toxic and hazardous waste, and regularly transferred to qualified third-parties for proper disposal. Hazardous waste is transferred to "Wuliandan" to be properly stored for future inspection;
General waste	General office, household waste/production solid waste (adhesive cloth, grinding wheels, belts, gloves, polyethylene waste, harmless grinding dust, titanium alloys metal shavings, cobalt-chromium-molybdenum alloy metal shavings, carton packaging, etc.)	Based on the classification, garbage is sorted and transferred to corresponding disposal unit for treatment.
Noise	Product processing and manufacturing	Noise is monitored in accordance with the Emission standard for *industrial enterprises noise at boundary* (《工業企業廠界環境噪聲排放標準》), and noise reduction is achieved by means of sound insulation and selection of equipment with less noise. During the Reporting Period, we have reached Class II noise control standard.

In 2021, the volume of dust production per RMB10,000 of output value was 0.1 kg. The total volume of waste liquid (hazardous waste) produced, with 1.1 kg per RMB10,000 of output value. The total volume of non-hazardous waste produced is 15.6 tons, with 0.2 kg per RMB10,000 of output value.

The comparison of waste emission and disposal in 2019-2021 is as follows:

Waste type		2021	2020	2019
Waste Water	Total water discharge volume (tons)	**11,435.0**	12,961.1	10,312.4
	Biochemical oxygen demand (BOD) (kg)	**95.7**	476.5	339.3
	Chemical oxygen demand (COD) (kg) (note 1)	**1,192.7**	346.4	1,169.3
	Suspended solids (SS) (kg)	**128.9**	118.1	108.5
	Ammoniacal nitrogen (NH_3) (kg)	**3.4**	0.8	0.2
Waste Liquid (hazardous waste)	Total waste liquid production (tons)	**83.0**	102.9	85.4
	Waste liquid handling volume (tons)	**83.0**	92.9	85.4
Dust	Total dust production (kg)	**6,726.0**	8,916.7	17,736.0
	Dust handling volume (kg)	**6,726.0**	8,850.0	17,736.0
Solid Waste (non-hazardous waste)	Titanium waste handling volume (kg)	**5,194.7**	6,043.0	8,813.9
	Cobalt-chromium-molybdenum waste handling volume (kg)	**1,461.6**	3,452.5	4,357.5
	Other waste handling volume (kg) (note 2)	**8,894.9**	4,066.7	3,368.0

Note:

(1) In 2021, Chemical oxygen demand (COD) was further expanded to all operating companies, while ITI Medical was not included in 2019 and 2020.

(2) In 2021, Other waste handling volume was further expanded to all operating companies, while ITI Medical was not included in 2019 and 2020.

USE OF RESOURCES

The main products of AK Medical are traditional joint implants and 3D-printed products, which consumes less energy and resources. In the course of production and daily operation, the types of energy we consume include electricity, gasoline and diesel and the types of resources we consume include water, titanium alloy, cobalt-chromium-molybdenum, polyethylene and stainless steel in the production process, and boxes, packaging boxes, plastic film used in the storage and packaging process.

During the Reporting Period, the Company strictly complies with all the relevant laws and regulations during the Reporting Period, the Group such as the *Energy Conservation Law of the PRC (《中華人民共和國節約能源法》)* and *Energy Performance of Buildings (England and Wales) Regulations 2007 (《2007年建築能效指令(英格蘭和威爾士)》)*, and actively align with resource conservation measures implemented by governments in the places where it operates. We have formulated the *Resources and Energy Management System (《資源能源管理制度》)* to adequately, reasonably and efficiently use existing resources while reducing our operational costs. The Company is committed to achieving the goal of water saving, and pays attention to saving water in the process of production and operation, and there is no problem of finding suitable water sources. We insist on scientific management of resources such as water, electricity and natural gas, increase the frequency of checking the reading of electric and water meters and record the use of energy comprehensively. In order to control energy consumption effectively, we analyze the pattern of energy consumption and set energy saving targets and measures. We also optimise the product design to reduce the consumption of raw materials per product unit, and require employees to disconnect the power supply when leaving the workshops to avoid power consumption due to machine idling. In 2021, the Company's volume of water usage per RMB10,000 of output value is 0.3 tons, and the energy use intensity[2] was 0.01 tons of standard coal/RMB10,000. The use of resources in recent three years is as follows:

Note 2: The energy use is calculated according to the "General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008)".

Type		2021	2020	2019
Energy use	Electricity consumption (ten thousand KWh)	**454.3**	603.9	359.9
	Gasoline consumption (ten thousand liters)	**15.3**	18.3	24.4
Water use	Water usage (municipal water supply) (tons)	**24,192.0**	24,889.5	23,434.4
Raw materials	Polyethylene (tons)	**10.4**	22.1	16.6
	Stainless steel (tons)	**46.2**	43.5	128.2
	Titanium alloy (tons) (Note 1)	**37.9**	10.4	49.4
	Cobalt-chromium-molybdenum (tons) (Note 2)	**53.7**	2.1	41.3
	POM stick (tons)	**0.0**	0.0	0.0
Packaging materials	Cardboard boxes (tons) (Note 3)	**9.4**	30.7	22.7
	Product packaging boxes (tons)	**2.5**	46.3	19.2
	Product plastic film (tons)	**2.7**	4.4	6.5
	Bubble bag (tons)	**0.0**	1.7	0.0
	Other materials (tons)	**0.0**	31.8	2.6

Notes:

(1) In 2021, TITI Medical Co., Ltd. expanded its production capacity, and the use of titanium alloys increased.

(2) In 2021, TITI Medical Co., Ltd.will expanded its production capacity, and the use of Cobalt-chromium-molybdenum increased.

(3) In 2021, the Company updated the product packaging model, and the use of product packaging boxes decreased.

Through analysis of historical environmental data and future development forecasts, we have set energy targets for our own business development plans and operational characteristics, as follows:

Targeted type	Base year (2020)	Target year (2030)	Reduction rate
Electricity intensity target	58.3 kWH/RMB10,000	40.5 kWH/RMB10,000	31%
Gasoline usage target	182,500L	120,000L	34%

GREEN OFFICE

AK Medical has established the *Green Office Management regulations (《綠色辦公管理規定》)* to regulate the management of procurement and use of energy and resources and the generation and treatment of waste in daily operation:

Procurement

- Purchase environmentally-friendly products such as reusable printer cartridges, recycled paper, environmentally-friendly refrigerators, air conditioners and batteries.

Use

- Paper: promote paperless office and manage the use of paper, requiring the use of paper on both sides.
- Electricity: require employees to turn off lights and office equipment that will not be used within a short period of time.
- Disposable items: Avoid using disposable items whenever possible and use biodegradable disposables when necessary.

Disposal

- Implement waste classification management and strengthen the recycling of waste.
- Strengthen the recycling management of waste batteries and encourage employees to actively participate in the recycling of waste batteries.

In addition, we actively promote green office and the use of electric cars and continuously arouse employees' awareness of energy conservation.

Table: The use of office supplies in 2021

Type		2021
Office waste	Volume of office waste produced (tons)	**1.95**
	Volume of electronic waste disposed (tons)	**0**
	Used battery recycled (piece)	**80**

EMPLOYEES

AK Medical always regards employees as the key force for the healthy development of the Company, strives to protect the rights and interests of employees, cares for their physical and mental health and creates a fair, open and harmonious working environment for employees. We have established a sound mechanism of talent cultivation to cultivate quality talents for the Company and the industry and encourage employees to grow with the Company.

EMPLOYMENT

The Group is in strict compliance with the relevant laws and regulations during the Reporting Period, including the *Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)*, *Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》)* and *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》)*, AK Medical formulated internal systems, including *the Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor《(關於禁止雇傭童工強制勞工的管理規定》)*, *Compensation Management System《(薪酬管理制度》)* and *Employee Training System《(員工培訓制度》)*, specifies the principles and standards of recruitment in its recruitment system, and manages the entire process of hiring, promotion and termination of staff to ensure that employment is managed in a lawful and regulated manner in order to safeguard the legal rights and interests of the staff. The Company insists on legal employment, strictly checks in the employment process, prohibits child labor and any form of forced labor, and actively practices equal employment to ensure that employees are not discriminated against on factors such as race, gender and religion, creating a diverse employment environment. In the event that child labour or forced labour is found to exist, we will deal with the situation appropriately and strictly respect and protect the rights of our employees. While pursuing its own development, the Company regards the undertaking of corporate social responsibility as an important task and has done a lot of work in promoting employment stability and the introduction and cultivation of talents in the local area. In August 2021, AK Medical Beijing was honored as an advanced organisation in promoting employment and entrepreneurship in Beijing.

In 2021, the distribution of employment types of AK Medical is as follows:

Employment type	2021 (number of employees)	2020 (number of employees)
Full-time employee	**903**	1,017
Part-time employee	**5**	2
Total	**908**	1,019

In 2020, the employment of employees of AK Medical by gender is as follows:

Gender	2021 Number of employees	2021 Number of turnover staff	2021 Turnover rate (%)	2020 Number of employees	2020 Number of turnover staff	2020 Turnover rate (%)
Male	**583**	**246**	**29.7%**	658	143	17.9%
Female	**320**	**137**	**30.0%**	361	78	17.8%
Total	**903**	**383**	**29.8%**[Note]	1,019	221	17.8%

The employment of employees by age structure is as follows:

Age	2021 Number of employees	2021 Number of turnover staff	2021 Turnover rate (%)	2020 Number of employees	2020 Number of turnove staff	2020 Turnover rate (%)
Under 30	**246**	**130**	**34.6%**	300	87	22.5%
30-39	**414**	**163**	**28.2%**	471	105	18.2%
40-49	**182**	**61**	**25.1%**	174	22	11.2%
50 and above	**61**	**29**	**32.2%**	74	7	8.6%
Total	**903**	**383**	**29.8%**	1,019	221	17.8%

The employment of employees by regions is as follows:

Region	2021 Number of employees	2021 Number of turnover staff	2021 Turnover rate (%)	2020 Number of employees	2020 Number of turnover staff	2020 Turnover rate (%)
Mainland China	**816**	**333**	**29.0%**	908	197	17.8%
Hong Kong, Macau and Taiwan	**0**	**0**	**0**	1	0	0
Overseas	**87**	**50**	**36.5%**	110	24	17.9%
Total	**903**	**383**	**29.8%**	1,019	221	17.8%

Note:

In 2021, the relocation of the factory of Libeier led to an increase in turnover as some employees left due to the distance of the new location.

Health and Safety Management

We attach great importance to safety production and spend a lot of manpower and material resources in production management to protect the safety and occupational health of employees. The Company strictly complies with the *Labor Law of the PRC (《中華人民共和國勞動法》)*, the *Safety Production Law of the PRC (《中華人民共和國安全生產法》)* and the *Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》)* during the Reporting Period. We have formulated internal system documents on *Safety Production Responsibility Management System (《安全生產責任制管理制度》)*, *Safety Production Inspection Management System (《安全生產檢查管理制度》)*, *Safety Management System for Dangerous Operation (《危險作業安全管理制度》)* and *Safety Incidents Reporting and Handling Management System (《安全事故報告和處理管理制度》)* as the Group's working guidelines for safety management to continuously improve safety production management and the accountability system, and have issued safety production targets so as to safeguard the safety of employees and the properties of the Company.

In May 2021, the EHS management system of AK Medical Beijing received certification of its environmental management system and occupational health and safety management system, with the environmental management system conforming to GB/T24001-2016/ISO14001:2015 and the occupational health and safety management system conforming to GB/T45001-2020/ISO45001:2018, signifying that the company has established systematic management in environmental, occupational health and safety protection. At the same time, the enhancement in the awareness, ability and management standard of the company's managers at all levels has been recognized.

AK Medical attaches great importance to the health of employees and implements the prevention of occupational diseases in all aspects of production to avoid health risks in the workplace and safe production environment in a timely manner. We liaise with the disease prevention and control center every year to conduct inspections at all the production departments and workplaces with occupational hazards, and rectify substandard items in a timely manner. We also conduct on-site inspections on the protective measures of occupational health hazards every month and inform relevant departments and workshops in a timely manner to perform rectifications. The Company carries out entry physical examination and the exit physical examination, and the positions involving occupational health hazards will be screened for occupational diseases before work. The Company also established a *Personal Occupational Health Monitoring Record for Workers (《勞動者個人職業健康監護檔案》)* and organizes and conducts annual occupational health examinations for staff with risks of occupational health hazard and keep the examination results in their health record. To protect the rights and interest of female employees, the Company offers protection facilities to female employees and adjusts their work positions in a timely manner according to their status.

The Company launched a "safety production month" publicity campaign to raise employees' awareness of safe production, and implemented fire drills during the "safety production month" to enhance employees' safety and fire-fighting quality, safety precautions and self-help ability, so as to eliminate hidden fire safety hazards without delay. The Company regularly holds various safety production educations and trainings to raise their awareness of self protection and safety and health protection in the production process. In 2021, the Company invested a total of RMB1.95 million in safety management. First-line operating staff's per capita security training was 30 hours (JRI), 16 hours (AK Medical Beijing and Libeier) and 8 hours (ITI Medical, and the safety management personnel's average per capita security training hours was 40 hours (ITI Medical), 24 hours (AK Medical Beijing and Libeier). As of 2021, the number of work-related deaths of the Company for three consecutive years was zero and total days of lost work due to occupational injury was 39 days.

JRI also established a sound health and safety management system and received the OHSAS18000 certification. JRI specifies the responsibility and division of the health and safety management, where the chief executive officer is responsible for the health and safety management, and the management and control are undertaken by different departments and supervised by various employees with different positions, to ensure the development of a healthy production process. This system formulates safety management guidelines and steps involving workplace safety, employees' health, emergency risk response, security, fire alarm, health monitoring and hazardous substances at all levels with full coverage. Meanwhile, by setting up annual safety management targets, and disassembling the targets and fulfilling responsibilities by specific departments and staff, coupled with completion and results reporting within the prescribed period by the responsible employees, JRI is able to ensure that the health and safety management is standardized and effective.

Since the novel coronavirus (COVID-19) outbreak, in order to protect the employees' health, the Company deployed epidemic prevention and control work as soon as possible. It conducts epidemic monitoring procedures, sets up temperature measurement and inspection at the entrance and timely updates and collects employees' health conditions. The Company actively announces the latest policies and information about COVID-19, raises staff's awareness of prevention, implements flexible work schedules, and distributes medical surgical masks, disinfectants and alcohol hand sanitizers to employees.

EMPLOYEE REMUNERATION AND BENEFITS

The Company strictly complies with the *Social Insurance Law of the PRC (《中華人民共和國社會保險法》)* and the *Administrative Regulation on Housing Fund (《住房公積金管理條例》)* during the Reporting Period and has formulated the *Compensation Management System (《(薪酬管理制度》)*. The Company provides a comprehensive rights protection mechanism to its staff, signs the labor contracts with employees pursuant to laws and pays medical insurance, pension insurance, unemployment insurance, occupational injury insurance, maternity insurance and housing fund as well as social insurance to protect the right of employees for normal leave and provide them with gifts, bonuses and other benefits during festivals.

In terms of remuneration, in order to standardize talent management and promote value creation between employees and the Company, the Company adopts a unified performance management system, carries out performance appraisal and position promotion management in an open and fair manner, and applies the results of appraisal to the allocation of performance bonuses and promotion.

AK Medical provides a variety of benefits and care for its employees, advocates work-life balance, strives to create a happy, healthy and harmonious work and life atmosphere to enhance employees' sense of belonging and happiness. In order to enrich the lives of our employees, the Company regularly organizes various cultural and sports activities and encourages all employees to participate. In addition, the Company implements all-round employee care actions, cares for female employees, helps and supports employees in difficulties. We have formulated the *Management System for Protection of Female Employees (《女工保護管理制度》)* to protect the rights and interests of female employees, prepares gifts for them on Women's Day and holds special knowledge seminars.

Employee Development

AK Medical strives to give the priority to staff development by regarding employee development as an important driving force for corporate development and an integral part of corporate social responsibility and endeavouring to cultivate the world-class medical talents so as to support employees to enhance their professional knowledge, qualifications and vocational skills. While building up comprehensive training, assessment and promotion system for employees, the Company boosts the enhancement of personal ability and development of the career path of staff.

AK Medical has a comprehensive staff training mechanism, which provides its staff with rich internal and external training in accordance with the *AK Medical Training System (《愛康醫療培訓制度》)*, which formulates and organises quarterly training sessions for staff at different grades and positions. We encourages all employees to receive external training to strengthen their personal abilities. Employees can fill out the *Training Requirement Survey (《培訓需求調查表》)* to receive external training opportunities and further education such as academic education. Furthermore, the Company establishes individual training accounts for each participant, combining with the accumulation of points according to their number of sign-in and examination results, in which the accumulation of points will be used as reference in the consideration for promotion and salary adjustment.

AK Medical's staff training mechanism

Internal training	training type: new employees, management trainees and technical staff as well as new manager training	training aspect: industry regulations on medical devices, standardized application of graphics, quality control and management, basic knowledge of orthopedic implants
External training	training type: management skills training, professional skills training, academic education, other educational training	training aspect: corporate management, marketing, human resource management, professional knowledge and skills, other training and further education such as academic education

In 2021, employees trained by gender:

	2021		2020	
Gender	**Percentage of employees trained (%**	**Average training hours (hours)**	**Percentage of employees trained (%**	**Average training hours (hours)**
Male employees	**95.2**	**31.9**	73.3	28.2
Female employees	**98.8**	**33.4**	73.7	30.7

In 2021, employees trained by employee category:

	2021		2020	
Employee category	**Percentage of employees trained (%)**	**Average training hours (hours)**	**Percentage of employees trained (%)**	**Average training hours (hours)**
Senior management	**95.7**	**25.9**	81.1	15.0
Middle management	**97.9**	**46.8**	81.9	58.9
General employees	**96.3**	**31.0**	72.3	26.4

PRODUCT RESPONSIBILITY

As a pioneer in the field of bone and joint implants in China, AK Medical strives to change the bad image of made-in-China products and highly regards the quality of its products as the foundation of its development. It integrates quality control into all aspects such as production, circulation and sales, closely monitors customer application experience and feedback and constantly improves product and service quality. In addition, the Company incessantly enhances its own innovation and R&D capability, and is committed to become a leading global medical enterprise.

With the progress of the times, domestic artificial joint replacement has experienced 20 years of rapid development. In the face of the new environment and demand, digitalization, intelligence and new treatment concepts will be a strong driving force for the further development of joint replacement. As a leader in digital 3D printing and service orthopedic sector in China, AK Medical has the biggest patient database, the only 3D-printed customised product registration certificate, and first class PTIP and extensive clinical application experience in China. Leveraging on such advantages, we can provide personalized, customized solutions for complex, revision and reconstruction cases in a safer and more effective manner. Meanwhile, AK Medical is making strides in the field of intelligent orthopedics, including preoperative AI planning to AR and VR technology for teaching, pre-operative demonstration and intra-operative visualization; and a complete reserve from handheld navigation, intelligent surgical tools to surgical robots. AK Medical's intelligent orthopedic progress is accelerating and empowering orthopedics. AK Medical started as an orthopedic product company and is now an orthopedic procedural company moving towards an systematically orthopedics cally digital and intelligent company.

In September 2021, the tender for the national organizing high-value consumables – artificial joints – centralized volume-based procurement was officially opened in Tianjin, and three brands (AK Medical Beijing, ITI Medical and JRI) from four product lines of AK Medical all won the tender. With the three brands having high, medium and low pricing, we can flexibly respond to the various needs of the market and better serve customers. Furthermore, as the three brands share the same channel network and marketing team, we are able to minimize operating costs and maximize profit margins for our distributors.

Quality Control

Adhering to the provision of high quality products, the Company strictly complies with the relevant laws and regulations, including the Product Quality Law of the PRC (中華人民共和國產品質量法), Regulations on the Supervision and Management of Medical Devices (醫療器械監督管理條例), Medical Device Production Quality Management Regulations (醫療器械生產質量管理規範), Medical Device Recall Management Measures (醫療器械召回管理辦法) during the Reporting Period. The Company has established the Quality Manual (質量手冊), Quality Management System and Operation Supervision and Evaluation System (質量管理體系運行監督考核制度), Working Procedures (返工程序) and other quality management documents, to strictly control the raw material purchase and inspection processes and continuously improve our product design and manufacturing quality with a focus on details. The Company has a product recall process in place. In the event of a recall, the Company will promptly recall products that have been marketed but may pose a safety and health risk to users in accordance with the recall system and procedures, and ensure that all affected products are identified and traced.

As one of the largest manufacturers of artificial joint prostheses in China, AK Medical has obtained the ISO13485:2016 Certification of quality medical device system. The two major products of the Company, orthopedic implants and instruments, are classified as Class III medical devices and Class II medical devices respectively and are regulated by NMPA. Among which, 3D-printed implants have obtained the medical device manufacturing certification from NMPA.

The Company's R&D centers, production centers, quality control centers and marketing centers are covered by the quality management system. To effectively implement the quality management system, improve product quality and comply with the requirements of laws and regulations, the main person in charge of the Company's medical device product quality is the general manager, who at the same time works as a manager representative, being responsible for the daily duties of the Company's quality management system. The *Quality Manual (質量手冊)* requires the manager representative to provide detailed guidance for quality control procedures and report the effectiveness and improvement (if any) of the quality management system to the general manager, which ensures that he can raise awareness of meeting the requirements of laws and regulations and the quality management system.

The Company has formulated the *Service and Feedback Control Procedures (服務和反饋控制程序)* to collect and analyze internal and external customer-related information, and measure the quality management system based on such information, so as to ensure suitability, adequacy and effectiveness of the quality management system. In 2021, no product recall incidents occurred due to quality or health reasons.

Product Innovation

Being a leader in the 3D printing orthopedic sector, AK Medical regards product innovation as its core, striving for conducting R&D and application of new materials and technologies in the orthopedic sector. The Company has formulated various systems to manage and protect intellectual property rights, such as the Knowledge Management Guidance Procedures (《知識管理指導程序》) and the Patents and Articles Award Management Measures (《專利及文章的獎勵管理辦法》) to effectively enhance its core competitiveness and protect its brand reputation. The Company stipulates that while the organisation creates, accumulates, shares and uses knowledge, it focuses on the security and confidentiality of knowledge within the organisation, maintains the organisation's knowledge, protects intellectual property rights and avoids the loss of knowledge due to factors such as staff turnover, partners and suppliers.

In August 2021, AK relied on its many years of investment in innovation and R&D and made flexible adjustments in the post-epidemic and national mass procurement environment to rise against the tide, successfully ranking among the top 10 in the global hip joint market in Orthoworld's annual report for the first time, showing a rapid development trend. We uphold the "of china，by china，for world" philosophy, closely follow the needs of the Chinese market, rely on the wisdom of Chinese doctors, focus on the global market, and plan our long-term development.

In the field of traditional artificial joints, the Company has formed product lines including initial replacement of knee and hip joints, severe deformity, and complicated lesions, and then undergoes replacement surgery and other serialization. As for innovative products, AK Medical uses 3D printing technology to create a precedent in the field of orthopedics in China. The 3D product developed by the Company was applied in the restricted area of spinal surgery for its first time in the world, which contributed to the world's first successful atlas tumor surgery. The ITI (Image To Implant) technology platform launched by AK Medical is another innovation in the field of 3D printing and digitalization. The platform can customize a comprehensive preoperative planning, which allows doctors to know in advance the possible risks during surgeries, shortening the operation time and improving the accuracy of operations to provide effective protection for the safety of patients.

AK Medical established its enterprise technology center in 2009. In July 2020, it was recognized as the Beijing Enterprise Technology Center (hereinafter referred to as the "**Center**") by the Beijing Municipal Bureau of Economy and Information Technology. The Center is a technology R&D and innovation special institution established by AK Medical in accordance with the needs and competition of the market. The center is mainly responsible for formulating the medical technology innovation plan of AK Medical, carrying out industrial technology research and development, while creating and using intellectual property rights, establishing a technical standard system, cultivating innovative talents, and promoting the implementation of the entire process of technological innovation. The Center has formed a high-level technological development team, with members majoring in mechanical engineering, materials science, mechanics, medicine and so on, which is a high-quality orthopedic implant development team. Since its establishment, the Center has carried out scientific and technological research in the fields of bone and joint implants and spinal implants, and achieved a series of scientific and technological achievements, such as producing hip joint implants, knee joint implants, vertebral prostheses, intervertebral fusion cages, which have been used in large-scale clinical applications. In October 2021, AK Medical and Beijing Jishuitan Hospital jointly designed and developed a 3D-printed partial talar bone integrated prosthesis, which was successfully applied to the clinical diagnosis and treatment of osteochondral injury and talar cyst, filling the gap in this field in the world and signifying AK Medical's a new step forward in 3D printing customized product design and development. The project was awarded First Prize for Beijing Scientific Technology Advancement and Chinese Medical Science and Technology Award in 2020.

In order to promote the technological advancement of enterprise R&D and achieve sustainable development of our products while enhancing independent R&D capabilities and technical reserves, the Company has formulated the *Patents and Articles Award Management Measures (專利及文章的獎勵管理辦法)* in order to encourage all employees to create inventions in artificial joints and related fields. As of 31 December 2021, the Group had 100 investment patents, 313 utility patents and 10 authorized PCT patents.

Customer Service and Complaint Handling

AK Medical understands that the products it produces are related to human life and health. While ensuring product quality and safety, we take customer satisfaction as our important goal. The Company strictly abides by the laws and regulations of compliance publicity and promotion, adheres to the principle of responsible marketing, and regulates its own marketing practices. The Company seeks to fully understand its customers' experience and feedback by regularly conducting customer satisfaction surveys on our products and services. The Company's customer service team will issue a *"Customer Satisfaction Survey Form" (客戶滿意度調查表)* to the agents, and the sales and marketing team will issue the form to end-customers to collect statistics on customer ratings.

AK Medical manages its services' and customers' feedback for the pre-sale, sale and after-sale processes of the Company's products in accordance with the *Service and Feedback Control Procedures (服務和反饋控制程序)* and places emphasis on quality service throughout the whole process of product production and distribution, with a clear division of labour and mutual cooperation among various departments. The marketing center is responsible for communicating with customers before product sales to identify customers' needs and expectations, conducting pre-sales training for users and collecting customers' feedback and surgical technical guidances. The Company's customer service department is responsible for product sales and after-sales services, including orders, products' return and exchange due to business changes, and collecting and handling customers' after-sales feedback. The R&D center, technical department, and tool engineering department are responsible for solving the design issues of returned products and internal unqualified products and giving solutions or improvement plans. The quality control department is responsible for handling customer feedback concerning quality problems and the analysis and nature determination of product return reasons. The quality assurance department is responsible for collecting and summarizing feedback from various departments, handling complaints, formulating corrective methods with relevant departments to tackle problems.

JRI has formulated procedures for handling customer complaints, in which complaints will be recorded into the online complaint system within 24 hours of receiving the complaint. The responsible officers of the regulatory department will analyze whether to report the complaints within 48 hours. If the complaint needs to be reported, subject to the approval by the person in charge of the quality assurance and supervision center, the complaint will be assigned to the appropriate department or person in charge to complete the investigation within 60 days. If the investigation proves the complaint is true, the product will be received for further handling. All the above steps will be recorded in JRI's complaint management system. JRI analyzes and summarizes customer complaint results to generate monthly and annual customer complaint analysis reports, and incorporates into year-end management assessments to effectively manage and control the level of complaints.

In 2021, AK Medical received a total of 35 complaints from customers. The completion rates of customer complaints handled by AK Medical Beijing, ITI Medical, JRI and Libeier were 100%, 100%, 95.5% and 100%, respectively, and customer satisfaction were 86.4%, 100%, 100% and 86%, respectively.

AK Medical strictly complies with the laws and regulations of the places where the Company conducts business, such as the Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) and the Data Security Law of the People's Republics of China (《中華人民共和國數據安全法》), which require employees to strictly adhere to the principle of confidentiality of non-public information of third parties such as customers and distributors.

Supply chain management

AK Medical actively develops its sustainable supply chain, formulates internal management documents, and establishes a comprehensive supplier management system in light of the Company's business development needs. We carry out standardized management of supplier identification, approval, audit and evaluation.

As at the end of 2021, the Group had 232 suppliers.

Suppliers by geographical region	**2021 (in number)**
Asia	**137**
Europe	**90**
North America	**5**

The Company's suppliers mainly include import connection product providers, sample testing and waste disposal service providers. In accordance with *our Qualified Supplier Selection, Evaluation and Re-evaluation System（合格供方選擇、評價和重新評價制度）*and the *Procurement Control Program (採購控制程序)*, potential suppliers are examined and evaluated in terms of product quality, product delivery capability, environmental impact, and employee health and safety at the supplier introduction and selection stage, and priority is given to suppliers that have obtained ISO 9001 certification of quality management system and ISO 13485 certification of medical device quality management system. We require suppliers who work with us to sign anti-corruption agreements and the anti-corruption document signing rate is 93%. At the review and evaluation stage, we conduct annual audits and flight inspections of suppliers' product quality, services, technology and prices with reference to the *Quality Supplier Processing and Change Record (合格供方質量問題處理及變動記錄)* and the *Qualified Supplier Performance and Annual Review Form (合格供方業績及年度評審表)* and also review the performance of the suppliers in terms of environment impact brought by them and if there are any social risks identified in the supply chain, and make rectification requests and re-examinations for suppliers who fail to meet the requirements, while we will stop cooperation with suppliers in serious cases. In 2021, we conducted reviews on 69 suppliers and conducted on-site inspections on 9 suppliers.

The Company emphasizes communication with suppliers and strives to develop together with them. We advocate suppliers to sign the *AK Medical and Supplier ESG Statement (《愛康醫療供應商 ESG 聲明》)* and actively discuss with suppliers on issues such as climate change and green packaging to jointly promote the concept of sustainability.

In the UK, JRI requires all key suppliers to obtain ISO 13485 certification for their medical device quality management systems, and gives preference to local suppliers that are certified to ISO 14001 environmental systems in order to reduce negative environmental impacts. In the supplier review stage, the company conducts regular product quality audits of suppliers in accordance with the agreements signed between the technical department and suppliers. The company strengthens the communication with suppliers by issuing questionnaires and conducting training. In 2021, JRI launched a supplier audit program for all Class A suppliers.

BUSINESS ETHICS AND ANTI-CORRUPTION

AK Medical attaches great importance to the operation of integrity and strictly forbids any form of corruption through complying with the relevant laws and regulations, including the *Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》)*, the *Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法》)* and the *Tender Law of the PRC (《中華人民共和國招標投標法》)* and AK Medical fully complied with all such laws and regulations during the Reporting Period. AK Medical endeavours to standardize the professional conduct of employees with integrity, updated the *Administrative Regulations on Employees' Integrity and Self-discipline (《員工廉潔自律管理規定》)* in 2021, which discloses the integrity obligations about negotiating and cooperating with third parties and clarifies the regulations regarding the handling of significant and material matters. Such regulations are managed to guide all employees who participate in negotiation and cooperation with third parties. At the same time, the Regulations on the Management of Employee Integrity and Self-discipline stipulates whistleblowings that violate the code of integrity, clarifying the scope of whistleblowing and whistleblowing channels, and protecting whistleblowers and witnesses and prohibiting any form of retaliation against whistleblowers and witnesses. In 2021, the Company required employees to fill in the "Connected Relationship Rights and Interests Declaration Form" for integrity and self-discipline commitments, so as to prohibit conducting collusion or colluding with business partners to carry out activities that are violate to business ethics.

AK Medial has organised anti-corruption training for directors and employees to enhance their awareness of integrity and self-discipline, eliminate violations of regulations and disciplines at the ideological level. In 2021, AK Medical conducted various integrity education activities and training for management and general employees, of which directors received approximately two hours of anti-corruption training per person. In 2021, no bribery, extortion, fraud, money laundering, corruption or embezzlement cases were reported in AK Medical.

AK Medical has included the anti-corruption and anti-bribery agreement to the Company's distribution agreement, clearly stipulating that distributors should perform and comply with the agreement and adhere to conduct cooperation in a compliant and transparent way, and shall not directly or indirectly give or accept in any forms bribery, kickbacks or facilitating payments. AK Medical has the right to terminate the cooperation with the distributors who breach the agreement.

COMMUNITY RESPONSIBILITY

Making use of its own resources and advantages, AK Medical contributed to public welfare in the field of medical and healthcare, spreading love and kindness to the society and demonstrating its corporate responsibility. In 2021, AK Medical invested a total of RMB6,000,000 in social welfare and provided 20 hours of voluntary service.

AK Medical attaches importance to improving access to medical care. Since 1 April 2021, the national organizing united procurement platform for medical consumables issued the Notice on the Launch of Product Information Collection of Some Orthopedic High-Value Medical Consumables Products (《關於開展部分骨科類高值醫用耗材產品信息采集工作的通知》) and after the finalization of orthopedic high-value medical consumables as the focus of the new batch of national high-value medical consumables procurement, we have actively participated in the centralized volume-based procurement activities for artificial joints, including artificial hip joints and artificial knee joints. National Organising United Procurement Office for High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦公室) launched national centralized volume-based procurement of artificial joints in Tianjin and officially opened the tender on 14 September, and three brands (AK Medical Beijing, ITI Medical and JRI) from four product lines of AK Medical all won the tender. The centralized volume-based procurement of high-value medical consumables can ensure product quality and while achieving quantity for price, effectively reducing the burden on patients' medical care and truly benefiting the people.

AK Medical always adheres to share its advanced orthopedics knowledge and technology with the society, and promotes the development of the orthopedics medical industry. In 2012, we established the AK Institute, a professional education and training platform for the orthopedic medical workers, orthopedic industry practitioners and patients.

AK Institute regularly conducts training courses, seminars for special topics, academic salons, forums, academic summits and orthopedic specialist touring talks for artificial joint doctors, as well as offering advanced training courses at Beijing hospital. It launched over 10 online learning courses in 2021. As of 31 December 2021, AK Institute has held a total of 129 knee replacement workshops. Well-known experts in Beijing introduced orthopedic professional theoretical knowledge, practical points of application and surgical techniques while representatives of professionals and students from various provinces discussed classic cases to exchange their opinions.

Meanwhile, AK Institute, together with major hospitals in Beijing such as Peking University Third Hospital, Peking University People's Hospital, Beijing Jishuitan Hospital and, Peking University International Hospital, built an academic exchange platform for local artificial joint doctors based on the medical experience of many well-known domestic experts and bring advanced joint replacement technology and concepts into land hospitals, which helps local hospital doctors improve their surgical replacement techniques and enhance their capabilities of disease diagnosis and treatment. In terms of patient health education, we regularly release "AK Institute 3-minutes classroom" online learning courses via Weixin platform. In addition to free orthopedic expert consultations and patient interaction, AK Medical also holds charity events regularly every year.

Case: Artificial Joint Revision Summit and 3DACT Ringfix Porous Revision Cup Launching Conference Successfully Held in Wuhan

On 9 May 2021, the "13th Practice Makes Perfect – Artificial Joint Revision Summit and 3DACT Ringfix Porous Revision Cup Launching Conference" organized by AK Institute was successfully held in Wuhan, with over a hundred experts and scholars from various medical institutions attended the event. With the theme of "Practice Makes Perfect", the conference featured five sections (Knee Joint Complex Initial and Revision, Hip Joint Complex Initial and Revision, Clinical Application of 3DACT Ringfix Porous Revision Cup and New Product Launch, 3D Customized Reconstruction and Medical-Industrial Integration, and Challenging Case Study), focusing on the application of 3D printing products in complex hip and knee revisions, and the difficult problem of bone defect reconstruction in hip and knee revisions, and presenting an academic feast for the attendees.

Thirteen sessions of AK Medical's "Practice Makes Perfect" joint replacement academic event have been held so far. Each session is dedicated to the academic exchange of joint revision concepts and surgical skills, promoting the popularization and optimization of standardized procedures for joint revision and replacement in China, and enhancing surgeons' revision surgical skills to better serve clinical patients.

Case: AK Medical actively participated in the "National Medical Device Safety Promotion Week" activity

On July 19, 2021, the "National Medical Device Safety Promotion Week" was launched in Beijing, and the officer in charge of AK Medical Enterprise participated in the launching ceremony. With the theme of "Safe use of machinery and innovative development", this year's "National Medical Device Safety Promotion Week" focused on publicity in four areas including the display of the Party's centennial medical devices achievements, the promotion of the "*Regulations on the Supervision and Administration of Medical Devices*" (the "Regulations") and its supporting regulations, the promotion of medical device technology innovation and high-quality development and the popularization of medical device knowledge. During the promotion week, we also carried out various forms of popular science publicity activities, thoroughly implemented the newly revised Regulations, and promoted the innovative development of the medical device industry to provided better services for patients.

In 2021, AK Medical launched the OneAK culture to help the Company to improve the quality of life of patients with a more unified and firm pace.

In 2021, AK Medical Technology Center was certified by Beijing Municipal Bureau of Economy and Information Technology as "2020 Beijing Enterprise Technology Centers, New Creation List" and "Beijing Intelligent Manufacturing Benchmark Enterprise List".

Independent auditor's report to the shareholders of AK Medical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of AK Medical Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 94 to 156, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on pages 116 and 112.

The Key Audit Matter

The Group recognises revenue from the sales of artificial organ implants when the customer takes possession of and accepts the products. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers.

The Group's customers are mainly distributors and sales contracts with customers have a variety of different terms relating to the recognition of revenue, the entitlement to rebates and the right of return of the goods sold by the Group. Sales rebates granted to customers entitle the customer to discounts on future purchases. They are primarily volume based and are earned by customers after achievement of specified milestones under the Group's loyalty programme.

The calculation of the amount recognised in respect of expected sales rebates and sales returns is based on historical experience and expectations of future customer behaviour, and requires certain management judgements and estimations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition and the calculation of the amount of the transaction price allocated to expected sales rebates and the amount of expected sales returns;

- inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on pages 116 and 112.

The Key Audit Matter

We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations. In addition, the variety of terms of sale may affect the timing of the recognition of revenue and significant management judgement can be required to estimate sales rebates and sales returns.

How the matter was addressed in our audit

- selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including sales volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data recorded) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract;

- comparing the actual sales rebates recorded after the financial year end with the contract liabilities recognised for sale rebates by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and to assess if the related revenue had been accounted for in the appropriate financial period;

- comparing the actual sales returns recorded by the Group with the sales returns provision made in the previous year to assess the reliability of management's process for the estimation of the sales return rate for the sales of the year and the refund liabilities recognised at the financial year end;

- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and

- inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

KEY AUDIT MATTERS (continued)

Impairment of goodwill

Refer to notes 15 and 2(j)(ii) to the consolidated financial statements and the accounting policies on pages 130 and 108.

The Key Audit Matter	How the matter was addressed in our audit
Goodwill attributable to JRI Orthopaedics Limited ("**JRI**") and Beijing Libeier Bio-engineering institute co., Ltd ("**Libeier**"), subsidiaries acquired by the Group amounted to RMB19,038,000 and RMB113,411,000 as at 31 December 2021, respectively. Management performs annual impairment assessments of the Group's goodwill by comparing the carrying values of these assets with their recoverable amounts, which is the greater of the fair value less costs of disposal and the value in use. In assessing the value in use, management prepared discounted cash flow forecasts for each separately identifiable cash-generating unit ("**CGU**") to which the assets have been allocated. The impairment assessments of goodwill are carried out by management with reference to a valuation report prepared by an external valuer appointed by management. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, in particular in assessing future revenue, future gross margins, future operating expenses, future capital expenditure and working capital movements and in determining the long-term growth rate and appropriate discount rates.	Our audit procedures to assess impairment of goodwill included the following: • evaluating management's identification of CGUs and the allocation of goodwill to each CGU and assessing the methodology adopted by management in its impairment assessments with reference to the requirements of the prevailing accounting standards; • evaluating the key assumptions adopted in the preparation of the discounted cash flow forecasts by comparing data in the discounted cash flow forecasts with the relevant data, including future revenue, future gross margins, future operating expenses, future capital expenditure and working capital movements in the financial budgets with historical trend and available industry statistics; • involving our internal valuation specialists to assist us in assessing the impairment assessment methodology adopted, the long-term growth rate and discount rates used in the discounted cash flow forecasts by comparing with those of comparable companies and external market data if available;

KEY AUDIT MATTERS (continued)

Impairment of goodwill

Refer to notes 15 and 2(j)(ii) to the consolidated financial statements and the accounting policies on pages 130 and 108.

The Key Audit Matter	How the matter was addressed in our audit
We identified the assessment of potential impairment of goodwill as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could subject to management bias.	• assessing the qualifications, experience and expertise of the external valuer appointed by management in assessing the impairment of goodwill and considering their objectivity; • performing a retrospective review by comparing the prior year's discounted cash flow forecast for the JRI with the current year's results and evaluating the subsequent re-estimation of assumptions that do not have an outcome in the current year to assess whether there is any indication of management bias; • performing a sensitivity analysis of key assumptions, including future revenue, future gross margins and the discount rate applied in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias in the selection of these key assumptions; and • assessing the reasonableness of the disclosures in the consolidated financial statements in respect of management's impairment assessments of goodwill with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Choi Chung Chuen.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in Renminbi)

	Note	Year ended 31 December 2021 RMB'000	 2020 RMB'000
Revenue	4	**761,441**	1,035,386
Cost of sales		**(262,252)**	(320,854)
Gross profit		**499,189**	714,532
Other income, net	5	**5,979**	5,333
Selling and distribution expenses		**(187,347)**	(154,101)
General and administrative expenses		**(105,316)**	(83,016)
Impairment loss on goodwill	15	**–**	(8,848)
Research and development expenses		**(113,069)**	(104,974)
Operating profit		**99,436**	368,926
Net finance income	7	**9,123**	7,681
Profit before taxation	6	**108,559**	376,607
Income tax	8(a)	**(15,940)**	(62,600)
Profit for the year		**92,619**	314,007
Profit attributable to equity shareholders of the Company		**92,619**	314,007
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		**(18,453)**	(25,553)
Other comprehensive income, net of tax		**(18,453)**	(25,553)
Total comprehensive income		**74,166**	288,454
Total comprehensive income attributable to equity shareholders of the Company		**74,166**	288,454
Earnings per share			
Basic	11(a)	**RMB0.08**	RMB0.28
Diluted	11(b)	**RMB0.08**	RMB0.28

The notes on pages 100 to 156 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021
(Expressed in Renminbi)

	Note	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	13	**382,401**	364,339
Intangible assets	14	**79,989**	76,045
Goodwill	15	**132,449**	133,076
Deferred tax assets	26(b)	**76,074**	50,625
		670,913	624,085
Current assets			
Inventories	17	**423,068**	360,711
Trade receivables	18	**387,990**	450,599
Bills receivable	18	**142,458**	101,892
Deposits, prepayments and other receivables	19	**28,213**	33,551
Other financial assets	29(d)	**365,528**	188,402
Pledged deposits and time deposits		**111,508**	54,575
Cash and cash equivalents	20	**475,606**	713,091
		1,934,371	1,902,821
Current liabilities			
Trade payables	21	**92,769**	145,766
Contract liabilities	22	**167,413**	46,400
Accruals and other payables	23	**166,779**	172,177
Lease liabilities	24	**10,952**	11,413
Current taxation	26(a)	**51,522**	42,082
		489,435	417,838
Net current assets		**1,444,936**	1,484,983
Total assets less current liabilities		**2,115,849**	2,109,068

	Note	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current liabilities			
Deferred income	27	**12,351**	12,026
Lease liabilities	24	**30,607**	15,435
Deferred tax liabilities	26(b)	**41,340**	38,831
		84,298	66,292
NET ASSETS		**2,031,551**	2,042,776
CAPITAL AND RESERVES			
Share capital	28(b)	**9,453**	9,451
Reserves	28(c)	**2,022,098**	2,033,325
Total equity attributable to equity shareholders of the Company		**2,031,551**	2,042,776
TOTAL EQUITY		**2,031,551**	2,042,776

Approved and authorised for issue by the board of directors on 24 March 2022 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

The notes on pages 100 to 156 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
		28(b)	28(c)(i)	25(b)/28(c)(iv)	28(c)(ii)	28(c)(v)	28(c)(vi)		
Balance at 1 January 2020		8,888	426,380	–	55,174	7,855	15,994	601,719	1,116,010
Total comprehensive income for the year		–	–	–	–	–	(25,553)	314,007	288,454
Issuance of new shares	28(b)(i)	479	700,876	–	–	–	–	–	701,355
Equity settled share-based transactions	25(a)/28(c)(v)	–	–	–	–	1,995	–	–	1,995
Shares issued under share option scheme	28(b)(ii)/28(c)(v)	84	17,274	–	–	(6,059)	–	–	11,299
Dividends declared	12	–	(76,337)	–	–	–	–	–	(76,337)
Balance at 31 December 2020 and 1 January 2021		**9,451**	**1,068,193**	**–**	**55,174**	**3,791**	**(9,559)**	**915,726**	**2,042,776**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**(18,453)**	**92,619**	**74,166**
Equity settled share-based transactions	25(a)/28(c)(v)	**–**	**–**	**–**	**–**	**1,050**	**–**	**–**	**1,050**
Shares issued under share option scheme	28(b)(ii)/28(c)(v)	**2**	**851**	**–**	**–**	**(631)**	**–**	**–**	**222**
Dividends declared	12	**–**	**(36,830)**	**–**	**–**	**–**	**–**	**–**	**(36,830)**
Shares held for share award scheme	25(b)/28(c)(iv)	**–**	**–**	**(49,833)**	**–**	**–**	**–**	**–**	**(49,833)**
Balance at 31 December 2021		**9,453**	**1,032,214**	**(49,833)**	**55,174**	**4,210**	**(28,012)**	**1,008,345**	**2,031,551**

The notes on pages 100 to 156 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2021
(Expressed in Renminbi)

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**108,559**	376,607
Adjustments for:		
Depreciation of property, plant and equipment	**61,646**	49,895
Amortisation of intangible assets	**12,512**	10,626
Impairment for goodwill	**–**	8,848
Recognition of deferred income	**(1,139)**	(2,277)
Interest on lease liabilities	**1,609**	1,270
Interest on bank loans	**–**	13
Interest income	**(8,992)**	(12,959)
Credit losses (reversed)/recognised for trade receivables	**(1,109)**	2,528
Loss/(profit) on sales of property, plant and equipment	**518**	(401)
Equity settled share-based payment expenses	**1,050**	1,995
Changes in operating activities	**174,654**	436,145
Changes of:		
Inventories	**(62,357)**	(69,437)
Trade and bills receivables	**23,119**	(190,308)
Deposits, prepayments and other receivables	**5,338**	5,666
Contract liabilities	**121,013**	5,450
Trade payables	**(52,997)**	65,658
Accruals and other payables	**(3,090)**	(2,558)
Cash generated from operations	**205,680**	250,616
Income tax paid	**(29,059)**	(45,359)
Net cash generated from operating activities	**176,621**	205,257

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Investing activities			
Interest received		**11,164**	11,943
Proceeds from sale of property, plant and equipment		**2,892**	939
Acquisition of a subsidiary, net of cash acquired		**–**	(261,039)
Uplift of structured deposits and time deposits		**802,698**	528,328
Placement of structured deposits and time deposits		**(1,039,090)**	(547,903)
Acquisition of intangible assets		**(17,472)**	(4,542)
Acquisition of property, plant and equipment		**(58,757)**	(85,245)
Government grants received relating to assets		**1,464**	1,110
Net cash used in investing activities		**(297,101)**	(356,409)
Financing activities			
Capital element of lease rentals paid		**(12,789)**	(22,548)
Issuance of new shares	28(b)(i)	**–**	701,355
Purchase of own shares	28(c)(iv)	**(49,833)**	–
Repayment of bank loans		**–**	(1,700)
Interest element of lease rentals paid		**(1,609)**	(1,270)
Dividends paid		**(36,694)**	(75,382)
Proceeds from equity settled share-based payment		**222**	11,299
Interest on bank loans paid		**–**	(13)
Net cash (used in)/generated from financing activities		**(100,703)**	611,741
Net (decrease)/increase in cash and cash equivalents		**(221,183)**	460,589
Cash and cash equivalents at 1 January		**713,091**	276,521
Effect of movements in exchange rates on cash hold		**(16,302)**	(24,019)
Cash and cash equivalents at 31 December		**475,606**	713,091

The notes on pages 100 to 156 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AK Medical Holdings Limited (the "**Company**") was incorporated in Cayman Islands on 17 July 2015 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in design, develop, produce and market orthopedic implants and related products. Details of the subsidiaries are set out in note 16.

The Company's shares were listed on the Stock Exchange on 20 December 2017 (the "**Listing**").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of measurement and preparation of the financial statements

The consolidated financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand, while the functional currency of the Company is Hong Kong dollars ("**HK$**"). The Company's primary subsidiaries were incorporated in the People's Republic of China (the "**PRC**") and the subsidiaries considered RMB as their functional currency. The Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis, except that other financial assets-investment in structured deposits and investments in unlisted equity instrument are stated at their fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16, *Interest rate benchmark reform – phase 2*
- Amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. In particular, the Group does not take advantage of the practice expedient available under the amendments to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021* on lease modifications.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in subsidiaries is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of subsidiaries, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 2(j), unless the investment is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(j)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 29(d). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(r)(ii)).

– fair value through other comprehensive income (FVOCI)-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(j)), including:

– land use rights, which are leasehold land located in Mainland China with lease term of normally 50 years;

– properties or buildings situated on the leasehold land where the Group is the registered owner of the property interest;

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant, machinery and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives are as follows:

– Properties and buildings	Situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
– Leasehold properties and improvements	Over the remaining unexpired term of the lease
– Plant and machinery	3-15 years
– Motor vehicles	4-10 years
– Office equipment and furniture	3-5 years
– Land use rights	50 years

Both the useful life of assets and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

(h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software	3-10 years
Patents and products licenses	5-10 years
Brand name	10 years
Technical know-how	10 years

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives as set out above.

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occured as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);

Financial assets measured at fair value, including wealth management products measured at FVPL and equity and debt securities measured at FVPL are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Significant increases in credit risk
In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income
Interest income recognised in accordance with note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (continued)

Basis of calculation of interest income (continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the customer will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each year to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(j)(i)).

Insurance reimbursement is recognised and measured in accordance with note 2(q).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.Cash and cash equivalents are assessed for expected credit loss (ECL) in accordance with the policy set out in note 2(j)(i).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labor rules and regulations in the PRC are recognised as expenses in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in reserves within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the reserves. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the reserves) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the reserves until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of each year and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(r) Revenue and other income

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

(i) Sale of goods (continued)

In the comparative period, revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue represented the sales value of goods sold less rebates, returns, discounts and value added tax ("**VAT**").

Loyalty programme

Revenue is allocated between the loyalty programme and the other components of the sale. The amount allocated to the loyalty programme is deferred, and is recognised as revenue when the Group has fulfilled its obligations to supply the discounted products under the terms of the programme or it is no longer probable that the sales rebate granted under the programme will be redeemed.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost of the asset (see note 2(j)(i)). Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the year. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the year. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

a. has control or joint control over the Group;

b. has significant influence over the Group; or

c. is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

a. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

c. Both entities are joint ventures of the same third party.

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

f. The entity is controlled or jointly controlled by a person identified in note 2(u)(i).

g. A person identified in note 2(u)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set out in note 2. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Allowance for expected credit losses

Management estimates expected credit loss allowance using a provision matrix based on the Group's historical credit loss experience, included customer credit-worthiness, and historical write-off experience, and adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If the financial conditions of the customers were to deteriorate, additional allowance may be required.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value.

(c) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. Based on past experience, the percentage of subsequent returns will be approximately 2.4% of annual sales for certain products. Therefore, the Group has not recognised revenue for certain products expected to be returned at the estimated return rate of 2.4% of annual sales for 2021.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Provision for price discount

The Group participated in the national joint implant volume-based procurement ("**VBP**") organised by the National Healthcare Security Administration ("**NHSA**") in October 2021. Certain types of the Group's joint implant products are successfully included in the scope of the national VBP which sets the selling price and volume of the products (the "**policy**") is expected to be executed since 1 March 2022 for next 2 years. The Group sells the products to distributors, being the customers of the Group. The distributors which purchased the products from the Group will be affected because the retail selling price will be decreased when the policy is effective.

Although not anticipated at the contract inception, to maintain continuing business relationship with the distributors, the Group expects to compensate the distributors for losses incurred in connection with the policy by way of price discount of future sales. The discount is estimated based on the potential price reduction and unsold inventories held by the distributors and the amount is accounted for as a deduction of revenue.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are manufacturing and sale of orthopedic joint implants, spinal implants, trauma implants and their complete set of surgical instruments.

Disaggregation of revenue from contracts with customers by major products is as follows:

	2021 **RMB'000**	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	**469,493**	676,806
– Knee replacement implants	**167,385**	258,068
– Spinal and trauma implants	**79,320**	69,295
– Customised products and services (i)	**23,319**	5,785
– Third party orthopedic products	**1,536**	8,556
– Others	**20,388**	16,876
	761,441	1,035,386

(i) Customised products and services

The Group reclassified the disaggregation by major products of service lines in 2021. The 3D-printed products disclosed in 2020 has been reclassed into respective products.

Customised products and services is an orthopedic implant manufactured by patient matching design and 3D printing technology based on different patients' differentiated lesions and pathological characteristics, which include customised joint, pelvis and spinal and trauma implants and also customised surgical value-added service.

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2021 (2020: nil). Details of concentrations of credit risk arising from major customers are set out in note 29(a).

No remaining performance obligation under existing contracts has been disclosed as performance obligations under the Group's existing contracts has an original expected duration of one year or less, thus the Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts.

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting

The Group acquired JRI Orthopaedics Limited ("**JRI**"), a private company limited by shares incorporated in England and Wales on 10 April 2018. JRI's operation and assets are mainly based in the United Kingdom (the "**UK**"). After the acquisition, the Group manages its businesses by geographical location in which the entities operate. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the two reportable segments based on geographical location: China and the UK. No operating segments have been aggregated to form the reportable segments.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets and deferred tax assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Corporate expenses are allocated to the segment in China as all members of the senior management are based in China.

The measure used for reporting segment profit is "reportable segment profit before taxation".

In addition to receiving segment information concerning reporting segment profit, management is provided with segment information concerning inter segment sales, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Disaggregation of revenue from contracts with customers, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue from external customers	686,110	974,290	75,331	61,096	761,441	1,035,386
Inter-segment revenue	1,296	–	50,285	82,369	51,581	82,369
Reportable segment revenue	687,406	974,290	125,616	143,465	813,022	1,117,755
Reportable segment profit/(loss)	114,129	390,575	(3,875)	(11,149)	110,254	379,426
Interest income	8,992	12,959	–	–	8,992	12,959
Depreciation and amortisation for the year	61,354	47,088	12,804	13,433	74,158	60,521
Impairment loss on goodwill	–	–	–	8,848	–	8,848
Reportable segment assets	2,003,739	2,127,918	174,454	186,095	2,178,193	2,314,013
Additions to non-current assets during the year	102,676	179,027	3,429	4,155	106,105	183,182
Reportable segment liabilities	473,582	404,342	21,800	25,009	495,382	429,351

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2021 RMB'000	2020 RMB'000
Revenue		
Reportable segment revenue	813,022	1,117,755
Elimination of inter-segment revenue	(51,581)	(82,369)
Consolidated revenue	761,441	1,035,386
Profit		
Reportable segment profit	110,254	379,426
Elimination of inter-segment profits	(1,695)	(2,819)
Consolidated profit before taxation	108,559	376,607
Assets		
Reportable segment assets	2,178,193	2,314,013
Elimination of inter-segment receivables	(14,511)	(26,134)
	2,163,682	2,287,879
Other financial assets	365,528	188,402
Deferred tax assets	76,074	50,625
Consolidated total assets	2,605,284	2,526,906
Liabilities		
Reportable segment liabilities	495,382	429,351
Elimination of inter-segment payables	(14,511)	(26,134)
	480,871	403,217
Current tax liabilities	51,522	42,082
Deferred tax liabilities	41,340	38,831
Consolidated total liabilities	573,733	484,130

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and goodwill ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenue from external customers		Specified non-current assets	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
– China	**631,131**	932,256	**539,275**	506,523
– Other countries	**130,310**	103,130	**55,564**	66,937
	761,441	1,035,386	**594,839**	573,460

5 OTHER INCOME, NET

	2021 RMB'000	2020 RMB'000
Government grants	**4,867**	5,139
Others	**1,112**	194
	5,979	5,333

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Staff costs:

	Note	**2021 RMB'000**	2020 RMB'000
Salaries, wages and other benefits		**189,134**	162,850
Contribution to defined contribution retirement scheme		**15,382**	1,936
Equity settled share-based transactions	25	**1,050**	1,995
		205,566	166,781

6 PROFIT BEFORE TAXATION (continued)

(a) Staff costs: (continued)

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees.

The Group's UK subsidiaries operate a stakeholder defined contribution personal pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the Group. Under the defined contribution personal pension scheme, the employer is required to make contributions to the plan at 7.5% of the employees' relevant income. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

(b) Other items

	2021 RMB'000	2020 RMB'000
Cost of Inventories*	**276,214**	334,791
Amortisation cost of intangible assets	**12,512**	10,626
Depreciation charge		
– owned property, plant and equipment	**47,526**	35,674
– right-of-use assets	**14,120**	14,221
	61,646	49,895
Credit losses (reversed)/recognised from trade and other receivables	**(1,109)**	2,528
Auditors' remuneration		
– Audit services	**3,955**	4,022

* Cost of inventories includes RMB94,174,000 in 2021 (2020: RMB75,722,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

7 NET FINANCE INCOME

	2021 RMB'000	2020 RMB'000
Interest income from bank deposits and investments in structured deposit	**8,992**	12,959
Foreign exchange gain/(loss)	**1,740**	(3,995)
Interest on lease liabilities	**(1,609)**	(1,270)
Interest on bank loans	**–**	(13)
	9,123	7,681

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents

	2021 RMB'000	2020 RMB'000
Current tax		
Provision for the year	**38,203**	57,279
Under/(over)-provision in respect of prior years	**296**	(1,548)
Deferred tax		
Origination and reversal of temporary differences	**(22,559)**	6,869
	15,940	62,600

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

The Group has no assessable profit in Hong Kong for 2021 (2020: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2021 is 16.5% (2020: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

Taxation on profits outside Hong Kong has been calculated on the estimated assessable profits for 2021 at the rates of taxation prevailing in the countries in which the Group operates.

Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for 2021 are 25% (2020: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AKEC Medical Co., Ltd. ("**AK Medical Beijing**") and ITI Medical Co., Ltd. ("**AK Medical Changzhou**") were certified as New and High Technology Enterprises, and are entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing and AK Medical Changzhou will be expired on 21 October 2023 and 2 December 2023, respectively.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents (continued)

Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for 2021 (2020: 19%).

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. AK Medical HK and Bright AK HK, subsidiaries of the Company are subject to PRC dividend withholding tax at 10% on dividends receivables from the PRC subsidiaries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2021 **RMB'000**	2020 RMB'000
Profit before taxation	**108,559**	376,607
Notional tax of PRC statutory tax rate of 25%	**27,140**	94,152
Effect of PRC preferential tax rate	**(13,850)**	(37,922)
Effect of lower tax rates in other countries	**232**	(1,267)
Effect of non-deductible expenses	**3,555**	3,789
Effect of unused tax losses not recognised	**5,122**	2,537
Effect of additional deduction on research and development expenses *	**(10,613)**	(7,108)
PRC dividend withholding tax	**4,058**	9,967
Under/(over)-provision in respect of prior years	**296**	(1,548)
Actual tax expenses	**15,940**	62,600

* According to the relevant PRC income tax law, certain research and development expenses of PRC subsidiaries are qualified for 100% (2020: 75%) additional deduction for tax purpose.

9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2021	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	800	60	53	–	913
Zhang Bin	–	346	–	–	–	346
Zhang Chaoyang	–	795	90	53	–	938
Zhao Xiaohong	–	798	93	53	117	1,061
Non-executive director						
Wang David Guowei	–	–	–	–	–	–
Independent Non-executive directors						
Li Shu Wing David	162	–	–	–	–	162
Kong Chi Mo	162	–	–	–	–	162
Wang Eric	164	–	–	–	–	164
	488	2,739	243	159	117	3,746

2020	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	430	90	4	–	524
Zhang Bin	–	94	–	–	–	94
Zhang Chaoyang	–	532	75	4	–	611
Zhao Xiaohong	–	1,080	71	4	222	1,377
Non-executive directors						
Wang David Guowei	–	–	–	–	–	–
Li Wenming (retired on 15 June 2020)	69	–	–	–	–	69
Independent Non-executive directors						
Li Shu Wing David	155	–	–	–	–	155
Kong Chi Mo	168	–	–	–	–	168
Wang Eric (appointed on 15 June 2020)	83	–	–	–	–	83
Dang Gengting (retired on 15 June 2020)	69	–	–	–	–	69
	544	2,136	236	12	222	3,150

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 1 (2020: 1) is director whose emoluments is disclosed in note 9. The aggregate of the emoluments in respect of the other 4 (2020: 4) individuals respectively, are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	3,882	4,015
Discretionary bonuses	1,181	1,567
Retirement scheme contributions	70	4
Equity settled share-based transactions	–	166
	5,133	5,752

The emoluments of the 4 (2020: 4) individuals with the highest emoluments are within the following bands:

	2021	2020
HK$		
Nil – 1,000,000	Nil	Nil
1,000,001 – 1,500,000	2	2
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	Nil	1

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB92,619,000 (2020: RMB314,007,000) and the weighted average number of issued ordinary shares of 1,112,820,000 (2020: 1,102,187,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	1,115,500,000	1,052,700,000
Effect of issuance of new shares (note 28(b)(i))	–	44,290,984
Effect of issue of shares under the Company's share option scheme (note 25)	29,589	5,196,107
Effect of shares held for share award scheme(note 28(c)(iv))	(2,709,112)	–
Weighted average number of ordinary shares at 31 December	1,112,820,477	1,102,187,091

11 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB92,619,000 (2020: RMB314,007,000) and the weighted average number of issued ordinary shares of 1,120,594,000 (2020: 1,107,166,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
Weighted average number of ordinary shares at 31 December	**1,112,820,477**	1,102,187,091
Effect of deemed issue of shares under the Company's share option scheme (note 25)	**7,773,657**	4,978,744
Weighted average number of ordinary shares (diluted) at 31 December	**1,120,594,134**	1,107,165,835

12 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the reporting period of HK$2.5 cents per ordinary share (2020: HK$4.0 cents per ordinary share)	**22,805**	37,552

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$4.0 cents per ordinary share (2020: HK$7.5 cents per ordinary share)	**36,694**	75,382

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Properties and buildings RMB'000	Leasehold properties and improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Land use right RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
1 January 2020	122,791	24,960	166,763	4,591	8,489	21,406	13,561	362,561
Addition through acquisition of a subsidiary	–	7,941	26,950	–	613	–	63	35,567
Additions	28	27,289	36,091	104	3,233	–	29,060	95,805
Transfer from construction in progress	1,308	–	9,991	–	–	–	(11,299)	–
Disposals	–	–	(2,558)	–	(1,295)	–	–	(3,853)
Exchange adjustments	–	(258)	(927)	(45)	(71)	–	–	(1,301)
At 31 December 2020 and 1 January 2021	124,127	59,932	236,310	4,650	10,969	21,406	31,385	488,779
Additions	–	34,723	35,484	560	4,368	–	13,498	88,633
Transfer from construction in progress	9,705	–	22,767	–	–	–	(32,472)	–
Disposals	–	(16,374)	(5,124)	(64)	(67)	–	–	(21,629)
Exchange adjustments	–	(355)	(1,134)	(45)	(56)	–	–	(1,590)
At 31 December 2021	133,832	77,926	288,303	5,101	15,214	21,406	12,411	554,193
Accumulated depreciation								
At 1 January 2020	(4,918)	(15,887)	(50,726)	(1,826)	(4,606)	(214)	–	(78,177)
Charged for the year	(5,804)	(14,639)	(25,958)	(975)	(2,091)	(428)	–	(49,895)
Written back on disposals	–	–	2,101	–	1,214	–	–	3,315
Exchange adjustments	–	37	228	15	37	–	–	317
At 31 December 2020 and 1 January 2021	(10,722)	(30,489)	(74,355)	(2,786)	(5,446)	(642)	–	(124,440)
Charged for the year	(6,224)	(14,462)	(36,571)	(967)	(2,994)	(428)	–	(61,646)
Written back on disposals	–	11,206	2,165	53	(26)	–	–	13,398
Exchange adjustments	–	236	580	42	38	–	–	896
At 31 December 2021	(16,946)	(33,509)	(108,181)	(3,658)	(8,428)	(1,070)	–	(171,792)
Net book value								
At 31 December 2021	116,886	44,417	180,122	1,443	6,786	20,336	12,411	382,401
At 31 December 2020	113,405	29,443	161,955	1,864	5,523	20,764	31,385	364,339

Included in the properties and buildings are properties held for own use situated on long-term leasehold land and located in the PRC.

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the end of each year.

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Land use right	(i)	**20,335**	20,764
Leasehold properties	(ii)	**42,023**	29,456
Motor vehicles		**1,016**	240
		63,374	50,460

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold properties	**13,364**	12,620
Plant and machinery	**–**	403
Motor vehicles	**328**	770
Land use right	**428**	428
	14,120	14,221
Interest on lease liabilities	**1,609**	1,270
Expense relating to short-term leases	**3,913**	1,467

During the year, additions to right-of-use assets were RMB32,320,000 (2020: RMB33,552,000) including additions of leasehold properties under new tenancy agreements of Beijing Libeier Bio-engineering institute Co., Ltd., Beijing XMKS Medical Co., Ltd., and JRI Orthopaedics Limited were RMB21,415,000, RMB9,769,000 and RMB1,136,000, respectively.

Details of the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 20(c), 24 and 29, respectively.

(i) Land use rights

The Group holds the land use rights with a lease term of 50 years. Lump sum payments were made upfront to lease the land use rights from the government and there are no ongoing payments to be made under the terms of the land lease.

(ii) Leasehold properties

The Group has obtained the right to use leasehold properties as its factories and offices through tenancy agreements. The leases typically run for an initial period of 2 to 6 years (2020: 2 to 5 years). Lease payments are usually increased every year to reflect market rentals.

Some leases include an option to renew the lease when all terms are renegotiated. None of the lease includes variable lease payment terms.

14 INTANGIBLE ASSETS

	Software	Patent and products licenses	Technical know-how	Brand name	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2020	10,652	16,041	17,239	8,469	52,401
Addition through acquisition of a subsidiary	901	–	28,400	17,967	47,268
Additions	3,842	700	–	–	4,542
Exchange adjustments	(121)	(92)	(489)	(240)	(942)
At 31 December 2020 and 1 January 2021	15,274	16,649	45,150	26,196	103,269
Additions	2,472	5,000	10,000	–	17,472
Exchange adjustments	(153)	(101)	(878)	(263)	(1,395)
At 31 December 2021	17,593	21,548	54,272	25,933	119,346
Accumulated amortisation					
At 1 January 2020	(5,444)	(6,882)	(3,017)	(1,482)	(16,825)
Charged for the year	(2,698)	(2,351)	(3,560)	(2,017)	(10,626)
Exchange adjustments	54	56	79	38	227
At 31 December 2020 and 1 January 2021	(8,088)	(9,177)	(6,498)	(3,461)	(27,224)
Charged for the year	(2,622)	(2,005)	(5,293)	(2,592)	(12,512)
Exchange adjustments	109	53	145	72	379
At 31 December 2021	(10,601)	(11,129)	(11,646)	(5,981)	(39,357)
Net book value					
At 31 December 2021	6,992	10,419	42,626	19,952	79,989
At 31 December 2020	7,186	7,472	38,652	22,735	76,045

The amortisation charge is included in "General and administrative expenses" and "Research and development expenses" in the consolidated statement of profit or loss and other comprehensive income.

15 GOODWILL

	2021 RMB'000	2020 RMB'000
Cost:		
At 1 January	**141,924**	29,346
Addition through acquisition of a subsidiary	**–**	113,411
Exchange adjustments	**(911)**	(833)
At 31 December	**141,013**	141,924
Accumulated impairment losses:		
At 1 January	**(8,848)**	–
Impairment loss	**–**	(8,848)
Exchange adjustments	**284**	–
At 31 December	**(8,564)**	(8,848)
Carrying amount:		
At 31 December	**132,449**	133,076

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generation units ("**CGU**") identified according to place of operations and operating segment as follow:

	2021 RMB'000	2020 RMB'000
JRI	**19,038**	19,665
Libeier	**113,411**	113,411
	132,449	133,076

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the budget period are extrapolated using an estimated weighted average growth rate.

(Expressed in RMB'000 unless otherwise indicated)

15 GOODWILL (continued)

The key assumptions for the value-in-use calculation are as follows, which are based on either the past experience or external sources of information:

	At 31 December 2021		At 31 December 2020	
	Libeier	**JRI**	Libeier	JRI
Annualised revenue growth rate during the budget period	**9%-27%**	**2%-21%**	7%-62%	-2%-10%
Gross profit ratio	**67%-68%**	**33%-41%**	63%-66%	37%-40%
Steady growth rate used in the extrapolation after budget period	**3.0%**	**2.0%**	3.0%	2.2%
Pre-tax discount rate	**18.8%**	**16.5%**	19.0%	16.3%

The recoverable amount of the CGU of Libeier is estimated to exceed the carrying amount of the CGU at 31 December 2021 by RMB49,408,000 (2020: RMB40,221,000).

The recoverable amount of the CGU of JRI is estimated to exceed the carrying amount of the CGU at 31 December 2021 by RMB12,370,000.

Any reasonably possible change in the assumptions used in the calculation of recoverable amount would not result in impairment loss.

The impairment loss of RMB8,848,000 recognised in "Impairment loss on goodwill" solely relates to JRI in 2020. The CGU has been reduced to its recoverable amount of RMB158,478,000 as at 31 December 2020.

16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Percentage of equity attributable to Company			
Name of company	**Place and date of incorporation/ establishment**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activities**
AK Medical Investment Limited ("**AK Medical BVI**")	British Virgin Islands 21/07/2015	United States Dollars ("**US$**") US$50,000	100%	100%	–	Investing holding company
Bright AK Limited ("**Bright AK HK**")	Hong Kong 07/07/2015	HK$10,000	100%	–	100%	Investing holding company
AK Medical International Limited ("**AK Medical HK**")	Hong Kong 28/07/2015	HK$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京爱康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("**AK Medical XMKS**") 北京西麥克斯醫療器械有限公司	The PRC 24/07/2007	RMB500,000	100%	–	100%	Sales of orthopedic joint implants products
ITI Medical Co., Ltd. (AK Medical Changzhou) 天衍醫療器材有限公司	The PRC 28/03/2016	US$13,200,000	100%	–	100%	Produce and market orthopedic joint implants and related products
JRI Orthopaedics Limited	The United Kingdom 06/04/1970	GBP100,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing Libeier Bio-engineering institute Co., Ltd. ("**Libeier**") 北京理貝爾生物工程研究所有限公司	The PRC 15/07/1996	RMB30,000,000	100%	–	100%	Design, manufacture and supply spinal and trauma implants and related products

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Raw materials	**115,645**	84,957
Work in progress	**62,693**	88,062
Finished goods	**244,730**	187,692
	423,068	360,711

17 INVENTORIES (continued)

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Cost of inventories sold	**262,252**	320,854
Cost of inventories directly recognised as research and development expenses	**13,962**	13,937
	276,214	334,791

18 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2021 RMB'000	31 December 2020 RMB'000
Bills receivable	**142,458**	101,892
Trade receivables	**408,793**	472,511
Less: allowance for credit loss	**(20,803)**	(21,912)
	387,990	450,599

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As at 31 December 2021, the ageing analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Current to 3 months	**239,330**	337,945
3 to 6 months	**10,877**	42,232
6 to 12 months	**90,666**	41,736
Over 12 months	**47,117**	28,686
	387,990	450,599

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2020: 1 month to 1 year) from the date of billing. No interest is charged on the trade receivables. Further details on the Group's credit policy are set out in note 29(a).

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2021 RMB'000	31 December 2020 RMB'000
Prepayments to suppliers	**7,012**	12,583
Deposits	**3,096**	2,815
Refund assets (note 23(i))	**5,234**	5,405
VAT recoverable	**8,153**	10,337
Others	**4,718**	2,411
	28,213	33,551

The above deposits, prepayments and other receivables do not contain impaired assets and expected to be settled within one year.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2021 RMB'000	2020 RMB'000
Cash at bank	**475,599**	713,070
Cash on hand	**7**	21
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**475,606**	713,091

As at 31 December 2021, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB313,533,000 (2020: RMB561,445,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	1,700	10,235	11,935
Repayment of bank loans	(1,700)	–	(1,700)
Capital element of lease rentals paid	–	(22,548)	(22,548)
Interest element of lease rentals paid	–	(1,270)	(1,270)
Total changes from financing cash flows	(1,700)	(23,818)	(25,518)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	25,678	25,678
Addition through acquisition of a subsidiary	–	13,483	13,483
Interest expenses	–	1,270	1,270
At 31 December 2020 and 1 January 2021	–	26,848	26,848
Capital element of lease rentals paid	–	(12,789)	(12,789)
Interest element of lease rentals paid	–	(1,609)	(1,609)
Total changes from financing cash flows	–	(14,398)	(14,398)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	32,320	32,320
Lease terminations	–	(4,820)	(4,820)
Interest expenses	–	1,609	1,609
At 31 December 2021	–	41,559	41,559

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2021 RMB'000	2020 RMB'000
Within operating cash flows	**3,913**	1,467
Within financing cash flows	**14,398**	23,818
	18,311	25,285

21 TRADE PAYABLES

As at 31 December 2021, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Within 3 months	**72,240**	127,532
3 to 6 months	**13,253**	15,689
6 to 12 months	**1,709**	857
1 year to 2 years	**4,377**	20
Over 2 years	**1,190**	1,668
	92,769	145,766

All trade payables are expected to be settled within one year.

22 CONTRACT LIABILITIES

	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Provision for price discount	(i)	**117,327**	–
Advance and deposit from customers	(ii)	**25,787**	26,490
Sales rebates	(iii)	**24,299**	19,910
		167,413	46,400

(i) Provision for price discount

The Group participated in the national joint implant VBP organised by the NHSA in October 2021. The policy is expected to be executed since 1 March 2022 for next 2 years. The Group sells the products to distributors, being the customers of the Group. The distributors which purchased the products from the Group will be affected because the retail selling price will be decreased when the policy is effective.

Although not anticipated at the contract inception, to maintain continuing business relationship with the distributors, the Group expects to compensate the distributors for losses incurred in connection with the policy by way of price discount of future sales. The discount is estimated based on the potential price reduction and unsold inventories held by the distributors and the amount is accounted for as a deduction of revenue amount RMB103,829,000 (2020: nil).

(ii) Advance and deposit from customers

Advance and deposit from customers primarily represent advances made by customers for purchases of products. The Group normally requires certain customers to pay 30%-100% deposits upfront.

(iii) Sales rebates

Sales rebates represents rebates granted to the customers the right to redeem the rebates through purchase of the Group's products at a discount in the future. Under the Group's loyalty programme, the sales rebates granted give the customer the right to purchase the Group's products at a discount in the future. The amount of this contract liability is based on the stand-alone selling price of goods delivered and undelivered, and takes into account the amount of rebates granted to customers that have not been redeemed and the expected forfeiture rate.

RMB36,567,000 has been recognised as revenue in 2021 that was included in the contract liabilities at the beginning of the year (2020: RMB33,742,0000). All the balances of the contract liabilities at 31 December 2021 are expected to be recognised as revenue within one year.

23 ACCRUALS AND OTHER PAYABLES

	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Accrued charges		**42,580**	47,864
Deposits		**32,508**	21,194
Other taxes payable		**30,275**	40,723
Salary and welfare payable		**20,597**	27,234
Refund liabilities	(i)	**16,863**	17,415
Payables to contractors and equipment suppliers		**5,999**	2,090
Others		**17,957**	15,657
		166,779	172,177

(i) Refund liabilities and refund assets

The Group historically accepted certain returns from distributors of orthopaedic joint implants. A return liability relating to sales with a right of return in practice was recognised based on historical sales return data associated with similar products. A refund asset was recognised accordingly for a right to recover products from distributors on settling the refund liability.

All of the above balances are expected to be settled within one year.

24 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods:

	At 31 December 2021		At 31 December 2020	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**10,952**	**12,600**	11,413	11,957
After 1 year but within 2 years	**11,865**	**13,073**	6,742	7,458
After 2 years but within 5 years	**18,742**	**19,656**	8,693	9,206
	30,607	**32,729**	15,435	16,664
	41,559	**45,329**	26,848	28,621
Less: total future interest expenses		**(3,770)**		(1,773)
Present value of lease liabilities		**41,559**		26,848

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme adopted on 17 November 2017

The Company has a share option scheme which was adopted on 17 November 2017 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including full-time employees, executives or officers of any company in the Group, to take up share options to subscribe for shares of the Company.

The exercise price payable by a participant upon the exercise of an option will be HK$1.34. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(i) The terms and conditions of the grants are as follows:

	Number of instruments	Contractual life of options
Options granted to a director:		
– on 17 November 2017	4,000,000	10 years
Options granted to employees:		
– on 17 November 2017	32,000,000	10 years
Total share options granted	36,000,000	

Options granted will become exercisable in four equal batches upon the satisfaction of certain performance targets in a financial year. The exercisable period will begin from the first business day after 1 May of the immediately following year, until 16 November 2027. Initially, the management required any shares obtained from the exercise would be subject to claw-back if service conditions were not met. In 2019, the directors decided not to demand the grantee to return any entitlement or interest obtained from the exercise of the options granted if the grantee of share option terminates its service contract with the Company in the vesting period.

(ii) The number and weighted average exercise prices of share options are as follows:

	2021		2020	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.34**	**9,425**	1.34	18,775
Exercised during the year	**1.34**	**200**	1.34	9,300
Forfeited during the year	**1.34**	**200**	1.34	50
Outstanding at the end of the year	**1.34**	**9,025**	1.34	9,425
Exercisable at the end of the year	**1.34**	**1,063**	1.34	1,263

The options outstanding at 31 December 2021 had a weighted average remaining contractual life of 6 years (2020: 7 years).

(Expressed in RMB' 000 unless otherwise indicated)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Share option scheme adopted on 17 November 2017 (continued)

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

Fair value at measurement date	HK$0.7182– HK$0.7592
Share price	HK$1.48
Exercise price	HK$1.34
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	42.94%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends	1.20%
Risk-free interest rate	4.37%

The expected volatility is based on the average historic volatility of the comparable companies (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on average historical dividends of the comparable companies. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) Shares held for share award scheme

On 8 December 2020, the Company adopted a share award scheme (the "**Share Award Scheme**"), which is not subject to the provisions of Chapter 17 of the listing rules, to recognise and reward the contribution of certain eligible participants to the growth and development of the Group through an award of the Company's shares. The Share Award Scheme will be valid and effective for a period of 10 years commencing from 8 December 2020.

The Company's shares to be granted under the Share Award Scheme will be purchased and held by a trustee. The maximum number of shares to be subscribed for and/or purchased by trustee for the purpose of the scheme shall not exceed 10% of the total number of issued shares as at the adoption date.

No share award was granted under the Share Award Scheme until 31 December 2021.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2021 RMB'000	2020 RMB'000
At 1 January	**42,082**	31,710
Provision for the year	**38,203**	57,279
Under/(over)-provision in respect of prior year	**296**	(1,548)
Provisional tax paid	**(29,059)**	(45,359)
At 31 December	**51,522**	42,082

(b) Deferred tax assets and liabilities recongnised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Sales rebate RMB'000	Unrealised profits of intra-group transaction RMB'000	Sales return RMB'000	Provision for price discount RMB'000	Tax losses RMB'000	PRC dividend withholding tax (iv) RMB'000	Fair value adjustment in respect of net assets acquired in business combinations RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	3,084	4,161	1,637	-	2,333	(14,784)	(4,067)	3,646	(3,990)
Addition through acquisition of a subsidiary	-	-	-	-	19,671	-	(11,592)	14,227	22,306
(Charged)/credited to profit or loss (note 8)	(162)	2,581	165	-	5,233	(9,967)	1,244	(5,963)	(6,869)
Exchange adjustments	-	-	-	-	(4)	-	335	16	347
At 31 December 2020 and 1 January 2021	**2,922**	**6,742**	**1,802**	**-**	**27,233**	**(24,751)**	**(14,080)**	**11,926**	**11,794**
(Charged)/credited to profit or loss (note 8)	**222**	**3,247**	**(57)**	**15,574**	**7,898**	**(4,058)**	**1,397**	**(1,664)**	**22,559**
Exchange adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**152**	**229**	**381**
At 31 December 2021	**3,144**	**9,989**	**1,745**	**15,574**	**35,131**	**(28,809)**	**(12,531)**	**10,491**	**34,734**

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recongnised: (continued)

(ii) Reconciliation to the consolidated statement of financial position

	2021 RMB'000	2020 RMB'000
Net deferred tax asset recognised	76,074	50,625
Net deferred tax liability recognised	(41,340)	(38,831)
	34,734	11,794

(iii) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB49,833,000 (2020: RMB28,325,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

As at 31 December 2021, the certain subsidiaries of the Group located in PRC had unrecognised tax losses carried forward of RMB14,356,000 as the management is of the view that it was not probable that such benefit of tax losses would be realised before they expire. The year of expiry of the tax losses unrecognised is as below:

	2021 RMB'000	2020 RMB'000
Year of expiry of PRC entities		
2026	14,356	–
	14,356	–

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recongnised: (continued)

(iv) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation. As at 31 December 2021, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB730,899,000 (2020: RMB633,400,000), comprised retained earnings of RMB670,873,000 (2020: RMB573,374,000) and statutory surplus reserve of RMB60,026,000 (2020: RMB60,026,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2021 will not be distributable in the foreseeable future (2020: the retained earnings before 31 December 2020 and 70% of profit for 2020 will not be distributable). The Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised for the above mentioned temporary differences of the 70% profit of the Company's PRC subsidiaries.

27 DEFERRED INCOME

	Government subsidies for research and development projects RMB'000
At 1 January 2020	13,193
Additions	1,110
Government grant recognised as other income	(2,277)
At 31 December 2020 and 1 January 2021	**12,026**
Additions	**1,464**
Government grant recognised as other income	**(1,139)**
At 31 December 2021	**12,351**

28 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2020		8,888	426,380	–	60,700	7,855	36,119	(15,745)	524,197
Total comprehensive income for the year		–	–	–	–	–	(66,154)	(4,014)	(70,168)
Issuance of new shares	28(b)(i)	479	700,876	–	–	–	–	–	701,355
Dividends declared	12	–	(76,337)	–	–	–	–	–	(76,337)
Equity settled share-based transactions	25(a)/28(c)(v)	–	–	–	–	1,995	–	–	1,995
Shares issued under share option scheme	28(b)(ii)/28(c)(v)	84	17,274	–	–	(6,059)	–	–	11,299
Balance at 31 December 2020 and 1 January 2021		**9,451**	**1,068,193**	**-**	**60,700**	**3,791**	**(30,035)**	**(19,759)**	**1,092,341**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**(29,229)**	**(2,354)**	**(31,583)**
Dividends declared	12	**-**	**(36,830)**	**-**	**-**	**-**	**-**	**-**	**(36,830)**
Equity settled share-based transactions	25(a)/28(c)(v)	**-**	**-**	**-**	**-**	**1,050**	**-**	**-**	**1,050**
Shares issued under share option scheme	28(b)(ii)/28(c)(v)	**2**	**851**	**-**	**-**	**(631)**	**-**	**-**	**222**
Shares held for share award scheme	25(b)/28(c)(iv)	**-**	**-**	**(49,833)**	**-**	**-**	**-**	**-**	**(49,833)**
Balance at 31 December 2021		**9,453**	**1,032,214**	**(49,833)**	**60,700**	**4,210**	**(59,264)**	**(22,113)**	**975,367**

(b) Share capital

	Note	**2021** No. of shares	**2021** Amount RMB'000	2020 No. of shares	2020 Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:					
At 1 January and 31 December		**20,000,000,000**	**168,981**	20,000,000,000	168,981
Ordinary shares, issued and fully paid:					
At 1 January		**1,115,500,000**	**9,451**	1,052,700,000	8,888
Issuance of new shares	(i)	**–**	**–**	53,500,000	479
Shares issued under share option scheme	(ii)	**200,000**	**2**	9,300,000	84
At 31 December		**1,115,700,000**	**9,453**	1,115,500,000	9,451

28 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

The holders of ordinary shares as at 31 December 2021 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020. A total of 53,500,000 placing shares have been placed at the placing price of HK$15.0 per share. The proceeds less the expenses directly attributable to the issue of shares, amounted to HK$783,873,000 (approximately RMB701,355,000), with RMB479,000 representing the par value of these ordinary shares, were credited to the Company's share capital account, and the remaining proceeds amounted to RMB700,876,000 were credited to the Company's share premium account. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(ii) In 2021, options were exercised to subscribe for 200,000 ordinary share in the Company pursuant to the share option scheme (see note 25) at the consideration of RMB222,000, of which RMB2,000 was credited to share capital and RMB220,000 was credited to share premium. RMB631,000 was transferred to share premium from the share option reserve in accordance with the policy set out in note 2(o)(ii).

In 2020, options were exercised to subscribe for 9,300,000 ordinary share in the Company pursuant to the share option scheme (see note 25) at the consideration of RMB11,299,000, of which RMB84,000 was credited to share capital and RMB11,215,000 was credited to share premium. RMB6,059,000 was transferred to share premium from the share option reserve in accordance with the policy set out in note 2(o)(ii).

(c) Reserves

(i) Share premium

Share premium represented the difference between the share capital and the amount of the net proceeds received from its shareholders of the Company.

(ii) Capital reserve

Capital reserve comprises contributions by the shareholders at the respective dates and balances arising from transactions with shareholders in their capacity as the equity shareholders.

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB60,026,000 (2020: RMB60,026,000).

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

28 CAPITAL AND RESERVES (continued)

(c) Reserves (continued)

(iv) Shares held for share award scheme

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Numbers of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid RMB'000
April 2021	1,922,000	10.84	10.00	16,785
August 2021	2,472,000	8.63	7.57	16,599
October 2021	2,130,000	9.56	9.13	16,449
	6,524,000			49,833

The Company adopted a share award scheme as described in note 25. During the reporting period, the trustee purchased 6,524,000 shares of the Company on the open market at a total cost of RMB49,833,000.

(v) Share option reserve

The Company adopted a share option scheme to employees as described in note 25. The Group recognises the grant-date fair value of the share options ratably over the vesting period. Accordingly, an amount of RMB1,050,000 (2020: RMB1,995,000) was charged as an equity settled share-based payment to profit or loss with a corresponding increase in share option reserve for the year. Such share option reserve will be transferred to share premium as and when such option are exercised or when they expire.

(vi) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operating. The reserve is dealt with in accordance with accounting policies set out in note 2(s).

(d) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB965,914,000 (2020: RMB1,082,890,000).

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

28 CAPITAL AND RESERVES (continued)

(e) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2021 and 2020 as follows:

	Note	31 December 2021 RMB'000	31 December 2020 RMB'000
Current liability:			
Lease liabilities	24	**10,952**	11,413
Non-current liability:			
Lease liabilities	24	**30,607**	15,435
Total debt		**41,559**	26,848
Add: Proposed dividends	12(i)	**22,805**	37,552
Less: Cash and cash equivalents	20(a)	**475,606**	713,091
Adjusted net debt		**(411,242)**	(648,691)
Total equity		**2,031,551**	2,042,776
Less: Proposed dividends	12(i)	**22,805**	37,552
Adjusted capital		**2,008,746**	2,005,224
Adjusted net debt-to-capital ratio		**N/A**	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables and other receivables. The director has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and cash equivalents are held with banks, which have sound reputation.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%-100% deposits upfront and the remaining trade receivables are normally due within 1 month to 1 year (2020: 1 month to 1 year) from the date of billing. Commercial customers with past due balances are requested to settle all outstanding balances before any further credit is granted. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. The Group does not obtain collateral from customers.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

All bills receivable as at the end of each year are bank acceptance bills with the aging of less than 12 months.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2021, 5.1% (2020: 4.0%) of the total trade receivables was due from the Group's largest customer in 2021, and 15.0% (2020: 16.5%) was due from the five largest customers in 2021.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the consolidated statement of financial position. The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and deposits, prepayments and other receivables are set out in notes 18 and 19.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix according to different segments.

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2021:

		2021	
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current	**1%**	**312,176**	**(3,163)**
1-3 months past due	**5%**	**43,617**	**(2,181)**
4-6 months past due	**5%**	**11,867**	**(593)**
7-12 months past due	**5%**	**5,333**	**(267)**
More than 1 years past due	**82%**	**17,397**	**(14,315)**
		390,390	**(20,519)**

		2020	
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	1%	346,132	(3,442)
1-3 months past due	5%	78,752	(3,938)
4-6 months past due	5%	5,634	(282)
7-12 months past due	5%	9,998	(500)
More than 1 years past due	91%	14,819	(13,520)
		455,335	(21,682)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

The following table provides information about the Group's UK subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2021:

	2021 Expected loss rate %	2021 Gross carrying amount RMB'000	2021 Loss allowance RMB'000
1-3 months past due	**2%**	**18,091**	**(284)**
More than 3 months past due	**–**	**312**	**–**
		18,403	**(284)**

	2020 Expected loss rate %	2020 Gross carrying amount RMB'000	2020 Loss allowance RMB'000
1-3 months past due	1%	17,123	(230)
More than 3 months past due	–	53	–
		17,176	(230)

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	**21,912**	9,880
Reversals of credit losses	**(1,109)**	–
Addition through acquisition of a subsidiary	**–**	9,504
Credit losses recognised during the year	**–**	2,528
Balance at 31 December	**20,803**	21,912

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses, participation in supplier finance arrangements with banks and the raising of loans to cover expected cash demands, subject to approval by management and directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the respective end of the year of our financial liability, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	2021 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
As at 31 December 2021					
Lease liabilities	**12,600**	**13,073**	**19,656**	**45,329**	**41,559**
Trade payables	**92,769**	**–**	**–**	**92,769**	**92,769**
Accruals and other payables	**166,779**	**–**	**–**	**166,779**	**166,779**
Total	**272,148**	**13,073**	**19,656**	**304,877**	**301,107**

	2020 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
As at 31 December 2020					
Lease liabilities	11,957	7,458	9,206	28,621	26,848
Trade payables	145,766	–	–	145,766	145,766
Accruals and other payables	172,177	–	–	172,177	172,177
Total	329,900	7,458	9,206	346,564	344,791

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk is primarily US$.

The following table details the Group's major exposure as at the end of the reporting period to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2021		
	HK$ RMB'000	**US$ RMB'000**	**EUR RMB'000**
Cash and cash equivalents	**1,043**	**85,680**	**302**
Trade receivables	**–**	**24,299**	**213**
Trade payables	**–**	**(398)**	**–**
	1,043	**109,581**	**515**

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2020		
	HK$ RMB'000	US$ RMB'000	EUR RMB'000
Cash and cash equivalents	3,120	121,927	667
Trade receivables	–	19,381	222
Trade payables	–	(64)	(13,300)
	3,120	141,244	(12,411)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Currency risk (continued)

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2021		2020	
	Increase/ (decrease) in foreign exchange rates %	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000
United States Dollars	**5%**	**5,479**	5%	7,062
	(5)%	**(5,479)**	(5)%	(7,062)
Hong Kong Dollars	**5%**	**52**	5%	156
	(5)%	**(52)**	(5)%	(156)
Euros	**5%**	**26**	5%	(621)
	(5)%	**(26)**	(5)%	621

(d) Fair value measurement

Financial instruments are carried at fair value within a fair value hierarchy that categorises, into three levels, inputs to valuation technique as used to measure the fair value. The three different levels are as follows:

– level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

– level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

– level 3: Unobservable inputs for the asset or liability.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Fair value measurement (continued)

	Note	Fair value measurements as at 31 December 2021 categorised into			
		Fair value at 31/12/2021 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement					
Financial assets:					
Other financial assets – investments in structured deposit at FVPL	(i)	**361,230**	**–**	**361,230**	**–**
Other financial assets – investments in unlisted equity instrument at FVPL	(ii)	**4,298**	**–**	**–**	**4,298**
		365,528	**–**	**361,230**	**4,298**

	Note	Fair value measurements as at 31 December 2020 categorised into			
		Fair value at 31/12/2020 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement					
Financial assets:					
Other financial assets – investments in structured deposit at FVPL	(i)	188,402	–	188,402	–

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(i) Other financial assets of investments in structured deposit are measured at their fair values in the consolidated statement of financial position. The Group benchmarks the costs against fair values of comparable investments as of the end of each reporting period, and categorised all fair value measures of bank financial products as Level 2 of the fair value hierarchy because they are valued using directly or indirectly observable inputs in the market place.

(ii) The fair value of unlisted equity instruments is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Fair value measurement (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2021 RMB'000	2020 RMB'000
Unlisted equity securities		
At 1 January	**–**	–
Payment for purchases	**4,298**	–
At 31 December	**4,298**	–

30 COMMITMENTS

Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2021 not provided for in this financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Contracted for	**52,017**	3,900
Authorised but not contracted for	**226,673**	99,378
	278,690	103,278

In addition, the Group was committed at 31 December 2021 to enter no new lease that is not yet commenced (2020: nil).

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2021, transactions with the following parties are considered as related party transaction:

Name of Party	**Relationship with the Group**
Mr. Li Zhijiang	Executive director, and the ultimate controlling party
Ms. Zhang Bin	Executive director, the spouse of Mr. Li Zhijiang
Mr. Zhang Chaoyang	Executive director
Ms. Zhao Xiaohong	Executive director
Ms. Han Yu	Senior management
Ms. Liang Kun	Senior management
Ms. Wang Caimei	Senior management
Ms. Liu Aiguo	Senior management
Ms. Zhou Qunfang	Senior management
Mr. Sun Hanzhong	Senior management
Ximalaya Limited	Controlling shareholder

31 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10 is as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and other emoluments	**7,034**	5,285
Discretionary bonuses	**1,105**	863
Retirement scheme contributions	**15**	28
Equity settled share-based transactions	**349**	660
	8,503	6,836

Total remuneration is included in "Staff costs" (see note 6(a)).

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 24 March 2022, the directors proposed a final dividend. Further details are disclosed in note 12.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2021, the directors consider the immediate parent to be Ximalaya Limited and the ultimate controlling parties of the Group to be Mr. Li Zhijiang. Ximalaya Limited is incorporated in British Virgin Islands and does not produce financial statements available for public use.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statement of financial position

	Note	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current asset			
Interests in subsidiaries		**892,926**	905,483
		892,926	905,483
Current assets			
Other financial assets		**4,298**	–
Cash and cash equivalents		**176,157**	203,051
		180,455	203,051
Current liability			
Accruals and other payables		**98,014**	16,193
		98,014	16,193
Net current assets		**82,441**	186,858
Total assets less current liability		**975,367**	1,092,341
NET ASSETS		**975,367**	1,092,341
CAPITAL AND RESERVES			
Share capital	28(b)	**9,453**	9,451
Reserves	28(c)	**965,914**	1,082,890
TOTAL EQUITY		**975,367**	1,092,341

Approved and authorised for issue by the board of directors on 24 March 2022 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

(Expressed in RMB' 000 unless otherwise indicated)

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts-Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
Amendments to IAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to IAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.