



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



2022
ANNUAL REPORT

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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

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Cricket Square

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KY1-1111

Cayman Islands

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

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China

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUDITOR

KPMG

Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance

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HONG KONG LEGAL ADVISER

Mayer Brown

16th–19th Floors, Prince's Building

10 Chater Road, Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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Cayman Islands

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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

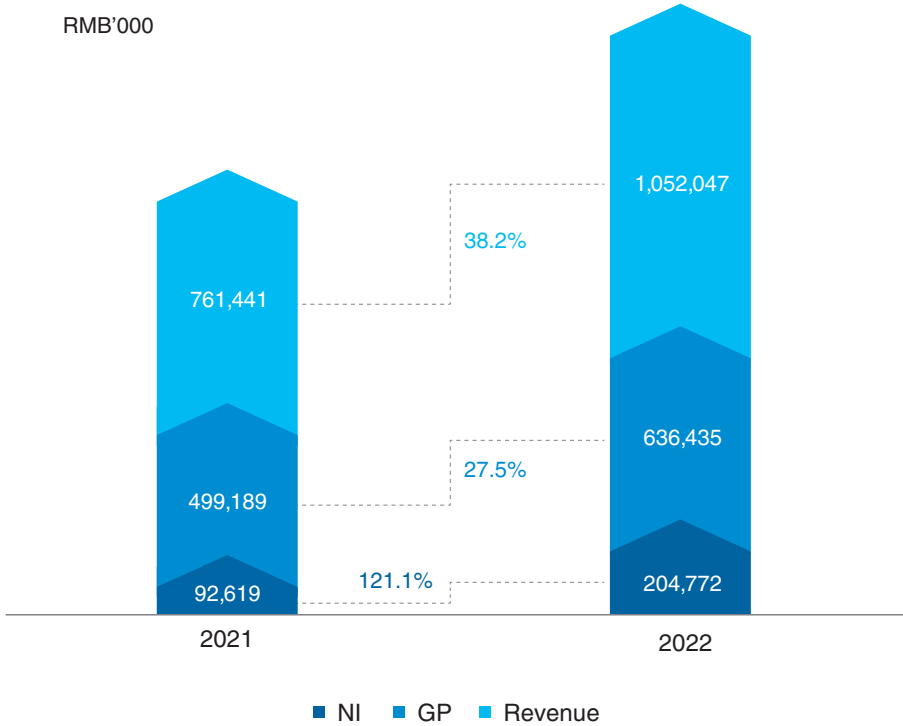
	Year ended 31 December		Variance %
	2022 RMB'000	2021 RMB'000	
Revenue	1,052,047	761,441	38.2%
Gross profit	636,435	499,189	27.5%
Profit for the year	204,772	92,619	121.1%
Profit for the year attributable to equity shareholders of the Company	204,772	92,619	121.1%
Earnings per share			
Basic	RMB0.18	RMB0.08	
Diluted	RMB0.18	RMB0.08	

For the year ended 31 December 2022, the Group achieved revenue of RMB1,052.0 million, representing an increase of 38.2% as compared to 2021. The growth in revenue was mainly attributable to the accelerated import substitution as a result of the volume-based procurement (“VBP”) policy implemented in China since April 2022 and the strong demand for the Group’s products from hospitals. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue. For the year ended 31 December 2022, the Group achieved a net profit of RMB204.8 million, representing a significant increase of 121.1% as compared to the year of 2021, which was primarily due to the growth in revenue stated above, coupled with relatively stable cost and expenses by taking effective cost control measures.

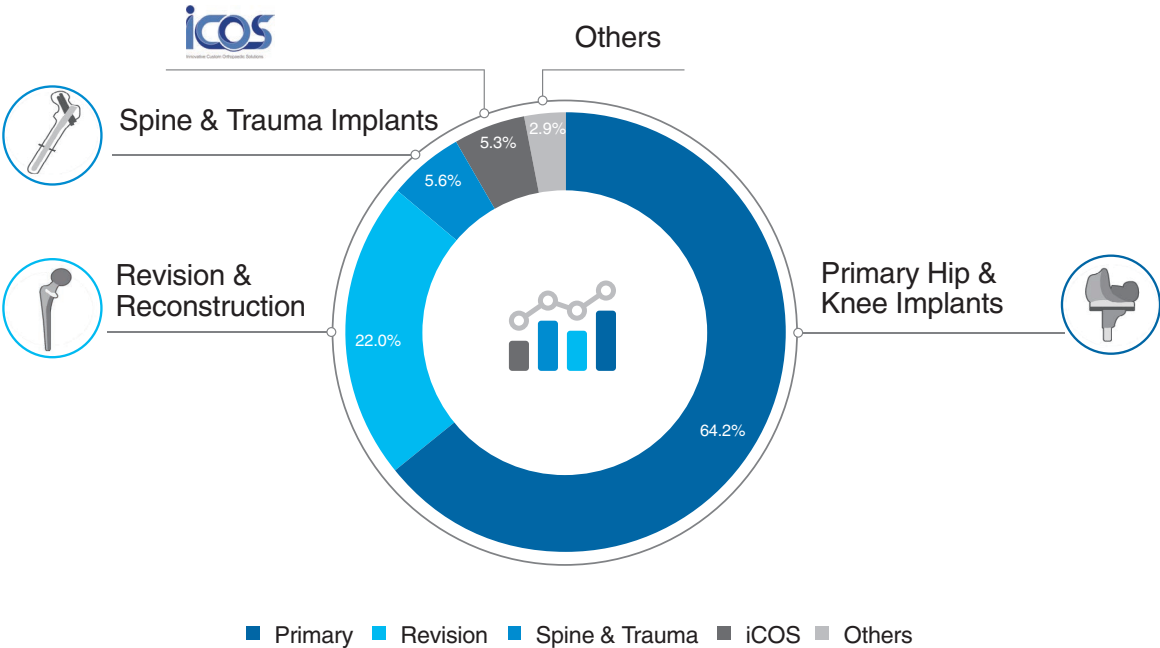
The Directors have resolved to recommend the payment of a final dividend of HK\$6.0 cents per share for the year ended 31 December 2022.

FINANCIAL HIGHLIGHTS

Revenue, GP, NI



Domestic Business Revenue Breakdown



FINANCIAL HIGHLIGHTS

FIVE YEARS' FINANCIAL SUMMARY

	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,052,047	761,441	1,035,386	926,705	600,562
Profit for the year	204,772	92,619	314,007	266,992	144,936
Assets					
Non-current assets	709,135	670,913	624,085	364,167	267,811
Current assets	2,065,357	1,934,371	1,902,821	1,118,059	824,989
Total assets	2,774,492	2,605,284	2,526,906	1,482,226	1,092,800
Liabilities					
Current liabilities	436,384	489,435	417,838	327,877	228,486
Non-current liabilities	94,347	84,298	66,292	38,339	22,556
Total liabilities	530,731	573,733	484,130	366,216	251,042
Total equity	2,243,761	2,031,551	2,042,776	1,116,010	841,758

CHAIRMAN'S STATEMENT



The year of 2022 was a year of accelerating transformation and gaining momentum for AK Medical. In 2022, the result of VBP has been smoothly implemented and the Group's business is in steady transition. The Group's share of the domestic joint market has further increased, with provincial hospital coverage exceeding 90%, continuing to maintain its position as the leading brand of artificial joints in China. The rapid development of the 3D-printed customisation segment has become an important measure to penetrate into high-end hospitals. In 2022, the Group started the construction of a new 3D-printing and intelligent manufacturing base. The construction of the new base will greatly improve the Group's capability to develop new products, accelerate the optimisation of the production capacity layout of each product line and enhance the intelligent manufacturing level of each product line.

In 2022, the Group obtained six new registration certificates for Class-III medical devices approved by the China National Medical Products Administration (the "**NMPA**"), bringing the total number of Class-III medical device registration certificates to 72 and the total number of customised filings to 54. Among them, the certification of hip navigation system VTS marks a new era of intelligent surgical tools for the Group. VTS will help each patient to get their own customized surgical plan, allowing more precise implantation during surgery and thus benefiting more patients. Bone filling materials of the Group received the registration certificate for Class-III medical devices, making it the first biological product to be marketed by the Group. The Group continued to enhance its image of an innovative practitioner in the field of orthopedics, and has accumulated more than 650 patents, making it one of the top three in the list of national invention patents for national-level specialized and new "Small Technology Giants" enterprises in the field of medical devices.

In 2022, despite the severe challenges of the pandemic, we continued to uphold our mission to improve the quality of life of hundreds of millions of patients and ensure the supply of products through closed-loop management of our production system. With our extensive product line and excellent services, the volume of surgeries of products in the scope of VBP increased significantly in hospitals, which compensated for the decrease in the ex-factory price due to VBP. In 2022, the Group achieved sales revenue of RMB1,052.0 million, an increase of 38.2% over the same period last year, and net profit of RMB204.8 million, an increase of 121.1% over the same period last year.

With the steady implementation of the result of VBP, the development of the industry has gradually become clear. Faced with opportunities and challenges, the Group will further enhance our core competitiveness with customized 3D printing technology and products, and serve patients and doctors with precise and intelligent surgical technology, realizing its transition from a product provider to a systematic technology-based enterprise and gradually realizing the vision of becoming a world-class medical device enterprise.

The year 2023 marks the 20th anniversary of the establishment of the Group. During the past 20 years, all employees of the Group have shared the common corporate values through difficult times and worked hard for the mission and vision of the Group. In March 2022, the Group launched a long-term share reward scheme (by utilising the existing share award scheme and share option scheme adopted by the Company). Through the rolling long-term share reward scheme, we enhanced the motivation and creativity of our employees and shared the fruits of corporate development with them.

We are confident that after the national VBP of orthopedic consumables, the Company will further increase its market share and strengthen its leading position in the industry. In the future, the Group will continue to uphold its vision of becoming a world-leading brand, continuously innovating and rewarding its shareholders, customers and society!

BUSINESS OVERVIEW AND OUTLOOK

Overview

In 2022, influenced by multiple factors, the volume of orthopedic surgery fluctuated greatly throughout the year. Since April 2022, the VBP of joint implants has been implemented nationwide based on the bidding results, which has exerted great influence on the whole joint and even orthopedics industry. After the implementation of the VBP policy, there was a small scale boost in the volume of joint surgery, and also accelerated import-substitution strategy. In the fourth quarter in 2022, operations were unable to be performed in hospitals affected by the pandemic, resulting in a decrease in the surgery volume during this period.

Among the VBP of joint plants organized by the National Healthcare Security Administration (“**NHSA**”) in September 2021, the terminal prices of hip and knee implants have decreased by more than 80% on average. Since then, the Company has been facing challenges of rebuilding business model, collaborating the external supply chain and adjusting internal production and operation structure under new price system. On the one hand, the Company has actively coordinated with distributors and timely clarified sales policy to guarantee the supply of products and services after the implementation of VBP. On the other hand, the Company has improved the production and operation capability and enhanced the production efficiency on the premise of ensuring product quality.

The Group has won the bidding in four categories of three brands in the VBP of joints nationwide with the maximum procurement quantity in all brands. Leveraging on its rich product lines and extensive hospital coverage, the Group has seized this great opportunity to improve the market share of joint products and maintained its leading position in orthopedics industry by adjusting the industry competition pattern after implementing the VBP of joint implants. As of 31 December 2022, the Group has realized sales revenue of RMB1,052.0 million with a year-on-year growth of 38.2% and net profits of RMB204.8 million with a year-on-year growth of 121.1%.

Business of Hip and Knee Implants

The business of hip and knee implants includes hip and knee products manufactured by both traditional technology and 3D printing technology. The Group offers customers and patients a full line of joint implants manufactured by different technologies, including hip and knee implants and instruments suitable for primary, complicated, revision and reconstructive operations.

After the implementation of VBP, the volume of primary hip and knee replacement operations using the products of the Group has been increasing rapidly, especially the increase in number of knee replacement operation, which has led to the growth of overall hip and knee implants business. With this VBP, the Group has successfully established partnership with several key Class III A hospitals and enhanced the market share of middle and high-end market. Although the VBP has led to a decrease in the ex-factory price of primary hip and knee joints, the increase in their sales volume have just made up for the drop in prices. Meanwhile, the Group’s extensive product lines have enabled the Company to actively respond to the diversified needs of surgeries. In 2022, the revenues from hip and knee implants received by the Group were RMB921.4 million with a year-on-year growth of 44.7%.

Business of Spine and Trauma Implants

With unique 3D printing technologies, the Group owns a complete line of 3D printed spine products together with conventional spine and trauma product lines, featuring differentiated product portfolio. The Company has not only provided professional solutions for spinal fusion surgeries by making use of 3D printing technology, but also constantly explored the application of 3D printing customization technology in the field of spine and trauma so as to meet customers’ needs.

In September 2022, entrusted by NHTA, the Tianjin Medical Purchasing Center conducted National VBP of Spine Consumables. Spine products of the Group's Libeier and AK brands have won the bidding. In the future, the Company will provide more diversified product sets together with 3D printed products beyond the scope of VBP, so as to increase the volume of operations in the hospital.

In 2022, the Group realized revenues of RMB60.0 million from spine and trauma implants, with a year-on-year decrease of 24.3%.

Customised Products and Services

The customised product is an orthopedic implant manufactured by 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 54 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 2022, the Group's income from customised product and services reached RMB47.0 million, a year-on-year increase of 101.3%.

Research and Development

The Group has been committed to building a R&D system that leads the market trends with its innovative technologies, not only realizing iterative upgrade of product lines within the scope of VBP so as to drive the innovation of joint implants with market demands, but also satisfying clinical differentiation by taking advantages of 3D printing technologies and researching and developing diversified and customized products. Meanwhile, the Company has stepped into the fields of digital intelligent orthopedics and biological materials.

In 2022, the Group has obtained 6 registration certificates of Class III Medical Device approved by NMPA, including TMK tibia spacer of knee joint prostheses, bone filling materials used in the maxillofacial surgery, unicompartment knee joint prostheses, Vitamin E-contained acetabulum lining, half shoulder joint prostheses and navigation system of hip replacement. As of 31 December 2022, the Group has been awarded 72 registration certificates of Class III Medical Device approved by NMPA, 15 CE certificates approved by European regulatory organizations and 2 FDA certificates of the United States.

For innovative products, the certification of high cross-linked polyethylene knee spacer and approval of additional specifications models of ceramic head have enriched the product line of hip and knee joints and provided super-wear-resistant joint friction interface solutions for clinical practice. The approval of certification of unicompartmental condyle prosthesis has filled the gap of knee preservation products, enabling the Company to provide a complete clinical solution for knee replacement systems. Besides, the approval of bone fillers has marked the Company's first biomaterial product that has been introduced successfully. As the first digital surgical device, the approval of the certification of navigation system for hip replacement surgery marked that the Group has officially entered the field of orthopaedic surgical navigational and robotic system.

Further, the Group has formulated ICOS customization process for 3D printing technology to satisfy the increasing needs of hospitals. ICOS customized products have been further enriched and achieved breakthroughs in total ankle solutions. The approval of certificates of 3D printed osteotomy guide plate provides surgical positioning solutions for hip, knee, spine and trauma products and lays a foundation in the development of customized 3D printing tools through digital technologies.

As of 31 December 2022, the Group has obtained 192 patents for invention, 424 patents for utility models and 20 authorized PCT patents. Particularly, Beijing AK R&D Center has won the honorary title of 2022 “Worker Pioneer” in Beijing and Libeier R&D Center has been qualified as 2022 Beijing Outstanding Young Engineer Innovation Studio.

Sales and Marketing

Sales

Along with the successful implementation of national VBP of joints in 2022, AK Medical smoothly transited its overall business and the trend of import substitution has accelerated significantly. A number of breakthroughs have been made during this process. The Company has successfully covered more than 90% of provincial hospitals nationwide through VBP into more hospitals, including but not limited to PLA General Hospital Fourth Medical Center, Peking Union Medical College Hospital, West China Hospital of Sichuan University, The First Affiliated Hospital of Zhejiang University School of Medicine, Qilu Hospital of Shandong University, The Second Xiangya Hospital of Central South University and other key national and provincial hospitals. Besides, the Company has established National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation and National Trauma Center and thus deepened cooperation with national hospitals.

AK brand has further developed in overseas markets, providing foreign customers with stable implants, and the overseas revenues has reached a new high.

In September 2022, the conventional spine products in Libeier and AK brands has won the bidding in spine consumables VBP nationwide, and 3D printed spinal products have further been introduced to more provincial-level hospitals, including more than 30 newcomers.

The Company has constantly provided rich product lines and comprehensive solutions to satisfy diversified needs of clinical operations and maintained customers' loyalty. Integrating AK, Libeier, ITI and JRI, the Company has responded to different market demands in a more flexible way and can meet the needs of customers at different levels.

Marketing

In 2022, the Group made active preparation for the implementation of joint VBP. Based on clinical needs, the Company has constantly launched new products and differentiated academic activities of market and maintained its leading position as a solution provider for the full line of hip and knee products. Moreover, the Company has carried out “Master Plan”, “Knee and Hip Joint Series Seminar”, “Pathways” and other famous academic projects and cooperated with “National Health Commission Capacity Building and Continuing Education Center” to conduct “Research on Building Capacity of Application of Digital Orthopedic Technology”, for the purpose of promoting the construction of national intelligent medical system and strengthening the application of AI, surgical robot, 3D printing and other digital technologies in medical industry. The Group is dedicated to creating a 3D platform mode integrating innovative product platform, internationally advantageous technology platform and customer platform, promoting surgeon education projects in new products, new technologies and new surgical methods and building an international academic exchange platform at different levels and in different directions.

Product Level:

The Company has introduced several new products this year:

- 1) **3D Printing Bone Fillers:** Relying on the accumulated 3D printing technology, the Company has introduced a wide range of bone fillers, not only enhancing the overall stability, but also promoting long-term bone integration between implants and sclerotin; in inclusive bone defect, non-inclusive bone defect, osteoporosis, local hardening with non-inclusive bone defect and revision bone defect and other clinical applications, it has retained more bone tissues and provided more reliable and long-term support for joint prosthesis.
- 2) **First Domestic high-cross-linked Dual-system Knee Unicondyle Replacement System:** The product system is composed of movable platform and fixed platform, which can meet different clinical indications, and that has enriched the product line of AK knee joints and further enhanced product advantages of knee joints of AK Medical.
- 3) **3D ACT Dual Mobility Total Hip System:** As the first 3D printing total hip product, the product is able to provide greater dislocation distance and reduce the probability of dislocation. The flexible design in screw setting has improved the instant stability of acetabular cup.
- 4) **SR II Congenital Hip Production System:** AK Medical has teamed up with orthopedic experts in China to develop the SR II congenital hip product system for patients with congenital hip dysplasia. This revolutionarily improved design of the 3D printed congenital acetabular cup system allows COC interface to be chosen for 40mm acetabular cup, which has effectively reduced the difficulty of congenital hip operation and enhanced the surgical efficacy of the patient. Together with SR II femoral stem, this acetabular cup has formed the congenital hip product system, reaching the leading level of similar products.
- 5) The Group has launched the first domestic Visual Intelligent Assistance System for Joint Replacement – Visual Treatment Solution (the “**VTS**”) system. The system combines 3D printing digital technology with visual intelligent assistance technology to adapt to the complex working environments in hip arthroplasty, and assists the whole process from preoperative CT data processing and 3D surgical planning to intraoperative real-time visualized tracking and acetabulum prosthesis implantation. The VTS system is a solution to preoperative planning and visualized real-time monitoring relying on surgeon – engineer interaction, aiming to improve the surgical performance and clinical efficacy of total hip arthroplasty.

Academic Platform:

- 1) Relying on the platform of National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation, the Company has cooperated with experts from member hospitals of “Multi-center Project post Marketing of SR II Congenital Hip System Product” to launch a systematic course of “The Way to Congenital Hip Dislocation” for difficult surgical technologies of congenital hip dysplasia so as to promote doctors’ comprehensive improvement in disease, surgical technology and patient management.
- 2) Relying on the famous academic platform Pathways, the Company has established an academic exchange platform for both Chinese and foreign doctors. This year, the Group has completed three Pathways academic activities, inviting domestic R&D experts to give academic lectures on international platforms with more than 25,000 Chinese doctors attending this activity. Pathways activities have promoted the international academic exchanges and enhanced the popularity of AK Medical academic brand.

- 3) In 2022, based on Master Plan platform, the Group continued to carry out a number of academic activities on product promotion and training of hip and knee revision both online and offline, which are aimed at improving doctors' professional level. Relying on established provincial training centers, nearly 300 key hospitals are covered.
- 4) On the "Knee and Hip Joint Series Seminar", the Group has designed a series of training courses for doctors in respect of complex and revised surgical techniques, to improve doctor's surgical skills and enhance patients' clinical efficacy. This year, the Group has held more than 40 academic activities, covering primary and complex operations, revision and bone reconstruction on hip and knee joints with more than 300,000 doctors being trained.

Prospect

With the alleviation of COVID-19 pandemic and implementation of VBP nationwide, the uncertainty of China's orthopedic industry will be eliminated and its development will be resumed gradually. The Group will make strategic adjustments in a timely manner to adapt to the industry changes after VBP, including but not limited to:

1. Further promote the commercial application of 3D printed products led by 3D Printing Customized Technology

3D printing technology has always been one of the core advantages of the Group, and we are currently the only one in China with 3D printing customized registration certificate. With increasingly strict requirements of doctors and patients on products and enhanced demand in personalization, customized products will have broader application prospect. Furthermore, 3D printed customized products will achieve commercial application and provide more clinical potential in the subdivision of small joints of extremities, spine and trauma.

2. Improve the market share of middle and high-end market with technology and services and consolidate the dominant position in mass markets

As a domestic brand with long history, the Group has always committed to occupying a large share in the market. In the VBP nationwide, the Group has obtained the largest share in hospital submitted amount by virtue of the Group's brand and channel advantages. In the future, the Group will focus on key hospitals with advanced technologies and professional services through diversified academic and market activities, seize the opportunity of import substitution brought by VBP and consolidate the dominant position in the market.

3. Maintain the Group's leading position in domestic orthopedics industry and strengthen the Group's image as an innovative practitioner of orthopedics

As a leading brand in domestic joint field, the Group is building product strategies including "Joint Master" and "Spinal Fusion Master" to meet clinical needs with excellent products and increase the Group's market share in orthopedics. Meanwhile, the Group will continue to promote the commercialization of digital orthopedic technology, step into new field of biological materials, deepen cooperation with basic research institutions and strengthen its image as an innovative practitioner of orthopedics.

FINANCIAL REVIEW

Overview

	Year ended 31 December		Variance %
	2022 RMB'000	2021 RMB'000	
Revenue	1,052,047	761,441	38.2%
Gross profit	636,435	499,189	27.5%
Profit for the year	204,772	92,619	121.1%
Profit for the year attributable to equity shareholders of the Company	204,772	92,619	121.1%
Earnings per share			
Basic	RMB0.18	RMB0.08	
Diluted	RMB0.18	RMB0.08	

For the year ended 31 December 2022, the Group achieved revenue of RMB1,052.0 million, representing an increase of 38.2% as compared to 2021. The growth in revenue was mainly attributable to the accelerated import substitution as a result of the VBP policy implemented in China since April 2022 and the strong demand for the Group's products from hospitals. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue.

In April 2022, following the implementation of the nationwide VBP policy for joint implants, the Company recorded a significant growth in sales of hip and knee implants within the scope of VBP. At the same time, the Company's aggressive market expansion efforts and the launch of new products effectively drove revenue growth in revision replacement implants and ICOS customised products and value-added surgical services. In addition, overseas sales grew significantly in 2022. Along with the significant growth in revenue, the Group's net profit for the year ended 31 December 2022 increased significantly by 121.1% as compared to 2021. The significant increase in net profit was primarily due to the growth in revenue stated above, coupled with relatively stable costs and expenses by taking effective cost control measures.

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

Revenue

	Year ended 31 December		Variance %
	2022 RMB'000	2021 RMB'000	
Hip replacement implants ⁽¹⁾	654,999	469,493	39.5%
Knee replacement implants ⁽²⁾	266,415	167,385	59.2%
Spinal and trauma implants ⁽³⁾	60,006	79,320	-24.3%
Customised products and services ⁽⁴⁾	46,952	23,319	101.3%
Others ⁽⁵⁾	23,675	21,924	8.0%
Total	1,052,047	761,441	38.2%

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 products and services;
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

The revenue of the Group amounted to RMB1,052.0 million for the year ended 31 December 2022, representing a substantial increase of 38.2% as compared with RMB761.4 million for the year ended 31 December 2021. The increase in revenue was mainly attributable to the national VBP policy for joint implants driving sales of the hip and knee replacement implants within the scope of VBP. At the same time, the extensive product lines of the Group effectively met the needs of the differentiated market, further contributing to the growth in sales revenue.

Hip and Knee Implants Products

The Group's hip and knee replacement implants products include knee replacement implants and hip replacement implants as well as 3D-printed hip and knee replacement implants.

For the year ended 31 December 2022, hip replacement implants registered a revenue of RMB655.0 million, representing an increase of 39.5% as compared to that of RMB469.5 million for the year ended 31 December 2021. For the year ended 31 December 2022, knee replacement implants registered a revenue of RMB266.4 million, representing an increase of 59.2% as compared to that of RMB167.4 million for the year ended 31 December 2021.

In 2022, supported by the VBP policy for joint implants implemented throughout the country, the volume of hip and knee implants of the Group's brand has increased dramatically, and thus led to significant increase in the sales revenue of the Company. At the same time, with the Company's aggressive market expansion efforts and the launch of new products, the sales revenue of revision joint system achieved substantial growth.

Spinal and Trauma Implants Products

The Group's 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 2022, the Group's spinal and trauma implants products registered a revenue of RMB60.0 million, representing a decrease of 24.3% as compared to that of RMB79.3 million for 2021. The Company's innovative and functional 3D printing technology facilitated the continuous expansion of its spinal product line, which has been highly recognised by the market and have further facilitated the implantation of 3D spinal products, resulting in an increase in sales of 3D spinal products. Nevertheless, due to the imminent implementation of the national VBP policy for spinal consumables, distributors have postponed imports of Libeier-branded spinal implants within the scope of the VBP policy. At the same time, the Company made a provision of RMB20.0 million of discount of future sales price in relation to certain specific Libeier-branded spinal products, which offset the revenue growth of 3D spinal products.

Customised products and services

Customised products and services include revenue from customised joint, pelvis, spinal and trauma implants products and customised surgical value-added services. In 2022, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully develop customised surgeries in a number of hospitals, resulting in a significant growth of 101.3% in revenue from customised products and services as compared to that for 2021.

Others

Others primarily include revenue from surgical instruments, medical irrigators and third party orthopaedic products. For the year ended 31 December 2022, others recorded a revenue of RMB23.7 million, representing an increase of 8.0% as compared to that of RMB21.9 million for the year ended 31 December 2021.

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 our sales revenue from China and the overseas is as follows:

	Year ended 31 December		Variance %
	2022 RMB'000	2021 RMB'000	
China	886,318	631,131	40.4%
Other countries	165,729	130,310	27.2%
Total	1,052,047	761,441	38.2%

The Group's sales revenue derived from the overseas for the year ended 31 December 2022 was approximately RMB165.7 million, representing a substantial increase of 27.2% as compared with the year ended 31 December 2021. This was mainly due to an increase in the number of surgeries resulted from the active exploration in overseas markets by the Company in 2022. The revenue from China for the year ended 31 December 2022 was RMB886.3 million, representing a substantial increase of 40.4% as compared to the year ended 31 December 2021. This was mainly affected by the increase in sales of joint implants.

Cost of Sales

For the year ended 31 December 2022, the cost of sales was RMB415.6 million, representing an increase of 58.5% as compared with RMB262.3 million for the year ended 31 December 2021. The increase in cost of sales was primarily due to an increase 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 increased by 27.5% to RMB636.4 million for the year ended 31 December 2022 from RMB499.2 million for the year ended 31 December 2021. The substantial increase in gross profit was primarily due to an increase in the Group's revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 60.5% for the year ended 31 December 2022, representing a decrease of 5.1% from 65.6% for the year ended 31 December 2021. Since April 2022, the implementation of the national VBP policy for joint implants resulted in a decrease in the sales price of hip and knee implants within the scope of VBP, which led to a decrease in gross profit margin. There was no significant change in gross profit margin for other products except for the change in gross profit for the hip and knee implants within the scope of VBP.

Other Income, net

The Group's other income for the year ended 31 December 2022 was RMB11.2 million, representing an increase of RMB5.2 million as compared with RMB6.0 million for the year ended 31 December 2021. Other income in 2022 was primarily from government grants and subsidy for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB180.1 million for the year ended 31 December 2022, representing a decrease of 3.9% as compared with RMB187.3 million for the year ended 31 December 2021. In 2022, the Company continued to actively carry out marketing activities and promotions of customised products and renovated products as well as trainings on new products. Due to the pandemic, some offline marketing activities were postponed.

General and Administrative Expenses

General and administrative expenses amounted to RMB118.3 million for the year ended 31 December 2022, representing an increase of 12.3% as compared with RMB105.3 million for the year ended 31 December 2021. The increase was mainly due to the increase in equity-settled share-based payment expenses in the current year and provision for credit losses based on the ageing and balance of receivables.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2022 was RMB110.9 million, representing a decrease of 1.9% as compared with RMB113.1 million for the year ended 31 December 2021. In 2022, the Company continued to actively invest in research and development, strengthen the construction of its research and development team, and actively advance research and development projects and the development of new products.

Net Finance Income

Net finance income was RMB20.3 million for the year ended 31 December 2022, representing an increase of RMB11.2 million from RMB9.1 million for the year ended 31 December 2021. Such increase was primarily attributable to the significant increase in interest income and the impact of exchange rate movements resulting in an increase in foreign exchange gains.

Goodwill

In 2022, there was an indication of impairment of goodwill formed on the acquisition of JRI due to the impact of the pandemic as well as policy and other factors. As at the end of 2022, the Group made a full provision of RMB18.4 million for impairment of goodwill arising from the acquisition of JRI.

Income Tax Expenses

Income tax expense was RMB35.5 million for the year ended 31 December 2022, representing an increase of 122.8% as compared with RMB15.9 million for the year ended 31 December 2021. Such increase was primarily attributable to the increase in profit before tax.

Liquidity and Financial Resources

As at 31 December 2022, the Group had cash and cash equivalents of RMB625.8 million, structured deposit of RMB416.6 million, time deposits over 3 months of RMB30.0 million and export-related performance bonds of RMB10.9 million, amounting to RMB1,083.3 million in aggregate, as compared with RMB952.6 million as at 31 December 2021. 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 RMB1,629.0 million as at 31 December 2022, representing an increase of RMB184.1 million as compared with RMB1,444.9 million as of 31 December 2021. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currency of the operations to which the transactions relate generating from overseas sales and purchases. Foreign currency exposure is currently concentrated in USD and EUR. For the year ended 31 December 2022, the Group recorded a net exchange gain of RMB4.7 million, as compared with an exchange gain of RMB1.7 million for the year ended 31 December 2021. 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 2022, the Group's total capital expenditure amounted to approximately RMB142.3 million (as of 31 December 2021: RMB106.1 million), which was primarily used in (i) plant construction; (ii) purchase of patents; and (iii) procurement of equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As of 31 December 2022, the Group pledged a deposit of RMB10.9 million in the pledged deposits account for the processing of performance bonds in relation to export operations. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2022, 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 2022, the gearing ratio of the Group was 0% (as of 31 December 2021: nil).

Contingent Liabilities

As of 31 December 2022, the Group did not have any material contingent liabilities (as of 31 December 2021: nil).

Significant Investments

As of 31 December 2022, the Group did not hold any significant investments in any other equity interests.

Future Plans for Material Investments and Capital Assets

As of 31 December 2022, the Group had no other plans for material investments and capital assets except for the construction of a new office park in Changping New Town East District, which, expectedly will use internal resources, external resources, or a combination of both to fund such plan.

Employee and Remuneration Policy

As of 31 December 2022, the Group had 1,034 employees (31 December 2021: 908 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2022 amounted to RMB206.0 million (for the year ended 31 December 2021: RMB204.5 million).

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.

On 31 March 2022, the Company offered to grant 8,582,362 share options under the share option scheme and 838,784 shares under the share award scheme, respectively, to selected employees of the Group.

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 who and 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\$470.3 million). All the net proceeds were fully utilized as at 31 December 2022.

Subsequent Event

As of date of this annual report, the Group had no material events since 31 December 2022.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 55, 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 55, 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 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 53, 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 45, is an executive Director of the Company, primarily responsible for overseeing the marketing and 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 (王國璋), aged 61, 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), a director of Gaush Meditech Ltd. (a company listed in Hong Kong Stock Exchange, stock code: 2407) and a director of 四川百利天恒藥業股份有限公司 (a company listed in Shanghai Stock Exchange, stock code: 688506). 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 47, 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 the chairman of the Audit Committee and a member of each of 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 the chairman of the audit committee of New Hope Service Holdings Limited (stock code: 03658), an independent non-executive director and the chairman of the audit committee of Beijing Capital Jiaye Property Services Co., Limited (stock code: 02210), and an independent non-executive director and the chairman of the 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 and an independent non-executive director of Aowei Holding Limited (stock code: 01370) from June 2013 to March 2021. 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 Sustainability Accounting Standards Board's (SASB) 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 (李樹榮), aged 58, 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. Dr. Li was appointed as an Adjunct Associate Professor of The Chinese University of Hong Kong since 1 August 2022.

Mr. Eric Wang, aged 55, 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 & Thibault 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 49, 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 50, 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 40, 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 38, 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 52, 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.

REPORT OF THE DIRECTORS

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 2022.

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 implementation of the result of VBP on joint products speeded up the import substitution, which brought the large growth in sales volume of the Group’s product. For the year ended 31 December 2022, the Group achieved revenue of RMB1,052.0 million, representing an increase of 38.2% as compared to 2021, and a net profit of RMB204.8 million, representing a significant increase of 121.1% as compared to the year of 2021.

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 19 of this annual report.

An analysis of the Group’s performance during the year ended 31 December 2022 using financial key performance indicators is provided in the section headed “Financial Highlights” on page 4 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

In late 2022, the Chinese government adjusted its policy on the prevention and control of the COVID-19 pandemic. Due to the increase in the number of infection cases nationwide, the normal operation of orthopedic surgeries in hospitals was affected to some extent in early 2023. Although hospitals have gradually resumed normal operation from February as the outbreak subsided, we cannot rule out the risk of the pandemic getting worse and the resulting negative impact on surgical volumes of hospitals.

Policy risk

In September 2021, the NHSA organized the first nationwide VBP of hip and knee implants, and the result of the VBP was implemented nationwide in April 2022. The Company’s end-use surgical volume has also increased rapidly. The results of this round of VBP are valid for two years, and it is expected that the NHSA will organize another renewed bid for hip and knee implants at the end of 2023. There is a certain extent of uncertainty about the price of the products that will be awarded again.

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 as 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 2022, 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 2022, 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 RMB78,000 during the year ended 31 December 2022.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2022 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\$6.0 cents per ordinary share for the year ended 31 December 2022 (2021: HK\$2.5 cents) to the shareholders whose names appear on the register of members of the Company on Wednesday, 28 June 2023. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "AGM") to be held on Thursday, 15 June 2023, will be payable on or around Tuesday, 18 July 2023.

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 Monday, 12 June 2023 to Thursday, 15 June 2023, 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 Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Friday, 9 June 2023.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Monday, 26 June 2023 to Wednesday, 28 June 2023, 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 Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Friday, 23 June 2023.

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 2022, the Group has no borrowings.

PLEDGE OF ASSETS

As of 31 December 2022, the Group pledged a deposit of RMB10.9 million in the pledged deposits account for the processing of performance bonds in relation to export operations. 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 2022, sales to the Group's five largest customers accounted for approximately 20.5% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB65.7 million, which amounts to approximately 6.2% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 38.6% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB46.8 million, which amounts to approximately 13.7% 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 2022.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2022 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 2022 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

At 31 December 2022, 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 RMB1,027.6 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. Li Zhijiang, Ms. Zhang Bin and Ms. Zhao Xiaohong 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 2022, 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.

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.

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 2022.

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 2022.

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 2022 or at any time during the year ended 31 December 2022. 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 2022 or at any time during the year ended 31 December 2022.

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 2022. 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 2022 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 2022, 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	2,660,304 (L)	0.24%

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 1,115,750,000 shares in issue as at 31 December 2022.
- (3) 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) 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) Ms. Zhao Xiaohong directly holds options to subscribe for 1,000,000 shares of the Company pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 660,304 shares of the Company pursuant to the Share Option Scheme and 1,000,000 shares in the Company.

Save as disclosed above, as at 31 December 2022, 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 2022, 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	505,157,500 (L)	45.28%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin	Interest of controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	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 1,115,750,000 shares in issue as at 31 December 2022.
- (3) 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) 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 2022, 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

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 2022.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2022 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 2022.

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.

The eligible participant under the Pre-IPO Share Option Scheme are the full-time employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or the full-time employees of any of the subsidiaries of the level of manager or above and other full-time employees of our Company or any of the subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to our Company and/or any of the subsidiaries.

Except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so has been terminated upon the listing of the Company. As at 31 December 2022, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 8,425,000, representing approximately 0.76% of the shares of the Company in issue.

There is no maximum entitlement of each participant under this scheme. 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 exercise price was determined after taking into account (i) the exercise price per Share shall not be less than the par value of such Share; and (ii) subject to paragraph (i), the Board shall determine the exercise price at its sole discretion.

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**").

HK\$1.00 was payable upon acceptance by each grantee as consideration for grant of the options.

The Pre-IPO Share Option Scheme commences on the listing date of the Company (i.e. 20 December 2017) and ends on the tenth anniversary of the listing date (both dates inclusive).

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 2022 to 31 December 2022 (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 2022	Granted during the Reporting Period	Exercised during the Reporting Period	Weighted average closing price of the shares immediately before the date the options were exercised	Vesting period and performance targets	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Outstanding as at 31 December 2022	Exercise period of share options	Exercise price of the share options	Closing price of the shares immediately before the date on which the options were granted
Director												
Zhao Xiaohong	17/11/2017	1,000,000	0	0	0	See paragraph (bb) above	0	0	1,000,000	10 YEARS	HK\$1.34	N/A (Note 1)
Senior Management and Other Employees of the Group												
Senior Management and Other Employees	17/11/2017	8,025,000	0	50,000	HK\$6.10	See paragraph (bb) above	550,000	0	7,425,000	10 YEARS	HK\$1.34	N/A (Note 1)
Total		9,025,000	0	50,000	HK\$6.10		550,000	0	8,425,000			

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 (Note 2)

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**”).

Note 1: as such options were granted before listing, no closing market price is available.

Note 2: as the existing Share Option Scheme was adopted before the new Chapter 17 of the Listing Rules became effective on 1 January 2023, certain terms of the existing Share Option Scheme may not be in full compliance with the new Chapter 17 of the Listing Rules. The Company shall comply with the transitional arrangements for share schemes existing as at 1 January 2023, including but not limited to Share grants to eligible participants (with the amended definition under Rule 17.03A).

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

91,620,253 ordinary shares and 8.21% 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 17.03(D) 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/vesting 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 vested and 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.

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|----|---|--|
| 8. | Basis of determining the exercise price | <p>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:</p> <ul style="list-style-type: none"> (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. |

On 31 March 2022, the Company granted 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;
- (iii) 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 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.

The details of movement in the options granted under the Share Option Scheme during 2022 by category of grantees are set out below:

Category and name of grantee (Note 1)	Share options outstanding as at 1 January 2022	Date of grant of share option	Outstanding as at 1 January 2022	Granted during the year ended 31 December 2022	Exercised during the year ended 31 December 2022	Weighted average closing price of the shares immediately before the date the options were exercised	Lapsed during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Share options outstanding as at 31 December 2022	Vesting period (Note 2)	Exercise price of share options	Exercise price of the share options	Closing price immediately before the date of grant
Director													
Zhao Xiaohong	0	31/3/2022	0	660,304	0	N/A (Note)	0	0	660,304	(i) 132,061 on 31/3/2023; (ii) 132,061 on 31/3/2024; (iii) 198,091 on 31/3/2025; (iv) 198,091 on 31/3/2026.	10 years	HK\$4.66	HK\$4.66
Senior Management and Other Employees of the Group													
Senior Management and Other Employees	0	31/3/2022	0	7,922,058	0	N/A (Note)	202,615	0	7,719,443	(i) 1,584,412 on 31/3/2023; (ii) 1,584,412 on 31/3/2024; (iii) 2,376,617 on 31/3/2025; (iv) 2,376,617 on 31/3/2026.	10 years	HK\$4.66	HK\$4.66
Total	0		0	8,582,362	0		202,615	0	8,379,747				

Notes:

- (1) Save for the above disclosed, there is no other category of persons that is granted with share options and is required to be disclosed pursuant to Rule 17.07 of the Listing Rules.
- (2) The vesting is conditional upon the achievement or attainment of certain performance targets by the Company and the respective grantee.

Please refer to Note 25 – Equity Settled Share-Based Transactions to the Consolidated Financial Statements for details of the fair value of the options and the accounting standard and policy adopted.

Saved as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2022.

As of 1 January 2022 and 31 December 2022, the number of options available for grant under the Share Option Scheme were 100,000,000 and 91,620,253, respectively.

The number of the Shares that may be issued in respect of the options and awards granted under Pre-IPO Share Option Scheme, Share Option Scheme and the Share Award Scheme during the year ended 31 December 2022 is 16,804,747. The dilutive effect of such is 1.48%, being the number of Shares may be issued divided by the weighted average number of Shares for the same period.

Note: as no options were exercised during the period, such information is not available.

SHARE AWARD SCHEME (Note)

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:

1. Purpose & administration 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.

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.

2. Participants 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.

Note: as the existing Share Award Scheme was adopted before the new Chapter 17 of the Listing Rules became effective on 1 January 2023, certain terms of the existing Share Award Scheme may not be in full compliance with the new Chapter 17 of the Listing Rules. The Company shall comply with the transitional arrangements for share schemes existing as at 1 January 2023, including but not limited to Share grants to eligible participants (with the amended definition under Rule 17.03A).

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.

- | | |
|--|--|
| 3. Total number of Shares available for issue under the Share Award Scheme together with the percentage of the issued shares that it represents as at the date of this annual report | The total number of Shares available to be subscribed for and/or purchased by the Trustee by applying the Group contribution for the purpose of the Share Award Scheme is 110,797,177, representing 9.93% of the total number of issued Shares as at the date of this annual report. 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. |
| 4. Maximum entitlement of each participants | 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. |
| 5. Period within which a elected Participant may accept offer of award | The Board shall notify the Selected Participant in writing after an award has been provisionally made to such Selected Participant and the notice shall contain substantially the same information as that set out in the award notice provided that nothing contained in such notice shall be construed as conferring any rights, interests, benefits and title to and in the awarded Shares on such Selected Participant before the vesting of the legal and beneficial ownership of such awarded Shares in the Selected Participant in accordance with these rules of the Scheme. An award shall be deemed to be irrevocably accepted by a Selected Participant unless the Selected Participant shall within five (5) Business Days after receipt of such notice from the Board notify the Company in writing that he would decline to accept such award. |
| 6. Vesting period of awards granted under the Share Award Scheme | 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, 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.

7. Amount, if any, payable on application of the award and the period within which payments or calls must or may be made or loans for such purposes must be repaid

There is no specific amount on application or acceptance of the award of the Share Award Scheme.

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.

8. Basis of determination of the purchase price of shares awarded

It is intended that the shares under the Share Award Scheme will be offered to the Selected Participants for no consideration subject to the compliance with the relevant laws and regulations, acceptance by the Selected Participants and the vesting period and conditions to be decided by the Board at the time of grant of award under the Share Award Scheme.

9. Remaining life 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.

During the financial year ended 31 December 2022, there were 6,524,000 Shares held in trust by the trustee 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.

Details of the movement of the awarded Shares during the year ended 31 December 2022 are set out in the table as follows:

Name of Grantees	Date of Grant	Purchase Price	Closing price of the awarded Shares immediately before the date of grant	Fair value of the awarded Shares at the date of grant	Vesting Period	Awarded Shares outstanding or unvested as at 1 January 2022	Granted during the year ended 31 December 2022	Vested during year ended 31 December 2022	Weighted average closing price of the awarded Shares immediately before the date the awarded Shares were vested	Lapsed during year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Awarded Shares outstanding or unvested as at 31 December 2022
Directors												
Nil ⁽¹⁾												
5 highest paid individuals (in aggregate)	31/3/2022	0	HK\$4.66	HK\$4.52- HK\$4.64	31/03/2023- 31/03/2026 ⁽²⁾	0	170,586	0	N/A ⁽³⁾	0	0	170,586

Name of Grantees	Date of Grant	Purchase Price	Closing price of the awarded Shares immediately before the date of grant	Fair value of the awarded Shares at the date of grant	Vesting Period	Awarded Shares outstanding or unvested as at 1 January 2022	Granted during the year ended 31 December 2022	Vested during the year ended 31 December 2022	Weighted average closing price of the awarded Shares immediately before the date the awarded Shares were vested	Lapsed during the year ended 31 December 2022	Cancelled during the year ended 31 December 2022	Awarded Shares outstanding or unvested as at 31 December 2022
Employees (in aggregate)	31/3/2022	0	HK\$4.66	HK\$4.52-HK\$4.64	31/03/2023-31/03/2026 ⁽²⁾	0	668,198	0	N/A ⁽¹⁾	85,961	0	582,237
Total		0				0	838,784	0		85,961	0	752,823

Notes:

- (1) No awarded Share was granted to any director of the Company during the year ended 31 December 2022. There was no outstanding or unvested awarded Share in favour of any director of the Company as at 31 December 2022.
- (2) The Trustee shall hold the awarded Shares in trust for the Selected Participants, and shall transfer such awarded Shares to the Selected Participants at nil consideration until and upon satisfaction of the following vesting period and conditions:
- (i) 167,757 Awarded Shares, representing 20% of the total Awarded Shares granted, will be vested on 31 March 2023 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant;
 - (ii) 167,757 Awarded Shares, representing 20% of the total Awarded Shares granted, will be vested on 31 March 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant;
 - (iii) 251,635 Awarded Shares, representing 30% of the total Awarded Shares granted, will be vested on 31 March 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant; and
 - (iv) 251,635 Awarded Shares, representing 30% of the total Awarded Shares granted, will be vested on 31 March 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant.
- (3) As no awards were vested during the period, such information is not available.

Saved as disclosed above, no awarded Share was granted, exercised, lapsed or cancelled during the year ended 31 December 2022.

As of 1 January 2022 and 31 December 2022, the number of awards available for grant under the Share Award Scheme were 111,550,000 and 110,797,177, respectively.

Please refer to Note 25 – Equity Settled Share-Based Transactions to the Consolidated Financial Statements for details of the fair value of the awards and the accounting standard and policy adopted.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2022, 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 2022.

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 20-25 of this annual report.

PUBLIC FLOAT

Based on 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 Thursday, 15 June 2023. The notice of AGM will be sent to shareholders in the manner required by the Listing Rules, the Company's Articles of Association and/or the laws of Cayman Islands.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 49-66 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 2022 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 2022.

SUBSEQUENT EVENTS

No material events have occurred since 31 December 2022.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2022. 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, 27 March 2023

CORPORATE GOVERNANCE REPORT

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 2022 in the Company’s annual report for the year ended 31 December 2022.

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately; and
- that high standards of ethics are maintained.

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 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**”).

The Board is of the view that throughout the year ended 31 December 2022, the Company has complied with the code provisions as set out in the CG Code, except for code provision C.2.1.

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 2022.

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 assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

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 20-25 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 20-25.

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:

Name of Directors	Attendance/Number of Meetings	
	Board Meetings	Annual General Meeting
Executive Directors		
Mr. Li Zhijiang (<i>Chairman</i>)	4/4	1/1
Ms. Zhang Bin	4/4	1/1
Mr. Zhang Chaoyang	4/4	1/1
Ms. Zhao Xiaohong	4/4	1/1
Non-executive Director		
Dr. Wang David Guowei	4/4	1/1
Independent Non-executive Directors		
Mr. Kong Chi Mo	4/4	1/1
Dr. Li Shu Wing David	4/4	1/1
Mr. Eric Wang	4/4	1/1

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code 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 2022, 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 2022. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism during the year which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. During the year ended 31 December 2022, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

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 2022 are summarized as follows:

Name of Directors	Attending Internally- facilitated Briefings or Training, Attending seminars, Reading materials
Executive Directors	
Mr. Li Zhijiang (<i>Chairman</i>)	✓
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 2022, 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 twice during the year ended 2022.

The attendance record of each Director at the said Audit Committee meetings of the Company held in 2022 is set out in the table below:

Name of Directors	Attendance/ Number of Meetings
Mr. Kong Chi Mo (<i>Chairman</i>)	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-executive 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 review and/or approve matters relating to share schemes under chapter 17 of the Listing Rules;
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 2022 is set out in the table below:

Name of Directors	Attendance/ Number of Meetings
Dr. Li Shu Wing David (<i>Chairman</i>)	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 2022 is set out below:

Annual Income	Number of Persons
Below RMB500,000	5
RMB500,000 to RMB999,999	5
Over RMB1,000,000	3

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Directors are determined with reference to his/her role and duties, experience and responsibilities as well as the prevailing market conditions and are subject to revision in future by the decision of the Board based on the recommendation of the Remuneration Committee. The remuneration for the independent non-executive Directors mainly comprises Director's fee which is determined with reference to his duties and responsibilities.

During the year, the remuneration committee reviewed and approved matters relating to the share schemes of the Company, which mainly comprises of the grant of the share options and share awards on 31 March 2022.

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 2022 is set out in the table below:

Name of Directors	Attendance/ Number of Meetings
Mr. Li Zhijiang (<i>Chairman</i>)	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 are of the view that the current composition of the Board has achieved the objectives set out in the Board Diversity Policy and considered that the Board is sufficiently diverse.

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

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this Annual Report:

	Female	Male
Board	25% (2)	75% (6)
Senior Management	80% (4)	20% (1)
Other employees	35% (357)	65% (668)

The Board had targeted to achieve and had achieved at least 25% (2 persons) of female Directors, 80% (4 persons) of female senior management and 35% (357 persons) of female employees of the Group and considers that the above current gender diversity is satisfactory.

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 nomination 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 process set out in the Director Nomination Policy is as follows:

Appointment of New Director

- (i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- (ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- (iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- (iv) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

Re-election of Director at General Meeting

- (i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.
- (ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.
- (iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Nomination Committee will renew 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 2022, 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 2022.

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 from time to time during the year for the year ended 31 December 2022, 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 also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees can also make reports to the internal anti-corruption department/internal audit function, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity ensure the effectiveness of anti-corruption and anti-bribery.

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 2022.

The Directors have prepared the financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

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 124 to 131 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 2022 is set out below:

Service Category	Fees Paid/Payable
	RMB
Audit Services	3,926
Non-audit Services	–
Total	3,926

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

COMPANY SECRETARY

Ms. Han Yu has been appointed as the Company's company secretary. All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters. Ms. Han Yu 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 2022, Ms. Han Yu has 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.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. 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.

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 amended its Articles of Association to bring in line with core shareholder protection standards as set out in Appendix 3 of the Listing Rules which took effect on 1 January 2022, to allow a general meeting to be held as an electronic meeting (also referred to as virtual general meeting) or a hybrid meeting and to make certain minor housekeeping amendments. Details of the amendments are set out in the circular dated 29 April 2022 to the shareholders. 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 established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

(a) Enquiries about Shareholdings

The Board will maintain an on-going dialogue with the shareholders and will review shareholders' communication policy regularly to ensure its effectiveness. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders will be provided with designated contacts, email addresses and enquiry telephone number of the Company in order to enable them to make any query in respect of the Company.

(b) Corporate Communication

"Corporate Communication" as defined under the Listing Rules will be provided to shareholders in plain language and in both English and Chinese versions to facilitate the shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the Corporate Communication (in hard copy or through electronic means). Shareholders are encouraged to provide, among other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

(c) Corporate Website

A dedicated investor relations section is available on the Company's website at <http://ak-medical.net>. Information on the Company's website is updated on a regular basis. Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc. All presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website. All press releases and shareholders' newsletters will be made available on the Company's website.

(d) Shareholders' Meetings

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Appropriate arrangements for the annual general meetings will be in place to encourage shareholders' participation. The process of the Company's general meeting will be monitored and reviewed on a regular basis, and if necessary, changes will be made to ensure that shareholders' needs are best served. Board members, in particular, the chairmen of Board committees or their delegates, appropriate senior management and the external auditors will attend annual general meetings to answer Shareholders' questions. Shareholders are encouraged to attend shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products and services will be communicated.

(e) Shareholder Privacy

The Company recognizes the importance of shareholders' privacy and will not disclose shareholders' information without their consent, unless required by law to do so.

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

1. ABOUT AK MEDICAL

1.1 Statement of the Board

“Striving to improve the quality of life for hundreds of millions of patients”, AK Medical has continuously promoted the sustainability of the Group’s business and has established a comprehensive ESG governance system, proactively assuming responsibilities for environmental and social issues such as green healthcare and benefiting the public, and enhancing the integration of ESG with the Company’s major businesses to a strategic planning level.

The Board of AK Medical is the highest governance body for Group’s ESG matters, and is responsible for formulating the overall ESG strategies and assumes full responsibility for the annual ESG reporting. In order to effectively fulfill the management and supervision responsibilities of the Board on environmental, social and governance issues, the Company’s executive director and senior vice president is specifically responsible for and implements various ESG resolutions of the Board, reviews ESG risks and monitors the development of specific ESG issues. In 2022, 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 ESG 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 analysis results of AK Medical’s materiality issues in 2022, 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 annual ESG report, which will ultimately be reviewed by the Board to ensure the authenticity and effectiveness of information disclosure.

In 2022, the Company continued to optimize the identification and assessment of the risks of climate change. Climate scenario analysis was used to identify and develop response measures to climate risks that have a potential impact on the Company, and environmental targets covering carbon emissions and energy consumption and safety production target were set for actively carrying out of energy saving, emission reduction and safety production actions. The Company will regularly monitor and review the progress of achieving 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 2022, and was reviewed and approved by the Board on 27 March 2023. 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 several and joint responsibilities for the truth, accuracy and completeness of the content.

1.2 About AK Medical

1.2.1 Corporate Profile

As a leading company in the orthopedic implants industry in China, AK Medical is the first application of 3D printing technology in the field of orthopaedics in China. In August 2015, the first 3D printing product-the 3D ACT artificial hip system was clinically validated and approved for market launch, and all of the relevant core technologies are proprietary intellectual property.

The Physician-Technician Interaction 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, shorten the operation time and improve the accuracy of operations to provide effective protection for the safety of patients.

Over the past decade, AK Medical has completed a number of customised prosthetic replacements based on 3D ACT technology, including artificial atlantoaxial vertebrae (artificial vertebrae), total cervical vertebrae, multi-segment thoracolumbar vertebrae, artificial elbow joint, artificial wrist joint, total knee joint, artificial total sacrum and hemi-pelvis (sacroiliac joint to pubic bone), providing surgeons with anatomical reconstruction solutions based on the concept of precision medicine.

Becoming a leader in the orthopedic field in China is a long-term strategic goal of AK Medical. In 2018, AK Medical took a major step forward in the development of artificial joint surface technology and overseas markets expansion through the acquisition of JRI in the UK; the acquisition of Libeier under Medtronic in early 2020 is another major step in the Company's footprint on the spine and trauma field.

1.2.2 Business Composition of the Company

1.2.2.1 AK Medical Beijing

Established in 2003, Beijing AK Medical Co., Ltd. is a core subsidiary of AK Medical, a company listed on the main board of Hong Kong.

Over the past decade, with the aim of providing service that exceeds customer expectations, the company has focused its main business on the orthopedic implant industry and the application of 3D printing technology in orthopedics, especially focus on the research and development, production and sales of artificial joint implant products, auxiliary devices and emerging technologies applied in related fields. In the field of traditional artificial joints, the company has formed product lines including primary replacement of knee and hip joints, severe deformity, and complicated lesions, and revision surgery, providing a comprehensive solution for clinical applications.

1.2.2.2 ITI Medical

Established in March 2016, ITI Medical Co., Ltd. is a wholly-owned subsidiary of jointly formed by AK Medical International Limited and Bright AK Limited with a registered capital of US\$13.2 million, a total investment of US\$39.6 million and a total gross floor area of 35,000 square meters.

The company mainly manufactures three types of medical devices, including orthopedic artificial joints and its ancillary products, as well as oral and related biomaterial products. It is a high-tech enterprise focusing on the research and development, production, sales and service of artificial joints and ancillary surgical instruments. Upon completion, the project will have an annual production capacity of 500,000 to 600,000 sets of artificial joints, making it one of the largest production bases for artificial joints in Asia and globally.

1.2.2.3 JRI

JRI Orthopaedics Ltd is a manufacturer of orthopedic implants and surgical instruments in the UK. Based in Sheffield, the company has modern facilities and undertakes research, product development, customer service, marketing, warehousing and distribution functions.

JRI was founded in 1970 by Mr. Ronald Furlong, a Fellow of the Royal College of Surgeons, and is best known in the world for the first Furlong Hydroxyapatite Ceramic (H-A.C.) coated total hip replacement. Today, the Furlong hydroxyapatite ceramic-coated total hip replacement has been clinically successful worldwide with new products continue to be developed and introduced.

1.2.2.4 Libeier

Beijing Libeier Bio-engineering Institute Co., Ltd is a high-tech orthopedic enterprise specializing in the research and development, production and sales of spinal and trauma implants products and assistive devices.

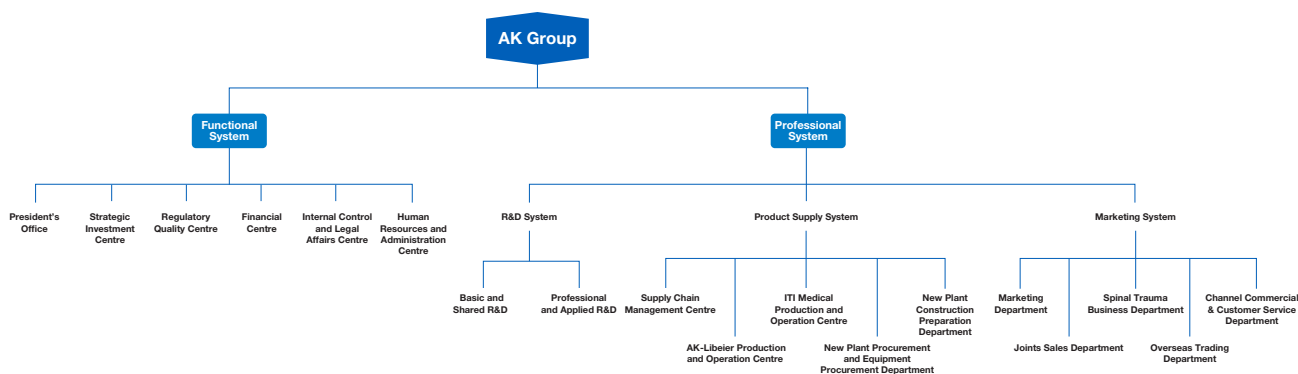
Libeier was founded in 1996. Since then, it has made the best effort to build an advanced product production line to align with international standards. Libeier’s production equipment and raw materials are of the best international quality, and with the international management team which is committed to operational excellence, Libeier is able to optimize our manufacturing process, continue to improve product process and produce quality products to serve patients worldwide. In 2020, Libeier joined the Group and became a new force of the Company.

1.2.3 Corporate Structure

The day-to-day operation and production management of AK Medical Group is divided into two major systems: functional and professional.

The functional system consists of six functional departments, including the President’s Office, the Strategy and Investment Centre, the Regulatory and Quality Centre, the Finance Centre, the Internal Control and Legal Centre and the Human Resources and Administration Centre, which provide efficient back-office support for the daily operations of the entire Group.

The professional system consists of R&D, product supply and marketing, which are the core strength of the Company’s product development, production and delivery to customers, forming a complete treatment chain, which benefits patients with orthopedic diseases.



1.3 ESG Highlights in 2022

Indicator Dimension			Performance Highlights
Governance	ESG governance	Business ethics	<ul style="list-style-type: none"> No significant risk on corruption identified in the operation sites
Environmental	Green healthcare	Tackling climate change	<ul style="list-style-type: none"> Photovoltaic project of ITI Medical, a subsidiary of AK Medical, reduced CO2 equivalent emissions by approximately 582 tons
		Resources usage	<ul style="list-style-type: none"> ITI Medical, a subsidiary of AK Medical, is promoting the reuse of substrate materials by re-processing and reusing the substrates of 3D printing products that were previously discarded after use. Around 140 substrates have been reused
Social	Product responsibility	Innovation and R&D	<ul style="list-style-type: none"> 192 invention patents, 424 utility model patents and 20 granted PCT patents
		Product quality	<ul style="list-style-type: none"> All four subsidiaries of AK Medical obtained ISO13485:2016 medical device quality control system certification No product recall incidents occurred due to quality issues such as safety and health
	Sustainable supply chain	Supply chain management	<ul style="list-style-type: none"> The proportion of Category A suppliers who have entered into the anti-corruption agreement with AK Medical Beijing, Libeier and ITI Medical reached 100%,87% and 80%, respectively
	Employee first	Occupational health and safety	<ul style="list-style-type: none"> The number of employees who died for work purpose in the past three years is 0 During the pandemic, AK Medical cared for the mental health of its staff by providing a mental health self-help booklet to all staff
			Employee empowerment
	Benefit the public	Social responsibility	<ul style="list-style-type: none"> The total amount spent by AK Medical on social welfare projects such as doctor training and academic research activities reached RMB1,100,000 From the tender results of the 2021 VBP which have been successively implemented by the provinces in April 2022, AK Medical was ranked first among all brands with approximately 81,000 units signed

2. GOVERNANCE

2.1 ESG Governance

Overview	In the face of increasingly stringent corporate governance compliance requirements, AK Medical maintains a strong commitment to and a fundamental belief in compliance with the law, and adopts a “zero tolerance” attitude towards any illegal or non-compliant behavior. We actively promote corporate integrity, a culture of cleanliness and compliance, and an open and transparent business environment
SDGs	<ul style="list-style-type: none"> • 8-Decent work and economic growth • 9-Industry, innovation and infrastructure • 10-Reduced inequality • 16-Peace, justice and strong institution
GRI	<ul style="list-style-type: none"> • GRI 205: Anti-corruption
HKEx	<ul style="list-style-type: none"> • Aspect B7: Anti-corruption
Key performance	<ul style="list-style-type: none"> • 0 significant corruption risks identified at operating sites

2.1.1 Overall Approach to ESG Governance

In accordance with the Company’s internal ESG Working Group Management Measures, AK Medical has formed a three-tier management structure of “**Board of Directors – ESG Working Group – Functional Departments and Subsidiaries**” to carry out its ESG governance work.

The Board of Directors is the highest level of responsibility and decision-making body for ESG-related matters of the Company and is fully responsible for the formulation of the Company’s ESG strategy, the management and supervision of ESG matters, and review of the annual ESG report. The Board discusses ESG-related matters annually, reviews significant ESG issues, assesses and defines the ESG-related risks faced by the Company, so as to ensure the effective implementation of risk management and the effective operation of the internal control system.

The ESG Working Group is the coordinating body for the Company's ESG efforts, with Ms. Zhang Bin, an executive director and senior vice president of the Company, as the top responsible person, and the heads of various business units of the Company as members. The ESG Working Group is responsible for implementing the ESG strategy approved by the Board, coordinating and managing the day-to-day ESG work, conducting ESG-related training, preparing annual ESG reports in collaboration with external experts, and evaluating the progress of ESG implementation and reporting to the Board on a regular basis.

All functional departments and subsidiaries together constitute the executive body for ESG work, implementing the Company's ESG requirements, organizing ESG-related training, collecting and reporting ESG information, and reporting regularly to the ESG Working Group.



2.1.2 Business Ethics

2.1.2.1 Anti-corruption

AK Medical complies strictly with the anti-bribery and anti-corruption laws and regulations of the People's Republic of China and other countries where it operates, and has established relevant rules and regulations in accordance with the requirements of the laws and regulations, including documents such as the Anti-Corruption Staff Integrity Management System (《關於反貪腐員工廉潔的管理制度》) and the Staff Integrity Management and Reporting Protection Incentives (《員工廉潔管理及舉報保護獎勵辦法》). Subsidiaries have also responded positively to AK Medical's efforts to combat bribery and corruption, such as the Anti-Corruption and Anti-Bribery Policy (《反腐敗和反賄賂政策》) formulated by JRI, which proposes a zero-tolerance approach to bribery and corruption and a commitment to act professionally, fairly and honestly in all business relationships.

In order to strengthen anti-corruption education, the Company arranges anti-bribery and anti-corruption training for all employees and Board members every year, and emphasizes the relevant rules and regulations in the Anti-Corruption Staff Integrity Management System (《關於反貪腐員工廉潔的管理制度》) during the induction training for new employees. In 2022, JRI conducted a total of 47 hours of anti-corruption training for all staff.

In order to improve the standard of supplier management and to eliminate any form of bribery, the Company's procurement department has formulated the AK Medical Supplier ESG Statement (《愛康醫療供應商 ESG 聲明》), which requires all suppliers who signed the agreement to comply with anti-bribery and anti-corruption rules and regulations. In 2022, AK Medical Beijing, Libeier and ITI medical achieved 100%, 87% and 80% of our Category A suppliers signed the AK Medical Supplier ESG Statement (《愛康醫療供應商 ESG 聲明》).

The Company also conducts annual evaluations of the anti-corruption governance initiatives carried out by its business units and plant operations, etc. The results of these evaluations are used to continuously refine relevant measures to further reduce the risk of corruption. In 2022, no significant risks of corruption were identified at any of the Company's operating sites and no incidents of corruption relating to the Company's employees or suppliers occurred.

¹ AK Medical classifies the materials purchased, contract manufacturing or services provided into two categories, A and B, based on their importance to the subsequent product realization or final product quality, with the provision of important raw materials, contract manufacturing or special service processes as Category A suppliers.

2.2 Stakeholders Engagement and Communication

ESG work has always been a key focus of communication between AK Medical and its stakeholders. Our stakeholders mainly include government and regulatory authorities, shareholders and investors, directors, supervisors and senior management (directors, supervisors and senior management of the Company), employees, pipeline distributors, customers, partners, suppliers, the community and the public, the media, and non-profit organizations. Through regular communication with various stakeholders, we gain insight into their needs and expectations in order to identify and respond positively to our substantive ESG issues.

Stakeholders	Expectations	Communication methods
Government and regulatory authorities	Implement national policies and laws and regulations Promote local economic development Create local employment Promote health protection for people’s livelihood	Roadshow Report submission Advice and suggestions Special reports
Shareholders/investors	Increase the level of ESG information disclosure Promote product innovation and research Guarantee product quality Align the interests of shareholders with those of employees	Company announcement Special report Field trip
Directors, supervisors and senior management	Compliance operation Promote diversity and inclusion Develop ESG planning Promote product innovation and research	Special reports
Employees	Improve the working environment Guarantee staff benefits Staff rights	WeChat public account Staff Communication Meeting Employee engagement survey questionnaire – Q12 Collective negotiation Democratic communication platform Remuneration committee

Stakeholders	Expectations	Communication methods
Distributors	Profit protection Product promotions Quality assurance	Product training Customer needs survey and patient's follow-up Regular customer visit Distributor meeting Business communication Customer feedback Communication and discussion Negotiation and cooperation
Customers	Quality assurance	Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities Database construction (patient data collection)
Partners	Legal compliance Win-win cooperation	Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities
Suppliers	Win-win cooperation Product enrichment Promoting sustainable development High-end innovative products	Email Telephone Online meeting Offline visiting Negotiation and cooperation Bidding platform

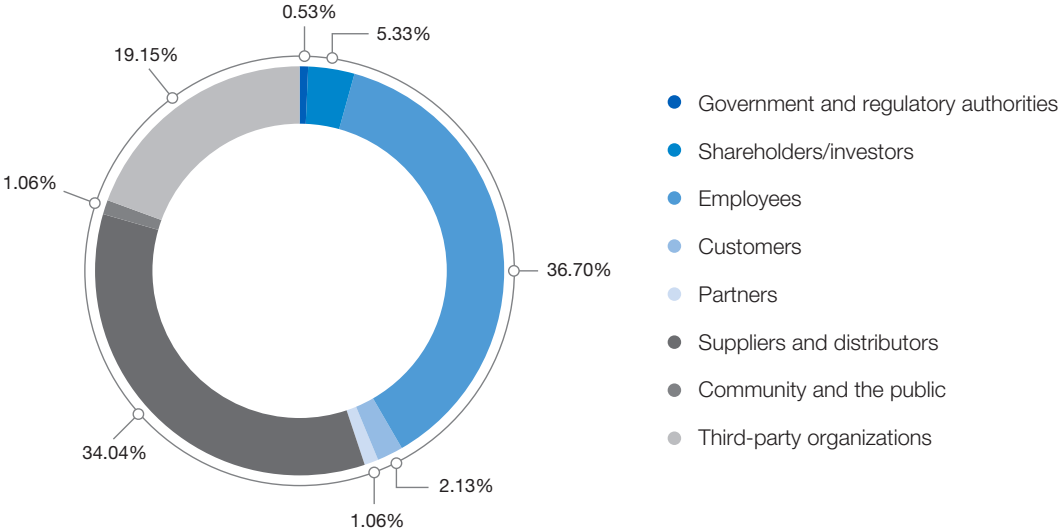
Stakeholders	Expectations	Communication methods
Communities and the public	Customer focus Product quality improvement Price concession	Company website Company announcement Interview and communication
Media	R&D and innovation	Roadshow activities
Non-profit organizations	R&D and innovation People-oriented	Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities

2.3 Materiality Assessment

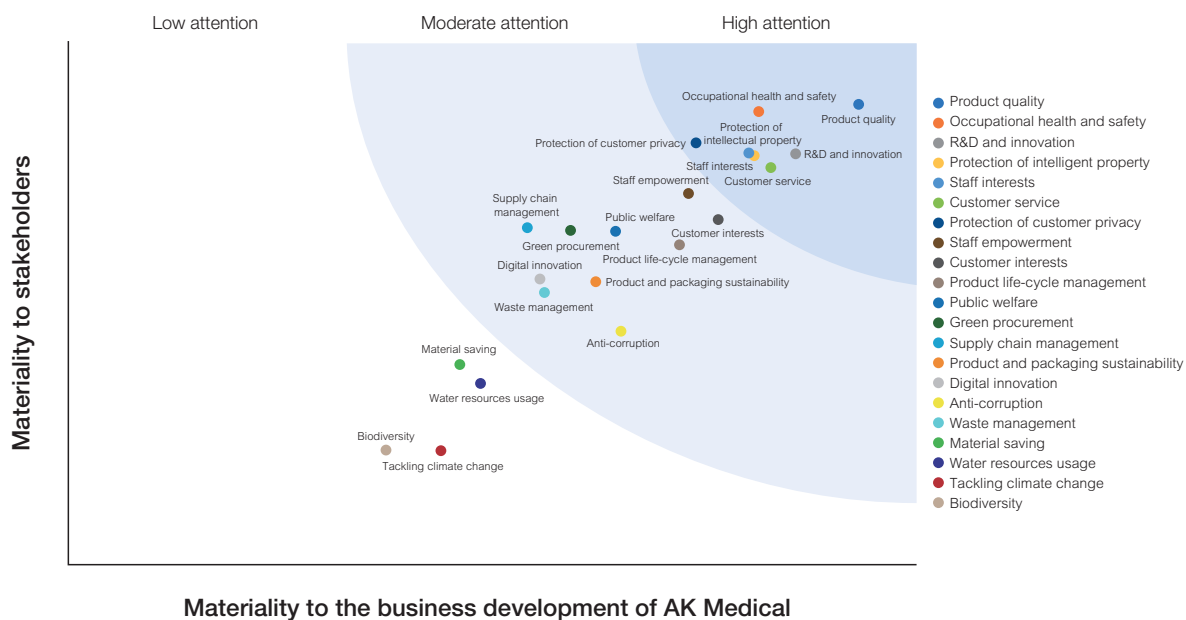
To ensure that AK Medical’s priorities are aligned with those of our stakeholders, we need to assess the materiality of ESG issues.

In the evaluation, the Company first identifies ESG issues that have a material impact on the Company’s business and stakeholders based on the characteristics of the medical device industry, and then sifts through interviews with stakeholders and questionnaire surveys to identify issues of importance to stakeholders and analyses these issues to determine the priority of material issues.

In the course of preparing this report, the Company conducted a questionnaire survey on substantive issues through its online platform and received 188 questionnaires from stakeholders, including customers, investors, employees and suppliers. This questionnaire is an important input to the assessment of substantive corporate issues.



Through senior management input and an extensive stakeholder survey, AK Medical has determined the level of significance of the material ESG issues identified, which will be used as the basis for a more efficient allocation of resources to drive the development of ESG priorities for sustainable business growth.



3. ENVIRONMENT

3.1 Green Healthcare

Overview	<p>AK Medical recognises that responding to climate change and its impacts has become a top corporate priority. We are proactive in responding to the country's dual carbon targets and are committed to sustainable development by regulating our emissions management, improving energy and resource efficiency and promoting green office practices.</p>
SDGs	<ul style="list-style-type: none"> • 6-Clean water and sanitation • 7-Affordable and clean energy • 12-Responsible consumption and production • 13-Climate action • 14-Life below water • 15-Life on land
GRI	<ul style="list-style-type: none"> • GRI 301: Materials • GRI 302: Energy • GRI 303: Water and effluents • GRI 304: Biodiversity • GRI 305: Emissions • GRI 306: Waste
HKEx	<ul style="list-style-type: none"> • Aspect A1: Emissions
Key performance	<ul style="list-style-type: none"> • AK Medical's subsidiary, ITI Medical photovoltaic project reduced CO2 equivalent emissions by approximately 582 tons • AK Medical's subsidiary ITI Medical promotes the reuse of substrate materials by reworking and reusing 3D printed product substrates that were previously discarded after use, and 140 substrates have been reused

3.1.1 Tackling Climate Change

We have published four categories of climate-related information, namely 'governance', 'strategy', 'risk management' and 'metrics and targets', as recommended by the Task Force on Climate-Related Financial Disclosure (TCFD).

3.1.1.1 Governance

AK Medical's governance structure for climate change related matters follows the overall ESG governance approach in this report and is overseen and managed by a three-tier management structure of "**Board of Directors of the Company – ESG Working Group – Functional Departments and Subsidiaries**".

The Company's Board of Directors is the highest level of responsibility and decision-making body on climate change-related matters and has full responsibility for overseeing the approval of the Company's climate change issues, including the development of strategies, management policies and monitoring of performance targets. The Board discusses the risks and opportunities of climate change and strategic changes on an annual basis, and guides the assessment of the Company's climate related risks and financial impacts as part of its future considerations.

The ESG Working Group, comprising Ms. Zhang Bin, an executive Director and senior vice president of the Company, as the most responsible person, and members from various business units of the Company, identifies and evaluates climate related risks and opportunities, formulates management policies to address climate change, is responsible for setting and regularly reviewing the Company's environmental objectives, and regularly reports to the Board on the Company's climate change related situation.

Each functional department and subsidiary complies with and implements the relevant management policies on climate change, and promotes the implementation of relevant projects in accordance with the environmental objectives set.

3.1.1.2 Strategy

With the implementation of climate related policies and regulations, AK Medical believes that climate change should be taken into account in the Company's strategic objectives to reduce the impact of climate change. We have developed our objectives and response strategy based on the mainstream international scenario analysis pathway and implemented the strategy under the management oversight of the ESG Working Group with the approval of the Board. Our climate action strategy aims to gain competitive advantage by adjusting our operating model, setting climate targets and adapting to changes in climate policy.

Scenario analysis helps AK Medical to understand the potentially significant impacts of climate change on our business, which in turn forms references for our strategy and planning. The scenarios we use are based on publicly available climate scenarios from several authorities, including the International Energy Agency (IEA), Network for Greening the Financial System (NGFS) and the United Nations Intergovernmental Panel on Climate Change (IPCC), which builds the Shared Socio-Economic Pathways (SSPs). The scope of this scenario analysis includes the core businesses under our operational control.

Climate Scenario Analysis

Emission scenarios	Low emission scenario (less than 2°C)	Medium emission scenario (2-3°C)	High emission scenario (greater than 3°C)
	<ul style="list-style-type: none"> RCP 1.9 NZE2050 (Net zero emissions by 2050) Orderly pathways SSP1 – sustainability development 	<ul style="list-style-type: none"> RCP 6.0 IEA stated policies scenario SSP2 – middle of the road development 	<ul style="list-style-type: none"> RCP 8.5 IEA stated policies scenario Greenhouse world SSP5 – relied or fossil-fueled development
Assumptions in emission scenarios	<ul style="list-style-type: none"> Increase in the share of renewable energy in global electricity supply to over 60% by 2030 Increasingly stringent government policies and a carbon price of US\$162 per ton Significant increase in public and private investment in green technology 	<ul style="list-style-type: none"> Increase in the share of renewable energy in global electricity supply to over 49% by 2030 Government commenced to levy carbon emission tax, carbon price reached US\$52 per ton Slightly increase in public and private investment in green technology 	<ul style="list-style-type: none"> Still relies heavily on fossil fuels for energy No carbon price or carbon tax Insufficient investment in green and low carbon related areas Frequency of extreme weather events

3.1.1.3 Risk Management

The climate scenario analysis balanced different scientifically based scenarios, comparing best and worst case scenarios, and allowed us to think deeply about the climate change risks and opportunities that could affect our business operations and value chain.

With the help of external experts, AK Medical's ESG Working Group conducted an industry-level risk review, identified a number of climate-related risks that could affect the Company's business under these scenarios, developed a list of risks and took proactive action to address potential climate change impacts.

Risk List

Risk Category	Name of risk	Description of risks	Key affected value chain segments		Timeframe of risk occurrence		Risk level	Countermeasures
				Impact on business				
Physical risks	Acute risks	Impact of extreme weather: the frequency of extreme weather events such as typhoons and extreme rainfall is increasing.	Material supply Production and operation Finished product storage and transportation	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.	Short-term	High	<ul style="list-style-type: none"> Establish an early warning and response 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 	
	Chronic risks	Sea level rise: Higher mean sea levels will lead to more frequent flooding, which will result in the risk of seawater intrusion and even inundation of coastal cities.	Material supply Product development Production and operations	Sea level rise could lead to more frequent flooding, which could in turn affect our ITI Medical Equipment Ltd. and warehouse depot in Changzhou, Jiangsu, disrupting its operations and potentially causing damage to facilities and equipment.	Medium to long term	High	<ul style="list-style-type: none"> Establish an early warning and response mechanism for natural disasters, fully taking into consideration the operating conditions in extreme weather; Insure critical equipment in the plant 	

Risk List

Risk Category	Name of risk	Description of risks	Key affected value chain segments	Impact on business	Timeframe of risk occurrence	Risk level	Countermeasures
Transition risks	Policy and legal risks	Environmental information disclosure: International and domestic regulators and the exchanges are increasing their requirements for companies to disclose environmental information.	legal compliance	The Company will be subject to compliance risk if it does not disclose such information as required.	Short-term	High	<ul style="list-style-type: none"> The Company pays attention to and studies the existing environmental and carbon disclosure policies, and adjusts its response strategy in a timely manner in accordance with the policies and regulations
		Carbon market operations: The industry in which the business operates is included in the carbon market in which carbon pricing is applied.	Production and operations	The companies so included are under significant pressure to reduce their carbon footprint and face penalties if they do not meet their contractual obligations.	Medium to long term	Medium	<ul style="list-style-type: none"> The Company monitors the latest carbon market conditions and adjust its response strategies in a timely manner
	Technology risks	Increased competition from peers: Environmental and low-carbon technologies are widely adopted in the industry.	Product research and development	Competitive pressure may lead to market share compression and capture.	Medium to long term	Low	<ul style="list-style-type: none"> Use of renewable materials in product packaging
	Reputation risks	Challenged by the public: Amid widespread concern over climate change, the Company's environmental performance is under close scrutiny of stakeholders such as regulators, investors, customers and the public.	Marketing	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.	Medium	Medium	<ul style="list-style-type: none"> Comprehensively and systematically organize our operations and adopt energy-saving and emission reduction measures in product procurement, production and transportation Regularly disclose our strategies and other information related to climate change

Risk List

Risk Category	Name of risk	Description of risks	Key affected value chain segments	Impact on business	Timeframe of risk occurrence	Risk level	Countermeasures
	Risk of market changes	Changing investor's investment preferences: Growing investor demand for green and low-carbon finance and investment.	Legal compliance	Companies with poor ESG performance may be removed from investors' portfolios.	Short to medium term	Medium	<ul style="list-style-type: none"> Active communication with investors Release of ESG reports and other disclosure documents
		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.	Marketing	Company may experience loss in market share if the carbon footprint of its products is high.	Medium	Low	<ul style="list-style-type: none"> Understand customers' preferences for low carbon consumption in customer communication and develop strategies to address them Disclosure of carbon reduction targets and progress through our own channels (e.g. ESG reports, official website, etc.)

3.1.1.4 Metrics and Targets

The Company reports to its stakeholders about the progress of tackling the challenges brought by climate change with indicators and targets set. AK Medical has set a 2030 emissions reduction target, committing to a 32% reduction in carbon intensity by 2030, using 2020 as the base year. In addition, the Company is also taking action to continue to drive its emissions reduction efforts through stringent energy consumption management in key areas such as production and operations, and by increasing the share of green energy in its energy system.

AK Medical Emission Reduction Targets by 2030

Name of Indicator	Type of target	Base year (2020)	Target year (2030)	Reduction rate	Actions taken
Scopes 1 and 2 emission of greenhouse gas	Intensity	0.042 tons CO ₂ e/RMB10,000	0.030 tons CO ₂ e/RMB10,000	32%	<ul style="list-style-type: none"> Strict controls on energy use for production and office use Rolling out photovoltaic projects to promote green energy use

AK Medical emission reduction progress¹

Name of Indicator	2022	2021 ²	2020 ²
Scope 1 (direct emissions) (tons of CO ₂ equivalent) ³	68.6	71.6	128.2
Scope 1 (direct emissions) emission intensity (tons of CO ₂ equivalent per RMB10,000) ⁴	0.0007	0.0009	0.0012
Scope 2 (indirect emissions) (tons of CO ₂ equivalent) ⁴	4,291.7	3,911.7	4,196.2
Scope 2 (indirect emissions) emission intensity (tons of CO ₂ equivalent per RMB10,000)	0.04	0.051	0.041
Total (tons of CO ₂ equivalent)	4,360.3	3,983.3	4,324.4
Total emission intensity (tons of CO ₂ equivalent per RMB10,000)	0.041	0.052	0.042

¹ The scope of greenhouse gas emissions for AK Medical in 2022 covers the manufacturing plants and office buildings of AK Medical Beijing, ITI Medical, Libeier and JRI. Scope 1 greenhouse gas emissions covers petrol; Scope 2 greenhouse gas emissions covers purchased electricity and heating.

² There were errors in Scope 1 greenhouse gas emissions and emission intensity due to discrepancy in the gasoline consumption statistics for 2021 and 2020, which has been corrected in this report.

³ Scope 1 greenhouse gas emissions are converted to fossil fuel CO₂ emissions in accordance with the "Guidelines on Provincial Greenhouse Gas Emission Inventory".

⁴ In the process of accounting for greenhouse gas emissions in Scope 2, domestic electricity emissions are discounted in accordance with the Notice on the Management of Greenhouse Gas Emissions Reporting by Enterprises in the Power Generation Industry for the Period 2023-2025, while heating emissions are discounted in accordance with Beijing's local standard DB11/T 1784-2020 "Carbon Dioxide Emission Accounting and Reporting Requirements for the Thermal Power Production and Supply Industry". Electricity and heating in the UK are converted to electricity and heat CO₂ emissions according to the UK Government's Conversion factors 2022: condensed set (for most users).

3.1.2 Use of Resources

The main products of AK Medical are orthopedic products, which consume less energy and resources. In the course of production and daily operation, the types of energy we consume include electricity, and gasoline and the major types of resources we consume include water, and 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 complied with the relevant laws and regulations in the places where it operates, and actively aligned 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.

3.1.2.1 Energy

In terms of energy use, the Company has set energy use related targets for 2030 based on its business development plan and operational characteristics through analysis of historical environmental data and future development forecasts, committing to a 31% reduction in electricity consumption intensity by 2030 using 2020 as the base year. During the Reporting Period, AK Medical also further expanded its use of renewable energy, increasing by 71% to 1,020,285kWH.

AK Medical Energy Use Targets by 2030

Type of Target	Base year (2020)	Target year (2030)	Reduction
Electricity intensity	58.3 kWh/RMB10,000	40.5 kWh/RMB10,000	31%

AK Medical Energy Usage Progress

Type of Indicator	2022	2021	2020
Total energy consumption	10,331,902.6kWH	5,429,767.9WH	6,561,091kWH
Energy consumption intensity	98.2kWH/RMB10,000	71.3kWH/RMB10,000	63.4kWH/RMB10,000
Renewable energy use	1,020,285kWH	595,036kWH	/

In addition to setting overall energy usage targets, AK Medical is also actively promoting the use of green energy in its production and operations by using a combination of new energy sources such as photovoltaic systems.

ITI Medical photovoltaic project case study:

ITI Medical has installed a decentralised photovoltaic plant on the roof and structures of the company. The actual installed capacity of the photovoltaic plant is 0.72MWp, using 2,177 units of components supplied by Znshine Solar Technology Co. Ltd., 8 sets of inverters supplied by Ningbo Jinlang New Energy Technology Co., Ltd. and 1 set of grid-connected cabinet supplied by Changzhou Guoneng Electric Co., Ltd. The DC power generated by the components is inverted by the inverter and then connected to the grid connection cabinet, where it is integrated into the Company’s internal grid through the grid connection switch. In 2022, the total amount of electricity generated by the photovoltaic system was 1,020,285 kWh, which reduced approximately 582 tons of CO2 equivalent emissions.

In terms of energy management, the Company has set energy consumption targets, established a sound energy statistics system and energy consumption records, regularly analysed and at the same time supervised and checked the economic and rational use of electricity by various departments; maintained balanced, stable and co-ordinated production and operations to avoid energy losses and wastage; and put key management efforts on major energy-consuming equipment to ensure the full and effective use of energy resources and reduce production costs. In addition, the Company is constantly improving its production processes and adopting new technologies, materials and equipment to continuously reduce the set target for energy consumption.

3.1.2.2 Water Resources

The Company is constantly improving its water resource management in an effort to make effective use of water resources and improve the quality of its effluent discharge. In terms of water resource management, the Company commissions a professional organisation to check, count and assess the total water consumption on a monthly basis to ensure that the Company can update and adjust its water consumption plan in a timely manner.

During the Reporting Period, the Company's total water consumption was 35,261 tons, all of which came from the local municipal water supply department, with a total water consumption intensity of 0.34 tons/RMB10,000, which was transferred to the wastewater treatment plant through the sewage network and discharged after meeting the treatment standards. For its domestic plants, the Company regularly commissions a third party to test the pH value, chemical oxygen demand, five-day biochemical oxygen demand, suspended solids and ammonia nitrogen discharge concentration of wastewater in accordance with the Integrated Sewage Discharge Standard and the Water Quality Standard for Sewage Discharged into Urban Sewers, and other standards. The test results all met the requirements.

Water Resource Indicators	2022	2021	2020
Total water consumption (tons)	35,261	24,192	24,889.5
Total water consumption intensity (tons/RMB10,000)	0.34	0.32	0.24

3.1.2.3 Raw Materials

The Company aims at low consumption, low emission and high efficiency in its operation, and strives to improve the utilisation rate of raw materials in the production and processing stages and reduce the consumption of environmental resources. Each workshop shall strictly implement the process and operation procedures and strive to reduce the consumption of raw materials for its production. AK Medical has established a comprehensive monitoring and control mechanism for the use of raw materials. The production department conducts on-site inspections from time to time to monitor the use of raw materials and to avoid environmental impact and higher costs due to waste.

The main raw materials consumed by AK Medical in the production and processing of its products include titanium alloy, cobalt chromium and molybdenum, polyethylene, stainless steel, etc. In 2022, AK Medical has expanded its production capacity and has seen a certain amount of growth in the use of raw materials, with the main raw materials consumed as shown in the table below:

Raw material for production indicators	2022	2021	2020
Polyethylene (tons)	21.9	10.4	22.1
Stainless steel (tons)	46.7	46.2	43.5
Titanium alloy (tons)	104.1	37.9	10.4
Cobalt-chromium-molybdenum (tons)	53.9	53.7	2.1

In the area of product packaging, AK Medical's main raw materials include cartons, boxes and plastic sealing films. In 2022, there was an increase in the consumption of packaging materials due to the expansion of production capacity. In this regard, AK Medical is also constantly trying to incorporate green packaging concepts into its sustainability plans. The Company is working with suppliers to reduce energy consumption and emissions by using recyclable packaging instead of disposable packaging, thus contributing to the sustainability of its products.

Packaging material indicators	2022	2021	2020¹
Total volume of packaging materials used in finished goods (tons)	32.7	14.6	12.1
Amount of packaging material used in finished goods per unit of production (tons/RMB10,000)	0.00031	0.00019	0.00012

Promoting substrates recycling:

In 2022, ITI Medical reworked and reused 3D printing product substrates that were previously discarded after use, not only reducing the use of new substrates and effectively saving costs, but also further conserving resources and reducing waste generation. Currently, about 140 pieces have been reused, saving approximately RMB26,600.

Promoting packaging recycling with suppliers:

In 2022, ITI Medical signed a packaging recycling agreement with Wuxi Keji Precision Technology Co., Ltd. (referred to as "Wuxi Keji Precision Technology") to jointly promote the recycling of product packaging to reduce resource consumption. After the purchase of medical castings from Wuxi Keji Precision Technology, ITI Medical will collect the cartons and pearl cotton lining and other packaging materials on a regular basis as required and hand them over to Wuxi Keji Precision Technology for standardised recycling.

¹ The actual usage of the 2020 was lower due to a deviation in the calculation and has been corrected in this report.

3.1.3 Waste Management

In the day-to-day operations of AK Medical, raw materials, production activities and products will all generate waste. The Company's main waste pollutants include emissions, wastewater, dust and noise, and solid waste.

The Company complies strictly with the waste-related laws and regulations of the People's Republic of China and other countries where it operates and seeks to reduce waste pollution. In terms of waste emission monitoring and management, the Company has established the "Waste Gas, Waste Water and Dust and Noise Management System" (《廢氣、廢水、粉塵噪聲管理制度》) to effectively control the waste emissions generated, and conducts regular monitoring and recording.

For waste gas emissions, AK Medical delegates a local environmental monitoring station to carry out monitoring at least once a year to ensure that emissions are controlled within regulatory requirements. In addition, AK Medical uses negative pressure dust collectors and bag dust collectors to remove dust from plant equipment that emits large amounts of emissions and has a significant impact on the environment and requires regular annual audits of all vehicle emissions in accordance with national regulations.

For wastewater discharge, AK Medical delegates a qualified third-party organisation to monitor wastewater discharge indicators on a quarterly basis, and if there is any non-compliance, the frequency of monitoring will be increased after rectification to prove performance. The wastewater discharged after treatment by the Company's wastewater treatment facilities is regularly sampled by a legally qualified unit approved by the local government for laboratory analysis, and laboratory records are kept.

For the issue of dust and noise, AK Medical delegates the local environmental monitoring department to monitor dust and noise at least once a year. In addition, AK Medical has also built a dust extraction fan room with acoustic foam, installed soundproof material at the end of the exhaust buckle, and stuck acoustic foam on the exterior of all exposed ducts to ensure that noise levels are met.

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 2022, the hazardous waste generated by AK Medical's production segment, mainly consisting of waste water, waste liquids and dust, amounted to 17,659.8 tons, while the non-hazardous waste generated mainly consisted of titanium scrap, cobalt chromium and molybdenum scrap and other waste, with a total disposal volume of 20,482 kg.

Waste type	Name of Waste		2022	2021	2020
Hazardous waste	Waste Water	Total water discharge volume (tons)	17,502	11,435	12,961
	Waste Liquid	Total waste liquid production (tons)	148	83	103
		Waste liquid handling volume (tons)	144	83	93
	Dust	Total dust production (kg)	10,405	6,726	8,917
		Dust handling volume (kg)	10,405	6,726	8,850
Non-hazardous waste	Solid Waste	Titanium waste handling volume (kg)	8,335	5,195	6,043
		Cobalt-chromium-molybdenum waste handling volume (kg)	2,007	1,462	3,453
		Other waste handling volume (kg)	10,140	8,895	4,067

For solid waste, AK Medical has 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》).

All subsidiaries also actively comply with various waste management regulations. JRI has established its own Environmental Control Procedures, regularly studies and sorts out the regulation requirements in emission management and resource management. Libeier also sets out detailed measures for waste management and disposal in The EHS Production Safety Rules and Regulations Compendium(EHS 安全生產規章制度彙編).

Waste type	Name of Waste		Treatment measures
Hazardous waste	Wastewater	Cleaning wastewater	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 1991;
	Waste liquid	Cutting fluids, waste paraffin, waste alcohol, cutting oil	They are collected, sorted and stored in temporary storage for toxic and hazardous waste, and regularly transferred to qualified third-parties for proper disposal. The transfer of hazardous waste should be handled with joint efforts of all related units/authorities and records properly stored for future inspection;
	Dust	Dust from 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》) of Beijing;
Non-hazardous waste	Recyclable solid waste	Titanium sharpening, cobalt sharpening, other metal sharpening, trimmings, waste cardboard boxes, environmentally friendly reagent containers, packaging (e.g. alcohol bottles, glass containers, etc.)	Collected, sorted and stored properly in each factory workshop, and regularly handed over to a waste recycling company qualified to handle the waste for collection and disposal
	Non-recyclable solid waste	Dusting cabinet powder, sponge wheels, abrasive belts, black wheels, cloth wheels, polishing paste, abrasive heads, wool wheels, waste sand, polyethylene sharpening, POM sharpening, cotton wool	Collected, sorted and stored properly in each factory workshop and regularly handed over to local environmental and sanitation authorities for disposal on a regular basis

3.1.4 Green Office

AK Medical has formulated 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.

In terms of office purchases, AK Medical makes every effort to purchase environmentally friendly products such as disposable paper cups, reusable printer ink cartridges, biodegradable plastic packaging bags, recycled paper, and environmentally friendly refrigerators and air conditioners.

In terms of office supplies, AK Medical encourages staff to minimise the use of office supplies and reduce waste and environmental impact as far as possible while meeting requirements. We promote a paperless office by minimising the use of paper in the office process, using paper on both sides, using electronic forms for information transfer wherever possible, and managing the use of paper by strict management of photocopiers and the use of paper, and registering photocopies when they are collected.

In terms of energy use in the office area, we require staff to strengthen the management of electricity consumption, each staff member to turn off lights and office equipment on time that is not in use within a short period of time, and strengthen the management of water use, strictly prohibit the occurrence of running, bubbling, dripping and leaking pipes, reduce unnecessary waste, so that the awareness of saving is in the heart of each staff member.

In terms of disposal of office waste, AK Medical implements a sorting and management system to enhance the recycling of waste, effectively utilise recycled resources and reduce the amount of waste generated. We encourage our employees to actively participate in the recycling of waste batteries and strengthen the management of waste battery recycling. During the Reporting Period, the Company collected 0.25 ton of electronic waste and handed over to a third party electronic waste recycling organisation for proper disposal, effectively avoiding any damage to the environment caused by improper disposal.

4. SOCIETY

4.1 Product Responsibility

Overview	As a pioneer in the field of bone and joint implants in China, AK Medical is committed to ensuring the quality of our products and strives to improve the image of made-in-China products. At the same time, as a leader in orthopaedic 3D printing, AK Medical places product innovation at the core of the Company and is committed to the development and application of new materials and technologies in the field of orthopedics, protecting intellectual property through various management systems and effectively enhancing the Company's core competitiveness.
SDGs	<ul style="list-style-type: none"> • 9-Industry, innovation and infrastructure • 12-Responsible consumption and production
GRI	<ul style="list-style-type: none"> • GRI 416 Customer health and safety
HKEx	<ul style="list-style-type: none"> • Aspect B6: Product responsibility
Key performance	<ul style="list-style-type: none"> • 192 invention patents, 424 utility model patents and 20 granted PCT patents • All four subsidiaries of AK Medical obtained the ISO13485:2016 medical device quality control system certification • No recalls of products due to quality issues such as safety and health

4.1.1 R&D and Innovation

As a pioneer in the field of orthopedic implants in China, AK Medical focuses on product innovation, and is committed to the research and development and application of new materials and technologies in the field of orthopedics. Based on the market positioning and product line distribution of each subsidiary, AK Medical has continuously strengthened its intellectual property registration and protection and has gradually formed an innovative development model in which principle exploration, technology innovation, product development and protection of intellectual property are developed in tandem and supportive to each other.

In order to promote the technological progress of research and development, strengthen the independent research and development capability and enhance the technological reserve, the Company has continuously improved the incentive system related to innovation, and has formulated the Patents and Articles Award Management Measures (《專利及文章的獎勵管理辦法》) to provide detailed regulations on the attribution of rights, management process and award criteria of various patents and articles, so as to encourage the research and development and innovation momentum of researchers and effectively promote the long-term innovation and development of the Company.

While guiding and encouraging innovation, AK Medical has also made the protection of intellectual property rights one of its priorities to ensure the sustainable development of technology and products of the Company. In line with AK Medical's philosophy of strict protection of intellectual property rights, each subsidiary has established a specific system to protect the intellectual property rights of the Company and its researchers. Libeier has developed its own Knowledge Management Guidelines (《知識管理指導程序》), which stipulate that knowledge is to be maintained and kept confidential within the organisation while it is being created, accumulated, shared and used by the organisation to avoid loss of knowledge due to staff turnover, changes in partners and suppliers. ITI Medical has established a General Policy on Intellectual Property Management (《知識產權管理總則》), which provides for the establishment of an intellectual property assessment team to take overall responsibility for the implementation of the Company's intellectual property management.

Under the protection of a sound system, AK Medical has achieved good results in research and development in innovation. As of 31 December 2022, AK Medical was granted a total of 192 invention patents, 424 utility model patents and 20 authorized PCT patents.

4.1.2 Digital Innovation

The Internet has opened up new opportunities for medical treatment as network technology gradually penetrates into the physical sector. The integration of digital technology with orthopedic medicine has become a major change in the field of orthopedic medicine, which is conducive to optimising surgical models and improving safety and accuracy.

AK Medical is committed to building a professional 3D printing orthopedic surgery platform to fully exploit the potential of digital 3D printing technology and to revolutionise the surgical model. Previously, AK Medical's clinically validated 3D ACT artificial hip system based on 3D ACT technology was approved for marketing, making metal 3D printing technology the first to be commercialised and industrialised in the medical field in China. In order to showcase the unique advantages of 3D ACT, create a good atmosphere for online user experience and increase doctors' awareness of the product, AK Medical has created the ITI (Image To Impact) physician-technician interaction platform to provide comprehensive pre-operative planning and improve surgical safety.

In 2021, AK Medical launched the iCOS innovative orthopedic customisation platform system, based on the 3D ACT and ITI platforms, to help provide a digital, personalised, high-end prosthetic customisation solution to solve difficult and complex orthopaedic problems in a safe, effective and professional measure. The system provides a one-stop service from pre-operative data collection, to reverse reconstruction of the skeletal model, to the development of an interactive surgical plan, and to the production and delivery of a customised prosthesis.

In 2022, AK Medical continued to leverage the innovative strengths of the iCOS platform to achieve technological breakthroughs in clinical care and continue to drive technological advances in the industry. Trauma and disorders of the joints place a long-term, significant physical, psychological and financial burden on many patients. The iCOS-based system allows AK Medical to match prostheses to a large number of patients with complex joint reconstruction needs, providing targeted clinical solutions to difficult patients, restoring strength to the joints and greatly enhancing their quality of life. To date, AK Medical has successfully delivered nearly 1,000 customised prostheses and pre-operative planning cases.

First customised elbow surface replacement surgery based on the iCOS system, helping patients get a new ‘elbow’:

In April 2022, AK Medical helped Dean Jiang Xieyuan’s team at Beijing Jishuitan Hospital to perform the first 3D-printing, customised elbow surface replacement, giving a young 27-year-old patient a new “elbow”.

AK Medical Team in association with Beijing Jishuitan Hospital Team, used the patient’s elbow joint CT as the basis for a 2.5 month design and continuous refinement process, taking into account issues related to joint stability, prosthesis fixation and bone ingrowth, to create a customised elbow joint surface replacement prosthesis to meet clinical needs. The surgery was also based on AK Medical’s iCOS innovative orthopedic customised platform system, which was a combined medical-industrial collaboration that preserved as much bone volume as possible in the distal humerus while preserving the medial and lateral ligament structures and maintaining the patient’s upper limb muscle strength. The operation was completed successfully and the patient’s flexion, extension and rotation mobility were restored to normal levels and the joint was stable during the operation. The successful application of this customised prosthesis fills the gap in the clinical treatment of surface replacement customised prostheses for the elbow joint.

4.1.3 Product Quality

By creating economic value through the provision of products and services, AK Medical is committed to providing its customers with high quality, non-hazardous products and services. Product safety and quality control are an integral part of the Company’s daily operations and are essential to ensuring product quality, meeting customer needs and gaining market share.

AK Medical strictly complies with the relevant laws and regulations, including the Product Quality Law of the People’s Republic of China (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). 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.

As one of the largest manufacturers of artificial joint prostheses in China, AK Medical is constantly optimizing its quality control 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. In 2022, four subsidiaries of AK Medical have obtained the ISO13485:2016 Certification of medical device quality management system.

The Company also collects and analyses internal and external customer-related information based on customer feedback in accordance with the Service and Feedback Control Procedure (服務和反饋控制程序) at the pre-sales, sales and post-sales stages, and measures the quality management system based on such information, so as to ensure suitability, adequacy and effectiveness of the quality management system. During the Reporting Period, no product recall incidents occurred due to quality issues such as safety and health.

4.2 Sustainable Supply Chain

Overview	Building a sustainable supply chain can help companies improve their competitiveness and economic efficiency, especially for their long-term development. AK Medical understands the importance of a sustainable supply chain to the Company’s development, and through scientific and strict management measures, we are actively building a sustainable supply chain that is conducive to the healthy and rapid development of the Company.
SDGs	<ul style="list-style-type: none"> 12-Responsible production and consumption
GRI	<ul style="list-style-type: none"> GRI 204: Procurement practices GRI 308: Supplier environmental assessment GRI 414: Supplier social assessment
HKEx	<ul style="list-style-type: none"> Aspect B5: Supply chain management
Key performance	<ul style="list-style-type: none"> AK Medical Beijing, Libeier and ITI Medical reach 100%, 87% and 80% of Category A suppliers with anti-corruption agreements respectively

4.2.1 Supply Chain Management

The Company’s suppliers mainly include import connection product providers, sample testing and waste disposal service providers. We have a wide range of suppliers, with 249 suppliers in Asia, Europe and North America respectively as at the end of 2022.

Suppliers by geographical region	2022 (in number)
Asia	160
Europe	86
North America	3

AK Medical attaches importance to the construction of a sustainable supply chain and has formulated a series of 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 throughout the process.

At the supplier identification and access stage, the Company has established the Qualified Supplier Selection, Evaluation and Re-evaluation System (《合格供方選擇、評價和再評價制度》) and the Procurement Control Procedure (《採購控制程式》) to conduct a comprehensive review of potential suppliers' product quality, product delivery capability, environmental impact, and employee health and safety, and to give preference to suppliers with ISO9001 quality control system certification and the ISO13485 Certification of medical device quality management system. In 2022, AK Medical's requirements for system certification continued to be extended to all subsidiaries which now cover suppliers with ISO9001 quality control system certification and ISO13485 Certification of medical device quality management system.

In addition, AK Medical attaches great importance to the operation of integrity and strictly complies with relevant national and local laws and regulations through complying with the relevant laws and regulations, including the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and the Tender Law of the People's Republic of China (《中華人民共和國招標投標法》) and rigorously combats anti-corruption issues and strives to establish a fair and clean corporate supply chain. AK Medical actively promotes the signing of the AK Medical Supplier ESG Statement (《愛康醫療供應商 ESG 聲明》), which contains commitments from supplier companies in the areas of legal, ethical, labor, health and safety, environmental, risk and compliance, anti-corruption and community engagement, and sets out measures to address non-compliance. In 2022, AK Medical Beijing, Libeier and ITI Medical have signed anti-corruption agreements with 100%, 87% and 80% of their Category A suppliers respectively.

During the supplier audit and evaluation phase, AK Medical conducts file audits and on-site audits of different suppliers depending on the type of products and services they provide. The file audit focuses on the supplier's various certificates, documents and agreements, and evaluates their service capabilities and overall performance. On-site audits are also conducted to evaluate suppliers' production facilities and environmental conditions, quality verification and quality assurance capabilities, as well as the production processes of suppliers of animal-derived materials. The Company conducts annual audits and flight inspections of suppliers' product quality, service, technology and qualifications through the Supplier On-site Audit Evaluation Form (《供應商現場審核評審表》) and the Qualified Supplier Evaluation Form (《合格供方評價表》), and reviews suppliers' performance in terms of their environmental impact and whether there are any social risks in the supply chain, and makes rectification requests and re-assessments for suppliers that fail to meet the requirements. In 2022, a total of 166 suppliers were audited by the Group and 27 were audited on-site.

Our subsidiaries also meet our requirements and formulate their specific management systems. ITI Medical has established the Supplier Quality Control System (《供應商品質管制制度》) and the Supplier Audit Control Programme (《供應商審核控制程式》) to ensure that our suppliers are capable of meeting our requirements through on-site inspection and assessment of their quality control systems and process capabilities, and to provide basis for improvement of our supplier quality system.

In addition to continuously enhancing supplier management, AK Medical also places emphasis on communication with suppliers. We are committed to the joint development of our suppliers through the distribution of questionnaires and training, as well as discussing issues such as climate change with our suppliers to actively promote the concept of sustainable development.

4.3 Employee First

Overview	<p>AK Medical has always regarded its employees as a key force in the healthy development of the Company. We attach great importance to the occupational health and safety of our employees, protect their rights and interests, focus on their empowerment, create a fair and open working environment for them, establish a perfect mechanism of talent cultivation system, enhance their sense of happiness and security, and strive to achieve the common development of the Company and its employees.</p>
SDGs	<ul style="list-style-type: none"> • 3-Good health and well-being • 5-Gender equality • 8-Decent work and economic growth • 10-Reduced inequalities
GRI	<ul style="list-style-type: none"> • GRI 401: Employment • GRI 402: Labor relations • GRI 403: Occupational health and safety • GRI 404: Training and education • GRI 405: Diversity and equal opportunities • GRI 406: Non-discrimination • GRI 407: Freedom of association and collective bargaining • GRI 408: Child labor • GRI 409: Forced or compulsory labor
HKEx	<ul style="list-style-type: none"> • Aspect B1: Employment • Aspect B2: Health and safety • Aspect B3: Development and training • Aspect B4: Labor standards
Key performance	<ul style="list-style-type: none"> • Zero work-related deaths in the past three years • During COVID-19, AK Medical cared for the mental health of its staff and provided a mental health self-help booklet to all staff • 98.4% of our employees received training and the average number of hours of training completed per employee was 29.2 hours

4.3.1 Occupational Health and Safety

AK Medical adheres to the safety policy of “safety first, prevention first” and always puts the health and safety of its employees in the first place. The Company strictly complies with the Labor Law of the People’s Republic of China (《中華人民共和國勞動法》), the Safe Production Law of the People’s Republic of China (《中華人民共和國安全生產法》) and the Law of the People’s Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》). We have formulated internal system documents on Safe Production Responsibility Management System (《安全生產責任制管理制度》), Safe Production Inspection Management System (《安全生產檢查管理制度》), Safe 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 safe production management and the accountability system, and have issued safe production targets so as to safeguard the safety of employees and the properties of the Company.

AK Medical Beijing’s environmental, occupational health and safety (EHS) management system has received dual certification with GB/T24001-2016/ISO14001:2015 Environmental Management System and GB/T45001-2020/ISO45001:2018 Occupational Health and Safety Management System, 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.

In the area of safe production, AK Medical has been actively engaged in the design and implementation of top management systems, and has provided a wide range of safety training for its staff to maximise their awareness and quality of environmental, occupational health and safety.

Based on the design of the top management system, AK Medical combined the practical management on the basis of its original production safety management and prepared the Company’s Production Safety Regulations and Systems Manual (《安全生產規章制度手冊》) which came into effect on 1 January 2022, aiming to comprehensively strengthen its production safety management, implement the main responsibility of production safety, clarify the responsibilities of all departments and personnel at all levels engaged in production and operations. The aim is to comprehensively strengthen the Company’s production safety management, implement the main responsibility of production safety, clarify the responsibilities of all departments and personnel at all levels in production and operation activities, prevent and reduce the occurrence of various accidents, protect the safety and health of employees, and promote the safe and harmonious development of the Company.

In addition to the continuous improvement of the production safety system, AK Medical also continued to increase its investment in production safety management. During the Reporting Period, the Company invested a total of RMB2,055,400, an increase of 5% over last year. On this basis, AK Medical has maintained a record of zero work-related fatalities over the past three years, and the number of employee injury leave days has also decreased year on year to 37 days compared to last year.

For occupational health and safety training for employees, the Company has established the Environmental and Production Safety Education and Training Management System (《環境、安全生產教育和培訓管理制度》) and set up different training contents for different types of employees, including safety education and training for Company management, environmental and safety education and training for Company employees, safety education and training for special operators, and occupational health education and training, etc. In 2022, a total of 310 employees of AK Medical received occupational health and safety training and the total number of training hours was 1,139 hours. The average number of safety training hours for frontline operators was 43.8 hours and for safety management staff was 123 hours.

In terms of protecting the health of employees, AK Medical has established a system to conduct regular occupational health checks on employees to prevent the occurrence of various environmental, occupational health and production safety incidents; it has also set up new regulations to protect the treatment of employees during COVID-19 and actively provided care and support to employees to protect their physical and mental health.

For employee health monitoring, the Company specifically provides for regular occupational health checks for workers engaged in toxic and hazardous operations. Workers who are found to have occupational contraindications or health impairments related to their occupations are promptly removed from their jobs and properly relocated.

AK Medical updates and collects information on the health status of employees during the pandemic, actively disseminates the latest policies and information on the epidemic and raises the awareness of employees, implements a flexible work schedule by phase, responds to employees' requests for leave in a timely manner, and pays employees full salary for the first calendar month after suffering from COVID-19. At the same time, the Company has strengthened the psychological health of its staff by compiling a mental health manual to relieve their psychological stress.

4.3.2 Employee Rights

AK Medical believes that the well-being of its employees is a determining factor in the success of the Company and is committed to providing a fair and inclusive working environment for its employees and to motivating them to achieve their personal goals. The Company complies with relevant laws and has established internal systems to ensure that employees are legally employed in accordance with the regulations, that their remuneration and benefits are protected, and that the values of diversity and inclusion are practiced to protect the rights and interests of employees to the greatest extent possible.

4.3.2.1 Employment of Employee

AK Medical is in strict compliance with the relevant laws and regulations, including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《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》). Internal systems are formulated to ensure that employment is managed in a lawful and regulated manner in order to safeguard the legal rights and interests of the staff.

In terms of staff recruitment, AK Medical has formulated the Recruitment Management Regulations (《招聘管理辦法》) which clearly states the Company's recruitment principles and standards, responsible departments, recruitment plans, recruitment pipeline, recruitment process, recruitment assessment and file management, to help optimise the Company's human resources allocation, provide human resources protection for the Company's sustainable and stable development, and clarify and standardise the Company's recruitment principles and operational processes.

In terms of staff management, AK Medical has formulated the Staff Attendance Management System (《員工考勤管理制度》) to further strengthen attendance management, protect work order and enhance management efficiency. The Company has also formulated the Exit Management System (《離職管理制度》) to clarify the procedures and requirements for staff leaving the Company and to standardise the Company's human resources management process. Both AK Medical Beijing and Libeier specify a minimum notice period of 30 days for operational changes of the companies in question, i.e. employees are given one month's notice prior to the implementation of major operational changes that may significantly affect them.

In terms of legal employment, the Company has formulated internal systems, including the Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor (《關於禁止僱傭童工強制勞工的管理規定》). The Company checks carefully during the employment process to prohibit child labor and any form of forced labor, and actively practices equal employment to ensure that employees are not discriminated on factors such as race, gender and religion so as to create a diverse employment environment. In the event that child labor or forced labor is found to exist, we will deal with the situation appropriately and strictly respect and protect the rights of our employees.

In terms of trade union establishment, the Company strictly complies with the Trade Union Law of the People's Republic of China (《中華人民共和國工會法》), establishes and maintains policies or procedures for freedom of association and collective bargaining, respects the rights of employees to freely associate, participate in trade unions and collective bargaining, establishes and maintains effective grievance and complaint procedures, and ensures that the Company's activities comply with the requirements of laws and regulations and the standards of the relevant social responsibility system. In accordance with Company regulations, employees can apply to participate in trade unions by submitting their identity card and social security benefits records. As at the end of 2022, all employees of AK Medical Beijing who paid social security in Beijing have participated in trade unions; ITI Medical and Libeier have also confirmed that all employees are trade union members.

In terms of overall employee employment data, AK Medical had a total of 1,034 employees in 2022, comprising 1,023 full-time employees and 11 part-time employees. The employee turnover rate is 26.7%.

Name of Indicator	Basis of Classification	Specific Category	2022	2021	2020
Total number of employees ¹	Type of employment	Full-time employee	1,023	903	1,017
		Part-time employee	11	5	2
	Gender	Male	669	583	656
		Female	354	320	361
		Percentage of female employees	34.6%	35.4%	35.4%
	Age	Under 30	288	246	298
		30-39	455	414	471
		40-49	204	182	174
		50 and above	76	61	74
	Region	Mainland China	921	816	908
Hong Kong, Macau and Taiwan		0	0	1	
Overseas		102	87	108	

4.3.2.2 Remuneration and Benefits

The Company strictly complies with the Social Insurance Law of the People's Republic of China (《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》) and has formulated the Compensation Management System (《薪酬管理制度》), Benefits Management Regulations (《福利管理辦法》), Performance Appraisal Management Regulations (《績效考核管理辦法》) and Leave Regulations (《休假規定》). 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 employees with festive benefits, holidays, etc.

In 2022, the Company continued to promote fair compensation and was committed to aligning the emolument structures and benefits systems of AK Medical Beijing, ITI Medical and Libeier to achieve equality in remuneration and benefits among employees across different companies. The Company has also continued to implement and improve its internal ranking system to ensure that employees are paid competitively against the market for different job functions. In addition, the Company is working to promote equal pay for men and women for work of equal value, and in 2022, AK Medical achieved gender parity in the ratio of basic pay and remuneration for men and women, and further reduced the gender gap in the ratio of starting salary to the local minimum wage by gender in comparison to 2021.

¹. Employment data by gender, age and region dimensions are only counted for full-time employees

In addition, the Company has also formulated the AK Medical Group Employee Promotion Management System (《愛康集團員工晉升管理制度》), which adopts a unified performance management system and carries out performance appraisal and promotion management in an open and fair manner, and applies the results of performance appraisal to the allocation of performance bonuses and promotion of positions, so as to standardise talent management and promote value creation between employees and the Company.

In 2022, the Company optimized and adjusted its performance management system and processes, and formulated and published the AK Medical Performance Assessment Management Regulations (《愛康績效考核管理辦法》), which fully integrated the OneAK culture with performance management, focusing on strengthening the process management and behavioural assessment of performance, and realizing a culture-oriented performance management. At the same time, we have implemented differentiated performance levels among middle-level and above management staff, and applied the performance results to bonus payments, salary adjustments, long-term incentive awards, job promotions and talent development to fully motivate our staff and realize the mutual development of the Company and our staff.

4.3.2.3 Diversity and Inclusive Culture

The Company insists on promoting diversity and inclusive culture in the workplace, and has integrated the values of diversity and inclusion into all aspects of our operations. We offer a wide range of benefits and care to our employees, promote work-life balance and strive to create a happy, healthy and harmonious work-life atmosphere to enhance employees' sense of belonging and well-being.

The Company places great emphasis on diversity at the Board, management and staff levels. In 2022, AK Medical placed greater emphasis on the influence of women in the workplace and continued to increase the proportion of female managers. As at the end of December 2022, the ratio of men to women at the VP level and above was 3:5, and the ratio of men to women at the director level improved from 1.6:1 in 2021 to 1.45:1 in 2022. At the same time, the Company is actively changing the tradition that there are more men than women in traditional manufacturing and R&D technology positions, and providing more diverse employment opportunities for women by expanding the number of female employees in various departments such as the clean room, logistics department, product work shop and ITI project department. With a male to female ratio of 3.8:1 in 2021 and an updated ratio of 3.25:1 by the end of December 2022, AK Medical is taking practical action to help women have more possibilities in the workplace and help them achieve self-efficacy.

The Company also focuses on the protection of women's rights in the workplace. We have formulated the Management System for Protection of Female Employees (《女工保護管理制度》), which stipulated that no department may refuse to employ, dismiss or reduce the wages of female employees on the grounds of marriage, pregnancy, childbirth or breastfeeding, and prohibit female workers from engaging in particularly heavy physical labor or toxic and harmful operations.

In addition, the Company offers a variety of benefits to female employees, providing them with a safe, warm and inclusive working environment. On Women's Day, AK Medical offered women a half day off with a gift. For all female employees, 15 days of paid leave for pregnancy check-ups will be granted and for most male employees, paternity leave will also be granted. In 2022, the three subsidiaries of AK Medical (AK Medical Beijing, ITI Medical and Libeier) provided an average of 47.5 days of parental leave. The Company also organises regular annual medical check-ups for female employees to enhance maternal and child health care. In terms of infrastructure, the Company has also set up baby-sitting rooms to cater for the needs of female employees in nursing their young children.

4.3.3 Employee Empowerment

AK Medical focuses on employee empowerment by offering a variety of training courses to enhance employees' personal capabilities and help them develop their career paths. AK Medical deepens employee engagement, continues to enhance employee satisfaction and works with employees to build the OneAK culture.

4.3.3.1 Employee Training

AK Medical believes that employee self-drive is a key driver of business development. The Company adheres to the principle of "employee development first" and strives to build up a high standard of medical talents, providing support for employees to upgrade their professional knowledge, qualifications and skills. The Company has established the AK Medical Training System (《愛康醫療培訓制度》), which provides annual and quarterly training programmes for staff at different levels and positions, and offers a wide range of internal and external training courses.

The external training offered by the Company is mainly in the areas of professional skills and management courses. Management courses include, but are not limited to, business management, marketing, human resources management, EMBA education, etc. Professional skills courses include, but are not limited to, internal auditor training and medical device product quality control regulation training. Employees can fill out the Training Requirement Survey (《培訓需求調查表》) to receive external training opportunities. In 2022, the Company organised 32 external training sessions related to professional skills, including internal auditor specifications, sterile testing standards and MDR regulations. As for internal training, there were three main categories of courses, namely general skills, professional skills and leadership development. General skills courses included, but are not limited to, training in production operations, equipment operations, programming, inspection operations, etc. Professional skills courses included, but are not limited to, medical device industry regulations, standardised application of manufacturing drawings, quality control and management, and orthopaedic implants. In terms of leadership training, the Company has launched the Eagle programme, which includes the Young Eagle programme, the Elite Eagle programme and the Leading Eagle programme to provide a variety of leadership training for employees at different levels.

Leadership Training Case Study – Eagle Programme:

AK's Eagle Programme is a leadership development programme for high potential and high performance staff at different management levels, and is divided into three main levels.

The **Young Eagle programme** is aimed at new graduates. The Company provides them with junior leadership-related courses, such as goal management and executive training, to help them quickly integrate into the Company's environment, adapt to their work roles and build up their experience and knowledge for their future management roles through learning and practice. In 2022, affected by the pandemic, the Company adopted an online + offline learning and training model, organising one offline intensive training session and opening up online product knowledge learning courses for gaining comprehensive understanding of the Company's product lines. At the same time, the Company invited outstanding trainees to attend company-level conferences and industry-related exchange sessions to broaden their professional horizons and industry exposure.

The **Elite Eagle Programme** is aimed at middle management staff who are assessed as high potential and high performers. The Company provides leadership training to meet their own development needs, such as management communication, empowerment, motivation and other related topics, in order to enrich their management knowledge and enhance their management skills and performance. In 2022, the Company provided offline intensive learning opportunities and internal professional related courses and required relevant personnel to pass on and export their experience in the workplace and complete corresponding coaching projects. Overall, in 2022, the turnover rate of middle management staff was maintained at a low level; a number of middle management staff were promoted to higher ranks; and a number of the marketing system trainees were successfully accredited.

The **Leading Eagle programme** is designed to provide more advanced leadership courses, such as EMBA, MBA and DBA, to empower the strategic and visionary talents of the Company and facilitate their career development, providing the Company with more senior managers with a global perspective and high market sensitivity. In 2022, two EMBA applications and one DBA application were accepted, and the incumbency of core management staff remained stable.

In 2022, the Company applied the online learning platform “Little Goose” to upload a wealth of training course resources to minimise the impact of offline training on employees due to the pandemic and to facilitate real-time online learning for employees. During the Reporting Period, the percentage of employees trained by AK Medical was 98.4% and the average number of hours of training completed per employee was 29.2 hours. The percentage of employees trained by AK Medical Beijing, ITI Medical and Libeier all reached 100%.

Our subsidiaries are also taking active steps to empower their employees and build up a pool of talent for the future development of the Company. Libeier has formulated the “IDP Development Plan for High Potential Talents” (《高潛人才 IDP 發展計劃》), which aims to integrate with the Company’s strategy, rationalise the existing organizational structure, identify key positions, take stock of existing talents in key positions, identify and fill in gaps for successors, and appoint successors based on the organizational structure and current status of talents. As of the end of 2022, five employees of Libeier have been identified as high potential employees and training will be arranged to enhance their capabilities in a targeted manner.

4.3.3.2 Staff Engagement

The Company attaches great importance to communication with its employees and has set up various communication channels to listen to their views and suggestions in an open and friendly manner, with the aim of creating an OneAK culture with its employees, establishing the values of pragmatism, innovation, sharing and passion, and leading AK staff to move forward in a common direction.

AK Medical has been actively building up online and offline communication channels to create a new era of AK culture and to implement the right mission, vision and values. At the online level, the Company has set up the AK staff platform to promote the culture of AK to its employees, inform them of the latest Company events and provide an online learning platform. At the same time, the Company also arranges regular offline activities, including executive visits and employee birthday parties, to facilitate more efficient and diversified employee communication.

In addition, the Company also actively conducts Q12 employee surveys to collect employees’ real thoughts and opinions on a regular basis, in order to understand the level of employee satisfaction with their jobs and to provide direction for the Company to further improve employee satisfaction and happiness.

4.4 Benefit the Public

Overview	AK Medical believes that serving our customers and giving back to the community is an important corporate responsibility. The Company has established a perfect service feedback system to protect the service experience and interests of our customers. At the same time, AK Medical also actively cooperates with industry partners to promote the technological development of the orthopedic industry through academic exchange activities to benefit more patients and doctors.
SDGs	<ul style="list-style-type: none"> • 11-Sustainable cities and communities • 17-Partnerships for the goals
GRI	<ul style="list-style-type: none"> • GRI 413: Local communities • GRI 416: Customer health and safety • GRI 418: Customer privacy
HKEx	<ul style="list-style-type: none"> • Aspect B8: Community investment
Key performance	<ul style="list-style-type: none"> • AK Medical invested a total of RMB1,100,000 in social welfare projects such as doctor training and academic research activities • As of April 2022, AK Medical was ranked first among all brands with a total of 81,000 units contracted in the 2021 volume-based procurement tender that has been implemented in all provinces

4.4.1 Customer Relationship

AK Medical places great importance on maintaining a good relationship with its customers, making customer satisfaction an important goal for the Company and protecting the privacy of its customers. The Company is committed to responding to customer feedback in a timely manner, continuously optimising its products and services, strictly adhering to the principle of information confidentiality and practising responsible information management in accordance with relevant laws and regulations.

4.4.1.1 Customer Services

AK Medical offers products that are closely related to human life and health. With the aim of improving the user experience, AK Medical has established a Service Feedback Control Programme (《服務回饋控制程序》) to manage in full the pre-sales and post-sales aspects of the Company’s products in order to maintain high quality of service throughout the sales process.

In the pre-sales phase, AK Medical focuses on customer matching and product training. The Company’s marketing centre is responsible for identifying customer needs and expectations through online communications and customer visits, and conducting pre-sales training to help customers understand the benefits of the products.

In the post-sales phase, AK Medical continues to follow up on customers’ feedback and continuously optimises its products based on customer suggestions. Extensive product and service satisfaction surveys are conducted regularly with customers of AK Medical and its subsidiaries, and customers’ feedback and suggestions on products and services are collected through a Customer Satisfaction Form (《客戶滿意度調查表》) sent to agents by the Company’s customer service team.

During the Reporting Period, due to various factors such as the introduction of the national policy on the procurement of orthopedic consumables, customers have raised more demands and expectations on AK Medical’s products and services, and the average customer satisfaction rate of AK Medical’s four subsidiaries exceeded 90%. In the future, AK Medical will continue to implement the concept of continuous improvement to continuously improve customer satisfaction.

In case of customer complaints, AK Medical has also established a Customer/Stakeholder Opinion and Complaint Handling Form (《顧客/相關方意見及投訴處理記錄表》) to collect, track and handle complaints from end-users and stakeholders. The Company's customer service department will be the first to respond to the customer's comments on returns and exchanges and report them internally, a number of departments, including R&D and Quality Assurance, work together to analyse customer feedback and provide suggestions for improvement.

During the Reporting Period, of the four subsidiaries, AK Medical Beijing received 5 complaints from customers with completion rates of 100%, while JRI received 40 customer complaints with completion rates of 67.5%. The lower completion rates was mainly due to the tight medical resources in the area affected by the COVID-19 epidemic, which resulted in longer waiting times for hospitals or doctors to provide the necessary information for complaint handling, and longer waiting time for other third parties such as suppliers to conduct material testing.

4.4.1.2 Protection of Customer Privacy

As companies around the world drive towards digitalisation, protecting customer privacy and practising responsible information management is a baseline requirement for business operations. AK Medical strictly complies with the laws and regulations of the People's Republic of China and 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. The subsidiaries also follow a strict philosophy of protecting customer privacy and data security, and JRI has developed a Marketing Guideline Manual (《營銷工作指導手冊》) specifying that the use of personal data and information in the promotion, marketing and sale of JRI products requires signed consent forms from customers or patients for authorisation.

During the Reporting Period, AK Medical did not receive any substantiated complaints relating to the violation of customer privacy and loss of customer data, and no violations of laws and regulations relating to information security occurred.

4.4.2 Social Responsibility

AK Medical is committed to fulfilling its social responsibility as a medical enterprise in the industry and continues to devote itself to social welfare and medical science activities to maximise AK Medical's positive impact on society. In 2022, AK Medical invested a total of RMB 1,100,000 in social welfare projects such as doctor training and academic research activities and provided 50 hours of voluntary service.

4.4.2.1 Healthcare Education

AK Medical is committed to sharing orthopedic technology and promoting orthopedic knowledge to the society, and has played a leading role in promoting the development of the orthopedic medical profession in China. 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 hospitals in Beijing.

In 2022, AK Institute, together with major hospitals in Beijing such as National Orthopedic Centre and Beijing Jishuitan Hospital, built an academic exchange platform for local artificial joint doctors based on the medical experience of many well-known domestic experts and brought distinctive advanced joint replacement technology and concepts with AK Medical into local hospitals, which helped local hospital doctors improve their surgical replacement techniques and enhance their capabilities of disease diagnosis and treatment, and have completed a number of surgical cases in national hospitals, strongly promoting the flourishing of the orthopedic industry in China.

AK Medical was invited to attend the “2022 Jishuitan Forum” and held a satellite meeting for sharing

In order to promote innovation and integration in the field of medical industry, and to facilitate technology transfer and transformation of medical accomplishments, the 2022 Jishuitan Forum was held in Beijing on 16 April. In line with the academic exchange principle of “linking disciplines, seeking truth and pragmatism, and passing on innovation”, AK Medical was invited to attend the Jishuitan Forum and held a satellite meeting for sharing. Based on the experience of cooperation with AK Medical’s ABM revision and reconstruction system, Professor Zhou Yixin’s team from the Department of Joint Surgery of Beijing Jishuitan Hospital shared and discussed the topic of “New Advances in Hip Joint Hysteresis Therapy”, helping hip surgeons to understand and solve the practical application problems in surgery.

AK Institute organised “Knee Related Topics” and “Talk about Hip” series of online academic seminars

In December 2022, AK Institute officially launched the academic journey of “2022 AK A3CLUB Focused Technical Hotspot Seminar Series”. Themed on “Knee Related Topics” and “Talk about Hip”, the seminars covered nine major topics, with hundreds of orthopedic experts and scholars leading the sharing and multiple elites collaborating together to enhance academic exchanges and explore solutions to difficult cases through various formats such as theory teaching, surgical skills sharing and practical case discussions.

4.4.2.2 Healthcare Accessibility

AK Medical attaches importance to improving access to medical care, and is dedicated to bringing its products and services to a wider range of patients. In recent years, China has been promoting the VBP of orthopedic high-value consumables, which can ensure product quality and achieve quantity for price, at the same time effectively reduce the burden on patients’ medical care and truly benefit the people.

In March 2022, the NHSA and the National Health Commission jointly issued the “Opinions on Supporting Measures for the Centralized Volume-based Procurement and Use of High-Value Medical Consumables (Joint Implants) by State Organizations”, and announced that since April 2022, most provinces have been implementing the tender results of the VBP in 2021. During the process of the VBP, for primary hip and knee systems, approximately 538,000 pieces will be purchased based on the submitted volume by hospitals, and the Group has been allocated approximately 81,000 pieces according to the contracts, ranking first among all brands. A total of 3,497 hospitals are tending to purchase the Group’s joint prostheses, of which 953 are newly covered hospitals. Despite a reduction in the ex-factory price of some of the Company’s product lines as a result of the volume-based procurement policy, the volume of operations in the hospitals increased rapidly. The Group seized the opportunity to start business with over ten key hospitals, such as Chinese PLA General Hospital, The Affiliated Hospital of Qingdao University, The First Affiliated Hospital of Zhejiang University School of Medicine and committed to bringing high quality products at affordable prices to the benefit of the patient population.

5. APPENDIX

5.1 About this Report

5.1.1 Report Period

This report covers the progress and performance of our environmental, social and governance developments for the financial year from 1 January to 31 December 2022.

5.1.2 Scope of Report

The Company set up a unified ESG information collection system after listing which clearly stated the statistical method of ESG information. The environmental, social and governance information in this report contains information on AK Medical Holdings Limited (“AK Medical”) and its subsidiaries, namely Beijing AK Medical Co., Ltd., (hereinafter referred to as “AK Medical Beijing”), ITI Medical Co., Ltd. (hereinafter referred to as “ITI Medical”), Beijing Libeier Bio-engineering Institute Co., Ltd. (hereinafter referred to as “Libeier”) and JRI Orthopaedics Limited (hereinafter referred to as “JRI”), a UK-based medical device company.

5.1.3 Reporting Reference Standards

This report has been prepared using the Environmental, Social and Governance Reporting Guidelines as set out in Appendix 27 of the Hong Kong Stock Exchange Listing Rules and the Hong Kong Stock Exchange Guidance on Climate Disclosures. Reference has also been made to the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) published by the Global Sustainability Standards Board (GSSB) and the United Nations Sustainable Development Goals (“SDGs”).

5.1.4 Reporting Principles

This report follows the reporting rules set out in the Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange.

- **Materiality:** AK Medical has commissioned external consultants to conduct stakeholder identification and materiality analysis to determine the level of materiality of corporate substantive issues and to ensure that the information disclosed in the report covers the key issues of concern to the Company’s development and stakeholders. The substantive issues identified have been endorsed by the ESG Working Group and the Board is aware of the findings.
- **Quantitative:** AK Medical discloses and explains all environmental and social indicators accordingly, with some environmental indicators providing comparative information for three consecutive years and, where necessary, some explanatory information.
- **Balance:** This report reviews and discloses the Company’s environmental, social and governance-related achievements and areas of information for improvement in order to present an unbiased picture of the Company’s performance.
- **Consistency:** The Company uses a consistent method of statistical disclosure to enable meaningful comparisons of ESG information in the future.

5.1.5 Access to the Report

This report is available in both traditional Chinese and English versions. The report is available in both paper and electronic formats.

The electronic version of the report can be viewed and downloaded from the AK Medical’s official website (<https://www.ak-medical.net>).

5.1.6 Feedback

We welcome suggestions, comments and questions about this report and our sustainability performance. Enquiries about the Company can be directed to the Company’s Investor Relations team at the following email address: ir@ak-medical.net.

5.2 Table of Performance

5.2.1 Table of Environmental Performance

Indicators	Unit	2022					2021					2020				
		AK		ITI			AK		ITI			AK		ITI		
		AK Medical	Medical Beijing	Medical	Libeier	JRI	AK Medical	Medical Beijing	Medical	Libeier	JRI	AK Medical	Medical Beijing	Medical	Libeier	JRI
Greenhouse gas emissions																
Scope 1 greenhouse gas emission	Tons CO ₂ e	68.6	57.8	4	6.9	128.7	71.6	44	5.5	22.1	/	128.2	56.4	5.5	44.2	22.1
Intensity of Scope 1 greenhouse gas emission	Tons CO ₂ e/ RMB10,000	0.0007	/	/	/	/	0.0009	/	/	/	/	0.0012	/	/	/	/
Scope 2 greenhouse gas emission	Tons CO ₂ e	4,291.7	1,525	1,702.1	726.4	338.2	3,911.7	/	/	/	/	4,196.2	/	/	/	/
Intensity of Scope 2 greenhouse gas emission	Tons CO ₂ e/ RMB10,000	0.04	/	/	/	/	0.051	/	/	/	/	0.041	/	/	/	/
Greenhouse gas emission (Scopes 1 and 2)	Tons CO ₂ e	4,360.3	1,582.8	1,706.1	733.2	388.2	3,983.3	/	/	/	/	4,324.4	/	/	/	/
Intensity of greenhouse gas emission (Scopes 1 and 2)	Tons CO ₂ e/ RMB10,000	0.041	/	/	/	/	0.052	/	/	/	/	0.042	/	/	/	/
Energy consumption																
Total energy consumption	kWh	10,331,902.6	3,212,721.9	4,201,095	1,368,784.4	1,729,307.3	5,429,767.9	/	/	/	/	6,561,091.8	/	/	/	/
Energy consumption intensity	kWh/ RMB10,000	98.2	/	/	/	/	71.3	/	/	/	/	63.4	/	/	/	/
Direct energy consumption																
Direct energy consumption	KWh	1,299,765.4	235,323	1,036,485	27,957.4	0	886,767.9	179,231.9	617,536	90,000	0	522,091.8	229,591.8	22,500	180,000	90,000
Intensity of direct energy consumption	KWh/ RMB10,000	12.4	/	/	/	/	11.6	/	/	/	/	5	/	/	/	/
Direct energy consumption – non-renewable energy sources (natural gas, coal, other fuel sources)	KWh	279,480.4	235,323	16,200	27,957.4	0	291,731.9	179,231.9	22,500	90,000	0	522,091.8	229,591.8	22,500	180,000	90,000
Direct energy consumption – renewable energy sources (solar, wind, hydro, other)	KWh	1,020,285	0	1,020,285	0	0	595,036	/	595,036	/	/	/	/	/	/	/

Indicators	Unit	2022					2021					2020				
		AK		ITI			AK		ITI			AK		ITI		
		Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI
Indirect energy consumption																
Indirect energy consumption	KWh	9,032,137.2	2,977,398.9	2,984,610	1,340,821	1,729,307.3	4,543,000	/	/	/	/	6,039,000	/	/	/	/
Intensity of indirect energy consumption	KWh/RMB10,000	85.9	/	/	/	/	59.7	/	/	/	/	58.3	/	/	/	/
Indirect energy consumption	KWh	9,032,137.2	2,977,398.9	2,984,610	1,340,821	1,729,307.3	4,543,000	/	/	/	/	6,039,000	/	/	/	/
- purchased electricity from non-renewable sources	KWh	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Indirect Energy Consumption	KWh	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
- Purchased Electricity from Renewable Energy Sources	KWh	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Consumption of Water																
Total water consumption	tons	35,261	5,800	25,283	2,930	1,248	24,192	4,950	12,421	4,298	2,523	24,889.5	/	/	/	/
- municipal water supply	tons	35,261	5,800	25,283	2,930	1,248	24,192	4,950	12,421	4,298	2,523	24,889.5	/	/	/	/
Intensity of total water consumption	tons/RMB10,000	0.34	/	/	/	/	0.32	/	/	/	/	0.24	/	/	/	/
Total water discharge volume	tons	17,501.8	5,800	7,129	2,930	1,642.8	11,435	3,762	3,148	2,675	1,850	12,961.1	6,532.1	3,000	629	2,800
Total recycled water	tons	0	0	0	0	0	/	/	/	/	/	/	/	/	/	/
Raw material consumption																
Production raw materials																
casting blanks, titanium alloy,	tons	104.1	23.4	20	0	0	37.9	/	8	15	14.9	10.4	/	/	/	/
forging blanks, cobalt-chromium-molybdenum,	tons	53.9	29.1	75	10.5	0	53.7	/	36	15	2.7	2.1	/	/	/	/
Polyethylene	tons	21.9	7	10.9	3	1	10.4	/	3.5	6	0.9	22.1	/	/	/	/
Stainless steel	tons	46.7	0	40	0	6.7	46.2	/	38	0.2	8	43.5	/	/	/	/

Indicators	Unit	2022					2021					2020				
		AK		ITI			AK		ITI			AK		ITI		
		Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI
Packaging raw materials																
Total amount of packaging material used in finished product	tons	32.7	0	18	3.3	11.4	14.6	/	4	1.5	9.1	12.1	0	3.7	1.5	6.9
Amount per unit of production of packaging materials used in finished products	tons/ RMB10,000	0.00031	/	/	/	/	0.00019	/	/	/	/	0.00012	/	/	/	/
Waste																
Hazardous waste																
Total waste liquid production	tons	147.6	1.3	17.3	11	118	83	2.3	9.7	15	56	102.9	/	/	/	/
Waste liquid handling volume	tons	143.8	1.3	13.5	11	118	83	2.3	9.7	15	56	92.9	/	/	/	/
Intensity of waste liquid produced	tons/ RMB10,000	0.0014	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Total volume of dust production	kg	10,405	750	0	450	9,205	6,726	800	/	426	5,500	8,917	850	/	66.7	8,000
Dust handling volume	kg	10,405	750	0	450	9,205	6,726	800	/	426	5,500	8,850	/	/	/	/
Intensity of dust produced	kg/RMB10,000	0.099	/	/	/	/	/	/	/	/	/	/	/	/	/	/
Non-hazardous waste																
Titanium waste handling volume	kg	8,335	1,560	3,867	1,350	1,558	5,194.7	1,480.6	1,014.1	500	2,200	6,043	2,176.3	/	666.7	3,200
Cobalt-chromium-molybdenum waste handling volume	kg	2,007	340	820	550	297	1,461.6	692.3	242.1	369.2	158	3,452.5	3,282.5	/	0	170
Other waste handling volume	kg	10,140	0	6,436	0	3,704	8,894.9	0	5,866.9	0	3,028	4,066.7	0	/	66.7	4,000

5.2.2 Table of Social Performance

Indicator	Unit	2022					2021					2020				
		AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI
		AK Medical	Beijing				AK Medical	Beijing				AK Medical	Beijing			
Employees																
Employment of employee¹																
Total number of employees employed	person	1,034	576	245	100	113	908	524	178	114	92	1,019	560	205	145	109
Number of employees by employment type																
Full-time employee	person	1,023	576	245	100	102	903	524	178	114	87	1,017	560	205	145	107
Part-time employee	person	11	0	0	0	11	5	0	0	0	5	2	0	0	0	2
Number of employees by gender																
Male	person	669	368	155	68	78	583	330	106	76	71	656	351	126	93	86
Female	person	354	208	90	32	24	320	194	72	38	16	361	209	79	52	21
Number of employees by age																
Under 30	person	288	153	83	28	24	246	125	58	37	26	298	148	74	54	22
30-39	person	455	270	113	47	25	414	257	83	55	19	471	274	99	75	23
40-49	person	204	120	39	20	25	182	111	32	18	21	174	109	28	12	25
50 and above	person	76	33	10	5	28	61	31	5	4	21	74	29	4	4	37
Number of employees by region																
Mainland China	person	921	576	245	100	0	816	524	178	114	0	908	559	204	145	0
Hong Kong, Macau and Taiwan	person	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0
Overseas	person	102	0	0	0	102	87	0	0	0	87	108	1	0	0	107
Employee turnover rate by gender																
Male	%	27.1	20	47	16	29	29.7	/	/	/	/	17.9	/	/	/	/
Female	%	26	20	38	38	17	30	/	/	/	/	17.8	/	/	/	/

1. Staff employment data are only counted for full-time employees

Indicator	Unit	2022					2021					2020				
		AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI
		Medical	Beijing				Medical	Beijing				Medical	Beijing			
Employee turnover rate																
by age																
Under 30	%	37.5	24	70	29	25	34.5	/	/	/	/	22.5	/	/	/	/
30-39	%	24.6	22	31	19	32	28.2	/	/	/	/	18.2	/	/	/	/
40-49	%	19.1	12	33	25	28	25.1	/	/	/	/	11.2	/	/	/	/
50 and above	%	18.4	18	10	20	21	32.2	/	/	/	/	8.6	/	/	/	/
Employee turnover rate																
by region																
Mainland China	%	26.7	20	44	23	/	29	/	/	/	/	17.8	/	/	/	/
Hong Kong, Macau and Taiwan	%	0	/	/	/	/	0	/	/	/	/	0	/	/	/	/
Overseas	%	26.5	/	/	/	26	36.5	/	/	/	/	17.9	/	/	/	/
Occupational health and safety																
Number of employees who died arising out of work in the past three years	person	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Percentage of employees who died arising out of work in the past three years	%	0	0	0	0	0	/	/	/	/	/	/	/	/	/	/
Number of days of work injury leave of employees	days	37	37	0	0	0	39	18	17	/	4	222	19	141	62	/
Number of employees trained on occupational health and safety	person	310	31	245	10	24	/	/	/	/	/	/	/	/	/	/
Total number of training hours trained on occupational health and safety	hours	1,139	248	490	169	232	/	/	/	/	/	/	/	/	/	/
Firstline operating staff's per capita security training hours	hours	43.8	16	8	16	3.8	70	16	8	16	30	78.8	16	6	8.8	48.0
Safety management personnel's average per capita security training hours	hours	123	24	40	24	35	92	24	40	24	4	105	24	40	41.0	/
Amounts invested on security	RMB10,000	205.5	45	110	36	14.5	195	53	90	32	20	173.4	41.9	80	21.5	30.0

Indicator	Unit	2022					2021					2020				
		AK		ITI			AK		ITI			AK		ITI		
		Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI
Employee training																
Percentage of employees trained by gender																
Male	%	98.4	100	100	100	86	95.2	/	/	/	/	73.3	/	/	/	/
Female	%	98.6	100	100	100	79	98.8	/	/	/	/	73.7	/	/	/	/
Percentage of employees trained by employee level																
Senior management	%	100	100	100	100	100	95.7	/	/	/	/	81.1	/	/	/	/
Middle management	%	98	100	100	100	78	97.9	/	/	/	/	81.9	/	/	/	/
General employees	%	98.4	100	100	100	85	96.3	/	/	/	/	72.3	/	/	/	/
Average number of hours of training by gender																
Male	hours	28.7	40	26	3	3.5	31.9	/	/	/	/	28.2	/	/	/	/
Female	hours	29.9	40	22.7	4.2	3.9	33.4	/	/	/	/	30.7	/	/	/	/
Average number of hours of training by employee level																
Senior management	hours	24.1	20	64	8	2	25.9	/	/	/	/	15	/	/	/	/
Middle management	hours	39.5	50	58	4	5.7	46.8	/	/	/	/	58.9	/	/	/	/
General employees	hours	28	40	21.4	3.1	3.4	31	/	/	/	/	26.4	/	/	/	/
Employee compensation and benefits																
Ratio of basic salary and remuneration of women to men																
Male	%	/	67.8%	50%	69.9%	/	/	/	/	/	/	/	/	/	/	/
Female	%	/	71.7%	50.4%	65.8%	/	/	/	/	/	/	/	/	/	/	/
Ratios of standard entry level wage by gender compared to local minimum wage																
Male	%	/	6.2	3.7	5.2	1.1	/	/	/	/	/	/	/	/	/	/
Female	%	/	5.1	2.9	3.8	1.1	/	/	/	/	/	/	/	/	/	/
Parental Leave																
Parental Leave	Day	/	67.5	49	26	/	/	/	/	/	/	/	/	/	/	/

Indicator	Unit	2022 ¹					2021 ¹					2020 ²				
		AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI	AK		ITI	Libeier	JRI
		Medical	Beijing				Medical	Beijing				Medical	Beijing			
Supplier																
Total number of suppliers	per	249	78	61	24	86	232	72	48	24	88	207	/	/	/	/
Number of suppliers in Asia	per	160	74	59	21	6	137	66	46	21	4	126	/	/	/	/
Number of suppliers in Europe	per	86	4	2	3	77	90	6	2	1	81	77	/	/	/	/
Number of suppliers from North America	per	3	0	0	0	3	5	0	0	2	3	3	/	/	/	/
Number of suppliers from South America	per	0	0	0	0	0	0	0	0	0	0	1	/	/	/	/
Supplier verification																
Number of supplier verifications	per	166	78	61	24	3	69	/	/	/	/	59	/	/	/	/
Number of supplier on-site verifications	per	27	5	17	3	2	9	/	/	/	/	53	/	/	/	/
Percentage of suppliers signed anti-corruption agreement	%	/	100	80	87	0	93	/	/	/	/	/	/	/	/	/
Percentage of suppliers certified																
Suppliers who obtained ISO 90001 as a percentage of the total number of suppliers	%	/	36	98	12	30.3	/	47	/	/	/	/	/	/	/	/
Suppliers who obtained ISO 13485 as a percentage of the total number of suppliers	%	/	42	95	12	51.2	/	54	/	/	/	/	/	/	/	/
Product responsibility																
Percentage of total products sold or shipped subject to recall due to safety and health reasons	%	/	0	0	0	0.2	/	/	/	/	1.1	/	/	/	/	/
Number of customer complaints case during the year		45	5	0	0	40	35	/	/	/	/	82	/	/	/	/
Completion rates of customer complaints handled	%	/	100	/	/	67.5	/	100	100	100	95.5	/	100	100	100	61
Customer satisfaction for the year	%	/	80	89	96	100	/	86.4	100	86	100	/	98	78	96	100

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT OF AK MEDICAL

Indicator	Unit	2022 ¹					2021 ¹					2020 ²				
		AK		ITI			AK		ITI			AK		ITI		
		Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI	Medical	Beijing	Medical	Libeier	JRI
Intelligent property																
Invention patents	pcs	192	/	/	/	/	100	/	/	/	/	87	/	/	/	/
Utility model patents	pcs	424	/	/	/	/	313	/	/	/	/	300	/	/	/	/
Granted PCT patents	pcs	20	/	/	/	/	10	/	/	/	/	8	/	/	/	/
Anti-corruption																
Number of operation sites carried out risk assessment on corruption	pcs	0	0	0	0	0	/	/	/	/	/	/	/	/	/	/
Total number of hours of anti-corruption training (Full-time employee only)	hours	47	0	0	0	47	/	/	/	/	/	/	/	/	/	/
Number of closed legal cases regarding corrupt practices brought against the issuer or its employees	case	0	0	0	0	0	/	/	/	/	/	/	/	/	/	/
Social welfare																
Amounts invested in social welfare	RMB	1,100,000	1,100,000	/	/	/	6,000,000	/	/	/	/	80,000	/	/	/	/
Number of hours devoted to social welfare	hours	50	50	/	/	/	20	/	/	/	/	8	/	/	/	/

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INDEPENDENT AUDITOR'S REPORT



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 132 to 198, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022 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 155 and 151.

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 and the right of return of the goods sold by the Group.

The calculation of the amount of expected 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 expected sales returns;
- inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance 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 155 and 151.

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 returns.

How the matter was addressed in our audit

- 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)(iii) to the consolidated financial statements and the accounting policies on pages 169 and 146.

The Key Audit Matter

Goodwill attributable to JRI Orthopaedics Limited (“**JRI**”) and Beijing Libeier Bio-engineering Institute Co., Ltd (“**Libeier**”), subsidiaries acquired by the Group amounted to nil and RMB113,411,000 as at 31 December 2022, 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 (“**FVLCO**D”) 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.

How the matter was addressed in our audit

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 and the enterprise value to earnings before interest, tax, depreciation and amortisation used in FVLCO D 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 169 and 146.

The Key Audit Matter

The FVLCOD is prepared by the Group based on market approach with the guideline publicly-traded comparable method to determine any impairment required, which involves significant judgement in determining enterprise value to earnings before interest, tax, depreciation and amortisation.

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.

How the matter was addressed in our audit

- 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 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 HKSA's 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 HKSA's, 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

27 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2022
(Expressed in Renminbi)

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	4	1,052,047	761,441
Cost of sales		(415,612)	(262,252)
Gross profit		636,435	499,189
Other income, net	5	11,193	5,979
Selling and distribution expenses		(180,107)	(187,347)
General and administrative expenses		(118,313)	(105,316)
Research and development expenses		(110,865)	(113,069)
Impairment loss on goodwill	15	(18,360)	–
Operating profit		219,983	99,436
Net finance income	7	20,307	9,123
Profit before taxation	6	240,290	108,559
Income tax	8(a)	(35,518)	(15,940)
Profit for the year		204,772	92,619
Profit attributable to equity shareholders of the Company		204,772	92,619
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		23,243	(18,453)
Other comprehensive income, net of tax		23,243	(18,453)
Total comprehensive income		228,015	74,166
Total comprehensive income attributable to equity shareholders of the Company		228,015	74,166
Earnings per share			
Basic	11(a)	RMB0.18	RMB0.08
Diluted	11(b)	RMB0.18	RMB0.08

The notes on pages 138 to 198 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 2022
(Expressed in Renminbi)

	Note	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	13	435,629	382,401
Intangible assets	14	85,275	79,989
Goodwill	15	113,411	132,449
Deferred tax assets	26(b)	74,820	76,074
		709,135	670,913
Current assets			
Inventories	17	402,330	423,068
Trade receivables	18	467,079	387,990
Bills receivable	18	78,274	142,458
Deposits, prepayments and other receivables	19	34,362	28,213
Other financial assets	29(d)	416,593	365,528
Pledged deposits and time deposits		40,890	111,508
Cash and cash equivalents	20	625,829	475,606
		2,065,357	1,934,371
Current liabilities			
Trade payables	21	155,167	92,769
Contract liabilities	22	79,846	167,413
Accruals and other payables	23	165,098	166,779
Lease liabilities	24	13,500	10,952
Current taxation	26(a)	22,773	51,522
		436,384	489,435
Net current assets		1,628,973	1,444,936
Total assets less current liabilities		2,338,108	2,115,849

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

at 31 December 2022
(Expressed in Renminbi)

	Note	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Non-current liabilities			
Deferred income	27	13,331	12,351
Other payables		8,324	–
Lease liabilities	24	25,281	30,607
Deferred tax liabilities	26(b)	47,411	41,340
		94,347	84,298
NET ASSETS			
		2,243,761	2,031,551
CAPITAL AND RESERVES			
Share capital	28(b)	9,453	9,453
Reserves	28(c)	2,234,308	2,022,098
Total equity attributable to equity shareholders of the Company			
		2,243,761	2,031,551
TOTAL EQUITY			
		2,243,761	2,031,551

Approved and authorised for issue by the board of directors on 27 March 2023 and signed on behalf of the board by:

Li Zhijiang
Directors

Zhao Xiaohong
Directors

The notes on pages 138 to 198 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022
(Expressed in Renminbi)

		Share capital	Share premium	Shares held for share award scheme	Capital reserve	Share-based payment reserve	Exchange reserve	Retained profits	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 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)&(b)/28(c)(v)	-	-	-	-	1,050	-	-	1,050
Shares issued under share option scheme	28(b)(i)/28(c)(v)	2	851	-	-	(631)	-	-	222
Dividends declared	12	-	(36,830)	-	-	-	-	-	(36,830)
Shares held for share award scheme	25(c)/28(c)(iv)	-	-	(49,833)	-	-	-	-	(49,833)
Balance at 31 December 2021 and 1 January 2022		9,453	1,032,214	(49,833)	55,174	4,210	(28,012)	1,008,345	2,031,551
Total comprehensive income for the year		-	-	-	-	-	23,243	204,772	228,015
Equity settled share-based transactions	25(a)&(b)/28(c)(v)	-	-	-	-	7,016	-	-	7,016
Shares granted under share award scheme	25(c)/28(c)(v)	-	-	-	-	1,113	-	-	1,113
Shares issued under share option scheme	28(b)(i)/28(c)(v)	-	418	-	-	(361)	-	-	57
Dividends declared	12	-	(23,991)	-	-	-	-	-	(23,991)
Balance at 31 December 2022		9,453	1,008,641	(49,833)	55,174	11,978	(4,769)	1,213,117	2,243,761

The notes on pages 138 to 198 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2022
(Expressed in Renminbi)

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Operating activities		
Profit before taxation	240,290	108,559
Adjustments for:		
Depreciation of property, plant and equipment	68,206	61,646
Amortisation of intangible assets	12,195	12,512
Impairment for goodwill	18,360	–
Recognition of deferred income	(1,762)	(1,139)
Interest on lease liabilities	2,174	1,609
Interest income	(17,752)	(8,992)
Credit losses recognised/(reversed) for trade receivables	10,491	(1,109)
Loss on disposal of property, plant and equipment	134	518
Equity settled share-based payment expenses	8,129	1,050
Changes in operating activities	340,465	174,654
Changes of:		
Inventories	20,738	(62,357)
Trade and bills receivables	(26,816)	23,119
Deposits, prepayments and other receivables	(5,403)	5,338
Contract liabilities	(87,567)	121,013
Trade payables	62,398	(52,997)
Accruals and other payables	(3,686)	(3,090)
Cash generated from operations	300,129	205,680
Income tax paid	(57,210)	(29,059)
Net cash generated from operating activities	242,919	176,621

CONSOLIDATED CASH FLOW STATEMENT (continued)

for the year ended 31 December 2022
(Expressed in Renminbi)

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Investing activities			
Interest received		15,841	11,164
Proceeds from sale of property, plant and equipment		62	2,892
Uplift of structured deposits and time deposits		1,941,373	802,698
Placement of structured deposits and time deposits		(1,920,595)	(1,039,090)
Acquisition of intangible assets		(6,517)	(17,472)
Acquisition of property, plant and equipment		(115,200)	(58,757)
Government grants received relating to assets		2,742	1,464
Net cash used in investing activities		(82,294)	(297,101)
Financing activities			
Capital element of lease rentals paid		(10,717)	(12,789)
Purchase of own shares	28(c)(iv)	–	(49,833)
Interest element of lease rentals paid		(2,174)	(1,609)
Dividends paid		(23,962)	(36,694)
Proceeds from equity settled share-based payment		57	222
Net cash used in financing activities		(36,796)	(100,703)
Net increase/(decrease) in cash and cash equivalents		123,829	(221,183)
Cash and cash equivalents at 1 January		475,606	713,091
Effect of movements in exchange rates on cash hold		26,394	(16,302)
Cash and cash equivalents at 31 December		625,829	475,606

The notes on pages 138 to 198 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB'000 unless otherwise indicated)

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 2022 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 IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior years 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 year.

(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.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

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	20-50 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 occurred 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.

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 2(r)(i).

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, property pre-sale proceeds held by solicitor that are held for meeting short-term cash commitments, 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.

Refund liabilities arising from rights of returns are recognised in accordance with the policy set out in note 2(r)(i).

(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 equity-settled share-based payment awards granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using certain valuation techniques, taking into account the terms and conditions upon which the equity-settled share-based payment awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity-settled share-based payment awards, the total estimated fair value of the equity-settled share-based payment awards is spread over the vesting period, taking into account the probability that the equity-settled share-based payment awards will vest.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of equity-settled share-based payment awards 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 capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity-settled share-based payment awards that vest (with a corresponding adjustment to the capital reserve) 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 capital reserve until either the equity-settled share-based payment awards is exercised (when it is included in the amount recognised in share capital for the share issued) or the equity-settled share-based payment awards expires (when it is released directly to retained profits).

Share-based payment transactions in which the Company grants share-based payment awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position.

(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, contingent liabilities and onerous contracts

(i) 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.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income

The Group is the principal for its revenue transactions and recognises revenue on a gross basis, including the sale of orthopedic implants that are sourced externally. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

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

(i) Revenue from contracts with customers

Sales of the Group's electronics products are recognised as follows:

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Group generally provides credit terms to customers within twelve months upon customer acceptance. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

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 except when a variable consideration is allocated to a specific performance obligation in the contract. Generally, the Group establishes standalone selling prices with reference to the observable prices of products or services sold separately in comparable circumstances to similar customers.

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").

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

(ii) Revenue from other sources and other income

(a) 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.

(b) 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. Based on this approach, the percentage of subsequent returns will be approximately 2.1% of annual sales for certain products. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of electronic products, the Group recognises revenue after taking into account adjustment to transaction price arising from returns as mentioned above. A refund liability is recognised for the expected returns, and is included in accruals and other payables (see note 23). A right to refund assets (included in deposits, prepayments and other receivables, see note 19) and corresponding adjustment to cost of sales are also recognised for the right to recover products from customers. This right to refund assets is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

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:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	654,999	469,493
– Knee replacement implants	266,415	167,385
– Spinal and trauma implants	60,006	79,320
– Customised products and services	46,952	23,319
– Others (i)	23,675	21,924
	1,052,047	761,441

(i) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

4 REVENUE AND SEGMENT INFORMATION (continued)

(a) Revenue (continued)

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2022 (2021: 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 have an original expected duration of one year or less, thus the Group has applied the practical expedient in paragraph 121(a) of IFRS 15 to its sales contracts.

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, which has been executed since March 2022 for a two-year period. In September 2022, the Group also participated in the national spinal implant VBP organised by the NHSA, which has been executed since March 2023 for a three-year period. The Group sells the products to distributors, being the customers of the Group. The distributors which purchased the related products covered by VBP from the Group would be affected because the retail selling prices of those products generally decrease upon the above VBP policies have become effective.

Although it was 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 VBP policies 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 accrued as a provision for price discount with a corresponding deduction of revenue. The provision accrued in 2021 amounted to RMB103,829,000, which has been settled largely utilised in 2022. The provision accrued in 2022 amounted to RMB19,983,000.

(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".

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

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.

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 2022 and 2021 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Revenue from external customers	974,203	686,110	77,844	75,331	1,052,047	761,441
Inter-segment revenue	3,463	1,296	38,914	50,285	42,377	51,581
Reportable segment revenue	977,666	687,406	116,758	125,616	1,094,424	813,022
Reportable segment profit/(loss)	267,066	114,129	(29,666)	(3,875)	237,400	110,254
Interest income	17,752	8,992	-	-	17,752	8,992
Depreciation and amortisation for the year	69,768	61,354	10,633	12,804	80,401	74,158
Impairment loss on goodwill	-	-	18,360	-	18,360	-
Reportable segment assets	2,149,067	2,003,739	156,570	174,454	2,305,637	2,178,193
Additions to non-current assets during the year	129,533	102,676	12,767	3,429	142,300	106,105
Reportable segment liabilities	453,793	473,582	29,312	21,800	483,105	495,382

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

	2022 RMB'000	2021 RMB'000
Revenue		
Reportable segment revenue	1,094,424	813,022
Elimination of inter-segment revenue	(42,377)	(51,581)
Consolidated revenue	1,052,047	761,441
Profit		
Reportable segment profit	237,400	110,254
Elimination of inter-segment loss/(profit)	2,890	(1,695)
Consolidated profit before taxation	240,290	108,559
Assets		
Reportable segment assets	2,305,637	2,178,193
Elimination of inter-segment receivables	(22,558)	(14,511)
Other financial assets	2,283,079	2,163,682
Deferred tax assets	416,593	365,528
Deferred tax assets	74,820	76,074
Consolidated total assets	2,774,492	2,605,284
Liabilities		
Reportable segment liabilities	483,105	495,382
Elimination of inter-segment payables	(22,558)	(14,511)
Current tax liabilities	460,547	480,871
Deferred tax liabilities	22,773	51,522
Deferred tax liabilities	47,411	41,340
Consolidated total liabilities	530,731	573,733

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	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
– China	886,318	631,131	598,914	539,275
– Other countries	165,729	130,310	35,401	55,564
	1,052,047	761,441	634,315	594,839

5 OTHER INCOME, NET

	2022 RMB'000	2021 RMB'000
Government grants	9,720	4,867
Others	1,473	1,112
	11,193	5,979

6 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	Note	2022 RMB'000	2021 RMB'000
Salaries, wages and other benefits		189,566	189,134
Contribution to defined contribution retirement scheme		16,483	15,382
Equity settled share-based transactions	25	8,129	1,050
		214,178	205,566

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

	2022 RMB'000	2021 RMB'000
Cost of Inventories*	426,461	276,214
Amortisation cost of intangible assets	12,195	12,512
Depreciation charge		
– owned property, plant and equipment	51,719	47,526
– right-of-use assets	16,487	14,120
	68,206	61,646
Credit losses recognised/(reversed) from trade and other receivables	10,491	(1,109)
Auditors' remuneration		
– Audit services	3,926	3,955

* Cost of inventories includes RMB99,949,000 in 2022 (2021: RMB94,174,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

7 NET FINANCE INCOME

	2022 RMB'000	2021 RMB'000
Interest income from bank deposits and investments in structured deposits	17,752	8,992
Foreign exchange gain	4,729	1,740
Interest on lease liabilities	(2,174)	(1,609)
	20,307	9,123

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

	2022 RMB'000	2021 RMB'000
Current tax		
Provision for the year	28,796	38,203
(Over)/under-provision in respect of prior years	(335)	296
Deferred tax		
Reversal and origination of temporary differences	7,057	(22,559)
	35,518	15,940

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 2022 (2021: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2022 is 16.5% (2021: 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 2022 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 2022 are 25% (2021: 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 2022 (2021: 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 International Limited ("AK Medical HK") and Bright AK Limited ("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:

	2022 RMB'000	2021 RMB'000
Profit before taxation	240,290	108,559
Notional tax of PRC statutory tax rate of 25%	60,073	27,140
Effect of PRC preferential tax rate	(33,504)	(13,850)
Effect of lower tax rates in other countries	678	232
Effect of non-deductible expenses	5,570	3,555
Effect of unused tax losses not recognised	6,175	5,122
Effect of additional deduction on research and development expenses *	(10,888)	(10,613)
PRC dividend withholding tax	7,749	4,058
(Over)/under-provision in respect of prior years	(335)	296
Actual tax expenses	35,518	15,940

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2021: 100%) 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:

2022	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)	-	806	108	58	-	972
Zhang Bin	-	30	-	-	-	30
Zhang Chaoyang	-	776	216	90	-	1,082
Zhao Xiaohong	-	811	257	58	583	1,709
Non-executive director						
Wang David Guowei	-	-	-	-	-	-
Independent Non-executive directors						
Li Shu Wing David	170	-	-	-	-	170
Kong Chi Mo	170	-	-	-	-	170
Wang Eric	174	-	-	-	-	174
	514	2,423	581	206	583	4,307

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 1 (2021: 1) are directors whose emoluments is disclosed in note 9. The aggregate of the emoluments in respect of the other 4 (2021: 4) individuals respectively, are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	3,938	3,882
Discretionary bonuses	947	1,181
Equity settled share-based transactions	1,194	–
Retirement scheme contributions	116	70
	6,195	5,133

The emoluments of the 4 (2021: 4) individuals with the highest emoluments are within the following bands:

	2022	2021
HK\$		
Nil – 1,000,000	Nil	Nil
1,000,001 – 1,500,000	Nil	2
1,500,001 – 2,000,000	3	2
2,000,001 – 2,500,000	1	Nil

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 RMB204,772,000 (2021: RMB92,619,000) and the weighted average number of issued ordinary shares of 1,109,201,000 (2021: 1,112,820,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2022	2021
Issued ordinary shares at 1 January	1,115,700,000	1,115,500,000
Effect of issue of shares under the Company's share option scheme (note 25)	24,658	29,589
Effect of shares held for share award scheme(note 28(c)(iv))	(6,524,000)	(2,709,112)
Weighted average number of ordinary shares at 31 December	1,109,200,658	1,112,820,477

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 RMB204,772,000 (2021: RMB92,619,000) and the weighted average number of issued ordinary shares of 1,117,457,000 (2021: 1,120,594,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2022	2021
Weighted average number of ordinary shares at 31 December	1,109,200,658	1,112,820,477
Effect of deemed issue of shares under the Company's equity settled share-based transactions (note 25)	8,256,790	7,773,657
Weighted average number of ordinary shares (diluted) at 31 December	1,117,457,448	1,120,594,134

12 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2022 RMB'000	2021 RMB'000
Final dividend proposed after the end of the reporting period of HK\$6.0 cents per ordinary share (2021: HK\$2.5 cents per ordinary share)	59,800	22,805

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

	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$2.5 cents per ordinary share (2021: HK\$4.0 cents per ordinary share)	23,962	36,694

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 rights RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
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 and 1 January 2022	133,832	77,926	288,303	5,101	15,214	21,406	12,411	554,193
Additions	-	14,034	6,002	-	1,400	51,312	51,649	124,397
Transfer from construction in progress	5,493	-	39,085	-	-	-	(44,578)	-
Disposals	-	(9,190)	(199)	-	(19)	-	-	(9,408)
Exchange adjustments	-	(255)	(823)	(34)	(40)	-	-	(1,152)
At 31 December 2022	139,325	82,515	332,368	5,067	16,555	72,718	19,482	668,030
Accumulated depreciation								
At 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 and 1 January 2022	(16,946)	(33,509)	(108,181)	(3,658)	(8,428)	(1,070)	-	(171,792)
Charged for the year	(6,402)	(14,544)	(41,116)	(928)	(2,436)	(2,780)	-	(68,206)
Written back on disposals	-	6,832	78	-	17	-	-	6,927
Exchange adjustments	-	230	386	28	26	-	-	670
At 31 December 2022	(23,348)	(40,991)	(148,833)	(4,558)	(10,821)	(3,850)	-	(232,401)
Net book value								
At 31 December 2022	115,977	41,524	183,535	509	5,734	68,868	19,482	435,629
At 31 December 2021	116,886	44,417	180,122	1,443	6,786	20,336	12,411	382,401

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 2022 RMB'000	31 December 2021 RMB'000
Land use rights	(i)	68,867	20,335
Leasehold properties	(ii)	36,799	42,023
Motor vehicles		509	1,016
		106,175	63,374

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold properties	13,333	13,364
Motor vehicles	374	328
Land use rights	2,780	428
	16,487	14,120
Interests on lease liabilities	2,174	1,609
Expenses relating to short-term leases	1,332	3,913

During the year, additions to land use rights and leasehold properties under new tenancy agreements of the different subsidiaries in the Group were RMB51,312,000 and RMB10,221,000, respectively (2021: nil and RMB32,320,000).

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 20 to 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 5 years (2021: 2 to 6 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 RMB'000	Patents and products licenses RMB'000	Technical know-how RMB'000	Brand name RMB'000	Total RMB'000
Cost:					
At 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 and 1 January 2022	17,593	21,548	54,272	25,933	119,346
Additions	1,368	16,535	–	–	17,903
Exchange adjustments	(119)	(87)	(400)	(196)	(802)
At 31 December 2022	18,842	37,996	53,872	25,737	136,447
Accumulated amortisation					
At 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 and 1 January 2022	(10,601)	(11,129)	(11,646)	(5,981)	(39,357)
Charged for the year	(1,960)	(2,266)	(5,404)	(2,565)	(12,195)
Exchange adjustments	108	76	131	65	380
At 31 December 2022	(12,453)	(13,319)	(16,919)	(8,481)	(51,172)
Net book value					
At 31 December 2022	6,389	24,677	36,953	17,256	85,275
At 31 December 2021	6,992	10,419	42,626	19,952	79,989

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

	2022 RMB'000	2021 RMB'000
Cost:		
At 1 January	141,013	141,924
Exchange adjustments	(680)	(911)
At 31 December	140,333	141,013
Accumulated impairment losses:		
At 1 January	(8,564)	(8,848)
Impairment loss	(18,360)	–
Exchange adjustments	2	284
At 31 December	(26,922)	(8,564)
Carrying amount:		
At 31 December	113,411	132,449

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:

	2022 RMB'000	2021 RMB'000
JRI	–	19,038
Libeier	113,411	113,411
	113,411	132,449

Management engaged an independent valuer to assess the recoverable amounts of the CGUs, which is the higher of fair value less costs of disposal calculation ("FVL COD") and value-in-use calculation ("VIU"). VIU is determined using 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. The financial forecast of Libeier covering a seven-year period prepared by management (2021: eight-year period). A seven year forecast is considered appropriate for orthopedic products industry in China, in order to take into account the expected industry operating cycle. In determining the FVL COD, management leveraged their knowledge of subject assets and via considered available information and information from an independent third party valuer. FVL COD is a level 3 fair value measurement.

15 GOODWILL (continued)

The key assumptions for the VIU are as follows, which are based on either the past experience or external sources of information:

	At 31 December 2022		At 31 December 2021	
	Libeier	JRI	Libeier	JRI
Annualised revenue growth rate during the budget period	7%-22%	8%-10%	9% – 27%	2% – 21%
Gross profit ratio	61%-63%	33%-38%	67% – 68%	33% – 41%
Steady growth rate used in the extrapolation after budget period	2.5%	2.0%	3.0%	2.0%
Pre-tax discount rate	19.0%	17.0%	18.8%	16.5%

Management has determined the recoverable amounts of the JRI based FVLCOD, which is higher than the VIU by reference to the published financial information of certain selected comparable companies which are in the same industry. The key parameters and inputs which are most sensitive for the FVLCOD calculations include enterprise value to earnings before interest, tax, depreciation and amortisation.

The impairment loss of RMB18,360,000 recognised in “Impairment loss on goodwill” solely relates to JRI in 2022. The CGU has been reduced to its recoverable amount of RMB124,258,000 as at 31 December 2022. Any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment loss.

The recoverable amount of the CGU of Libeier is estimated to exceed the carrying amount of the CGU at 31 December 2022 by RMB48,360,000 (2021: RMB49,408,000). Any reasonably possible change in the assumptions used in the calculation of recoverable amount would not result in impairment loss.

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.

Name of company	Place and date of incorporation/ establishment and operation	Particulars of issued and paid up capital	Percentage of equity attributable to Company			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
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 HK	Hong Kong 07/07/2015	HK\$10,000	100%	-	100%	Investing holding company
AK Medical HK	Hong Kong 28/07/2015	HK\$1	100%	-	100%	Investing holding company
AK Medical Beijing 北京愛康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB 100,000,000	100%	-	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("AK Medical XMKS") 北京西麦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
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") 北京理贝尔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	
	2022 RMB'000	2021 RMB'000
Raw materials	82,970	115,645
Work in progress	68,784	62,693
Finished goods	250,576	244,730
	402,330	423,068

17 INVENTORIES (continued)

- (b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2022 RMB'000	2021 RMB'000
Cost of inventories sold	415,612	262,252
Cost of inventories directly recognised as research and development expenses	10,849	13,962
	426,461	276,214

18 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2022 RMB'000	31 December 2021 RMB'000
Bills receivable	78,274	142,458
Trade receivables	498,373	408,793
Less: allowance for credit loss	(31,294)	(20,803)
	467,079	387,990

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As at 31 December 2022, 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	
	2022 RMB'000	2021 RMB'000
Current to 3 months	284,885	239,330
4 to 6 months	103,051	10,877
7 to 12 months	48,459	90,666
Over 12 months	30,684	47,117
	467,079	387,990

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2021: 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 2022 RMB'000	31 December 2021 RMB'000
Prepayments to suppliers	16,520	7,012
Refund assets (note 23(i))	7,443	5,234
Deposits	3,046	3,096
VAT recoverable	1,355	8,153
Others	5,998	4,718
	34,362	28,213

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	
	2022 RMB'000	2021 RMB'000
Cash at bank	625,824	475,599
Cash on hand	5	7
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	625,829	475,606

As at 31 December 2022, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB495,503,000 (2021: RMB313,533,000). 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

	Lease liabilities RMB'000
At 1 January 2021	26,848
Capital element of lease rentals paid	(12,789)
Interest element of lease rentals paid	(1,609)
Total changes from financing cash flows	(14,398)
Other changes:	
Increase in lease liabilities from entering into new leases during the period	32,320
Lease terminations	(4,820)
Interest expenses	1,609
At 31 December 2021 and 1 January 2022	41,559
Capital element of lease rentals paid	(10,717)
Interest element of lease rentals paid	(2,174)
Total changes from financing cash flows	(12,891)
Other changes:	
Increase in lease liabilities from entering into new leases during the period	10,221
Lease terminations	(2,282)
Interest expenses	2,174
At 31 December 2022	38,781

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2022 RMB'000	2021 RMB'000
Within operating cash flows	1,332	3,913
Within financing cash flows	12,891	14,398
	14,223	18,311

21 TRADE PAYABLES

As at 31 December 2022, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Within 3 months	126,716	72,240
4 to 6 months	23,633	13,253
7 to 12 months	2,043	1,709
1 year to 2 years	1,871	4,377
Over 2 years	904	1,190
	155,167	92,769

All trade payables are expected to be settled within one year.

22 CONTRACT LIABILITIES

	Note	31 December	31 December
		2022 RMB'000	2021 RMB'000
Provision for price discount	4(a)	33,485	117,327
Advance and deposit from customers	(i)	31,163	25,787
Sales rebates	(ii)	15,198	24,299
		79,846	167,413

(i) 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.

(ii) 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.

RMB129,898,000 has been recognised as revenue in 2022 that was included in the contract liabilities at the beginning of the year (2021: RMB36,567,000). All the balances of the contract liabilities at 31 December 2022 are expected to be recognised as revenue within one year.

23 ACCRUALS AND OTHER PAYABLES

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Accrued charges		36,350	42,580
Deposits		32,106	32,508
Other taxes payable		25,996	30,275
Salary and welfare payable		25,849	20,597
Refund liabilities	(i)	18,251	16,863
Payables to contractors and equipment suppliers		4,971	5,999
Others		21,575	17,957
		165,098	166,779

(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 2022		At 31 December 2021	
	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	13,500	15,100	10,952	12,600
After 1 year but within 2 years	12,330	13,309	11,865	13,073
After 2 years but within 5 years	12,951	13,585	18,742	19,656
	25,281	26,894	30,607	32,729
	38,781	41,994	41,559	45,329
Less: total future interest expenses		(3,213)		(3,770)
Present value of lease liabilities		38,781		41,559

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO Share option scheme adopted on 17 November 2017

The Company has a Pre-IPO 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:

	2022		2021	
	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	9,025	1.34	9,425
Exercised during the year	1.34	50	1.34	200
Forfeited during the year	1.34	550	1.34	200
Outstanding at the end of the year	1.34	8,425	1.34	9,025
Exercisable at the end of the year	1.34	1,013	1.34	1,063

The options outstanding at 31 December 2022 had a weighted average remaining contractual life of 5 years (2021: 6 years).

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Pre-IPO 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

	HK\$0.7182 –
Fair value at measurement date	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) Share option scheme adopted on 17 November 2017 and grants made in March 2022

In March 2022, 8,582,362 share options at a fair value of RMB19,930,000 were granted at a consideration of HK\$1.00 for each grantee to employees of the Group under the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest in four batches and the grantees shall be entitled to exercise, on 31 March 2023 until 30 March 2032, if certain performance conditions are met. The exercise price is HK\$4.66.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share option scheme adopted on 17 November 2017 and grants made in March 2022 (continued)

(i) The terms and conditions of the grants are as follows:

	Number of instruments	Contractual life of options
Options granted to a director: – on 31 March 2022	660,304	10 years
Options granted to employees: – on 31 March 2022	7,922,058	10 years
Total share options granted	8,582,362	

Options granted will become exercisable in four 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 30 March 2032.

(ii) The number and weighted average exercise prices of share options are as follows:

	2022	
	Weighted average exercise price HK\$	Number of options
Granted during the year	4.66	8,582,362
Exercised during the year	4.66	–
Forfeited during the year	4.66	202,615
Outstanding at the end of the year	4.66	8,379,747
Exercisable at the end of the year	4.66	–

The options outstanding at 31 December 2022 had a weighted average remaining contractual life of 10 years.

(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.

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share option scheme adopted on 17 November 2017 and grants made in March 2022 (continued)

(iii) Fair value of share options and assumptions (continued)

	HK\$2.1810 –
Fair value at measurement date	HK\$3.0340
Share price	HK\$4.66
Exercise price	HK\$4.66
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	67.06%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends	0.54%
Risk-free interest rate	2.06%

The expected volatility is determined by the historical volatility of the Company. Expected dividend yield is based on historical dividends. 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.

Share-based payment reserve will be transferred to share premium as and when such option are exercised or when they expire or be forfeited.

(c) 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 the previous 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.

For the year ended 31 December 2022, the Company granted 838,784 shares (2021: nil) to the Group’s executives and employees with a fair value of RMB3,106,000 (2021: nil). The fair value of the employee services received in exchange for the grant of shares is recognised as staff costs in profit or loss with a corresponding increase in share-based payment reserve, which is measured based on the grant date share price of the Company, taking into account the discount due to the present value of dividends expected to be paid by 0.61% to 2.36%, where applicable.

These shares will vest in four batches and the grantees shall be vested with such shares on each of 31 March 2023, 2024, 2025 and 2026 for nil consideration if certain performance conditions are met, 85,961 shares has been lapsed during this year (2021: nil).

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2022 RMB'000	2021 RMB'000
At 1 January	51,522	42,082
Provision for the year	28,796	38,203
(Over)/under-provision in respect of prior year	(335)	296
Provisional tax paid	(57,210)	(29,059)
At 31 December	22,773	51,522

(b) Deferred tax assets and liabilities recognised:

(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	Unrealised profits of intra-group transaction	Sales return	Provision for price discount	Tax losses	PRC dividend withholding tax (iv)	Fair value adjustment in respect of net assets acquired in business combinations	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2022	3,144	9,989	1,745	15,574	35,131	(28,809)	(12,531)	10,491	34,734
Credited/(charged) to profit or loss (note 8)	(1,300)	7,821	(309)	(8,861)	(2,950)	(7,749)	1,565	4,726	(7,057)
Exchange adjustments	-	-	-	-	-	-	113	(381)	(268)
At 31 December 2022	1,844	17,810	1,436	6,713	32,181	(36,558)	(10,853)	14,836	27,409

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) Reconciliation to the consolidated statement of financial position

	2022 RMB'000	2021 RMB'000
Net deferred tax asset recognised	74,820	76,074
Net deferred tax liability recognised	(47,411)	(41,340)
	27,409	34,734

(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 RMB67,006,000 (2021: RMB49,833,000) 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 2022, the certain subsidiaries of the Group located in PRC had unrecognised tax losses carried forward of RMB20,611,000 (2021: 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:

	2022 RMB'000	2021 RMB'000
Year of expiry of PRC entities		
2026	9,928	14,356
2027	10,683	–
	20,611	14,356

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised: (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 2022, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB919,316,000 (2021: RMB730,899,000), comprised retained earnings of RMB858,300,000 (2021: RMB670,873,000) and statutory surplus reserve of RMB61,016,000 (2021: RMB60,026,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2022 will not be distributable in the foreseeable future (2021: the retained earnings before 31 December 2021 and 70% of profit for 2021 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 2021	12,026
Additions	1,464
Government grant recognised as other income	(1,139)
At 31 December 2021 and 1 January 2022	12,351
Additions	2,742
Government grant recognised as other income	(1,762)
At 31 December 2022	13,331

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-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 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)&(b)&(c)/ 28(c)(v)	-	-	-	-	1,050	-	-	1,050
Shares issued under share option scheme	28(b)(i)/28(c)(v)	2	851	-	-	(631)	-	-	222
Shares held for share award scheme	25(c)/28(c)(iv)	-	-	(49,833)	-	-	-	-	(49,833)
Balance at 31 December 2021 and 1 January 2022		9,453	1,032,214	(49,833)	60,700	4,210	(59,264)	(22,113)	975,367
Total comprehensive income for the year		-	-	-	-	-	86,830	(9,298)	77,532
Dividends declared	12	-	(23,991)	-	-	-	-	-	(23,991)
Equity settled share-based transactions	25(a)&(b)&(c)/ 28(c)(v)	-	-	-	-	7,016	-	-	7,016
Shares granted under share award scheme	25(c)/28(c)(v)	-	-	-	-	1,113	-	-	1,113
Shares issued under share option scheme	28(b)(i)/28(c)(v)	-	418	-	-	(361)	-	-	57
Balance at 31 December 2022		9,453	1,008,641	(49,833)	60,700	11,978	27,566	(31,411)	1,037,094

(b) Share capital

	Note	2022		2021	
		No. of shares	Amount RMB'000	No. of shares	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		1,115,700,000	9,453	1,115,500,000	9,451
Shares issued under share option scheme	(i)	50,000	-	200,000	2
At 31 December		1,115,750,000	9,453	1,115,700,000	9,453

28 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

The holders of ordinary shares as at 31 December 2022 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) In 2022, options were exercised to subscribe for 50,000 ordinary share in the Company pursuant to the share option scheme (see note 25) at the consideration of RMB57,000, of which RMB400 was credited to share capital and RMB57,000 was credited to share premium. RMB361,000 was transferred to share premium from the share-based payment reserve in accordance with the policy set out in note 2(o)(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-based payment 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 RMB61,016,000 (2021: 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

In 2021, the Group 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. In 2021, the trustee purchased 6,524,000 shares of the Company on the open market at a total cost of RMB49,833,000. The trustee did not purchase any shares of the Company in 2022.

(v) Share-based payment reserve

The Company adopted a share option scheme and a share award scheme to employees as described in note 25. The Group recognises the grant-date fair value of the share options and shares ratably over the vesting period. Accordingly, a total amount of RMB8,129,000 (2021: RMB1,050,000) 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-based payment 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 2022, 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 RMB1,027,642,000 (2021: RMB965,914,000).

28 CAPITAL AND RESERVES (continued)

(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.

The Group's adjusted net debt-to-capital ratio at 31 December 2022 and 2021 as follows:

	Note	31 December 2022 RMB'000	31 December 2021 RMB'000
Current liability:			
Lease liabilities	24	13,500	10,952
Non-current liability:			
Lease liabilities	24	25,281	30,607
Total debt		38,781	41,559
Add: Proposed dividends	12(i)	59,800	22,805
Less: Cash and cash equivalents	20(a)	625,829	475,606
Adjusted net debt		(527,248)	(411,242)
Total equity		2,243,761	2,031,551
Less: Proposed dividends	12(i)	59,800	22,805
Adjusted capital		2,183,961	2,008,746
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 (2021: 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.

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 2022, 7.7% (2021: 5.1%) of the total trade receivables was due from the Group's largest customer in 2022, and 19.8% (2021: 15.0%) was due from the five largest customers in 2022.

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.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2022:

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	1%	168,419	(1,686)
1 – 3 months past due	5%	166,994	(8,296)
4 – 6 months past due	5%	88,782	(4,453)
7 – 12 months past due	5%	38,073	(1,921)
More than 1 years past due	83%	17,629	(14,602)
		479,897	(30,958)

	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)

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 2022:

	Expected loss rate %	2022 Gross carrying amount RMB'000	Loss allowance RMB'000
1 – 3 months past due	2%	16,956	(308)
More than 3 months past due	2%	1,520	(28)
		18,476	(336)
	Expected loss rate %	2021 Gross carrying amount RMB'000	Loss allowance RMB'000
1 – 3 months past due	2%	18,091	(284)
More than 3 months past due	–	312	–
		18,403	(284)

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:

	2022 RMB'000	2021 RMB'000
Balance at 1 January	20,803	21,912
Reversals of credit losses	–	(1,109)
Credit losses recognised during the year	10,491	–
Balance at 31 December	31,294	20,803

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(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.

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:

	2022 Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	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		
As at 31 December 2022					
Lease liabilities	15,100	13,309	13,585	41,994	38,781
Trade payables	155,167	-	-	155,167	155,167
Accruals and other payables	165,098	2,700	6,100	173,898	173,422
Total	335,365	16,009	19,685	371,059	367,370

	2021 Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	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		
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

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 2022		
	HK\$ RMB'000	US\$ RMB'000	EUR RMB'000
Cash and cash equivalents	908	87,502	327
Trade receivables	–	33,962	378
Trade payables	–	–	(3,416)
	908	121,464	(2,711)

	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

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.

	2022		2021	
	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)%	4,555 (4,555)	5% (5)%	5,479 (5,479)
Hong Kong Dollars	5% (5)%	34 (34)	5% (5)%	52 (52)
Euros	5% (5)%	(102) 102	5% (5)%	26 (26)

(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)

		Fair value measurements as at 31 December 2022 categorised into			
Note	Fair value at 31/12/2022 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)	412,396	–	412,396	–	
	Other financial assets – investments in unlisted equity instrument at FVPL				
(ii)	4,197	–	–	4,197	
	416,593	–	412,396	4,197	

		Fair value measurements as at 31 December 2021 categorised into			
Note	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	

During the years ended 31 December 2021 and 2022, 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:

	2022 RMB'000	2021 RMB'000
Unlisted equity securities		
At 1 January	4,298	–
Payment for purchases	–	4,298
Changes in fair value recognised in profit or loss during the year	(31)	–
Foreign exchange loss	(70)	–
At 31 December	4,197	4,298

30 COMMITMENTS

Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2022 not provided for in this financial statements were as follows:

	2022 RMB'000	2021 RMB'000
Contracted for	216,751	52,017
Authorised but not contracted for	104,740	226,673
	321,491	278,690

In addition, the Group was committed at 31 December 2022 to enter no new lease that is not yet commenced (2021: nil).

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2022, 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
Mrs. Liang Kun	Senior management
Ms. Wang Caimei	Senior management
Mr. Liu Aiguo	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	
	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	6,016	7,034
Discretionary bonuses	1,392	1,105
Retirement scheme contributions	496	15
Equity settled share-based transactions	2,335	349
	10,239	8,503

Total remuneration is included in "Staff costs" (see note 6(a)).

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 27 March 2023, the directors proposed a final dividend. Further details are disclosed in note 12.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2022, 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 2022 RMB'000	At 31 December 2021 RMB'000
Non-current asset			
Interests in subsidiaries		985,479	892,926
		985,479	892,926
Current assets			
Other financial assets		4,197	4,298
Cash and cash equivalents		166,869	176,157
		171,066	180,455
Current liability			
Accruals and other payables		119,451	98,014
		119,451	98,014
Net current assets			
		51,615	82,441
Total assets less current liability			
		1,037,094	975,367
NET ASSETS			
		1,037,094	975,367
CAPITAL AND RESERVES			
Share capital	28(b)	9,453	9,453
Reserves	28(c)	1,027,641	965,914
TOTAL EQUITY			
		1,037,094	975,367

Approved and authorised for issue by the board of directors on 27 March 2023 and signed on behalf of the board by:

Li Zhijiang
Directors

Zhao Xiaohong
Directors

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 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
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1, <i>Presentation of financial statements: Classification of liabilities as current or non-current</i>	1 January 2024
Amendments to IAS 1, <i>Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies</i>	1 January 2023
Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: <i>Definition of accounting estimates</i>	1 January 2023
Amendments to IAS 12, <i>Income taxes: Deferred tax related to assets and liabilities arising from a single transaction</i>	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.