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

2020 Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Non-executive Director
Dr. Wang David Guowei

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

JOINT COMPANY SECRETARIES
Ms. Han Yu
Ms. Li Yan Wing Rita, FCIS, FCS(PE)

AUTHORIZED REPRESENTATIVES
Ms. Zhang Bin
Ms. Li Yan Wing Rita as her alternate
Ms. Han Yu
Ms. Li Yan Wing Rita as her alternate

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

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

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

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

PRINCIPLE PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA (THE PRC)
2/F, Xingye Building
10 Baifuquan Road
Changping District Science and Technology Park
Beijing
China

PRINCIPLE PLACE OF BUSINESS IN HONG KONG
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

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

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
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

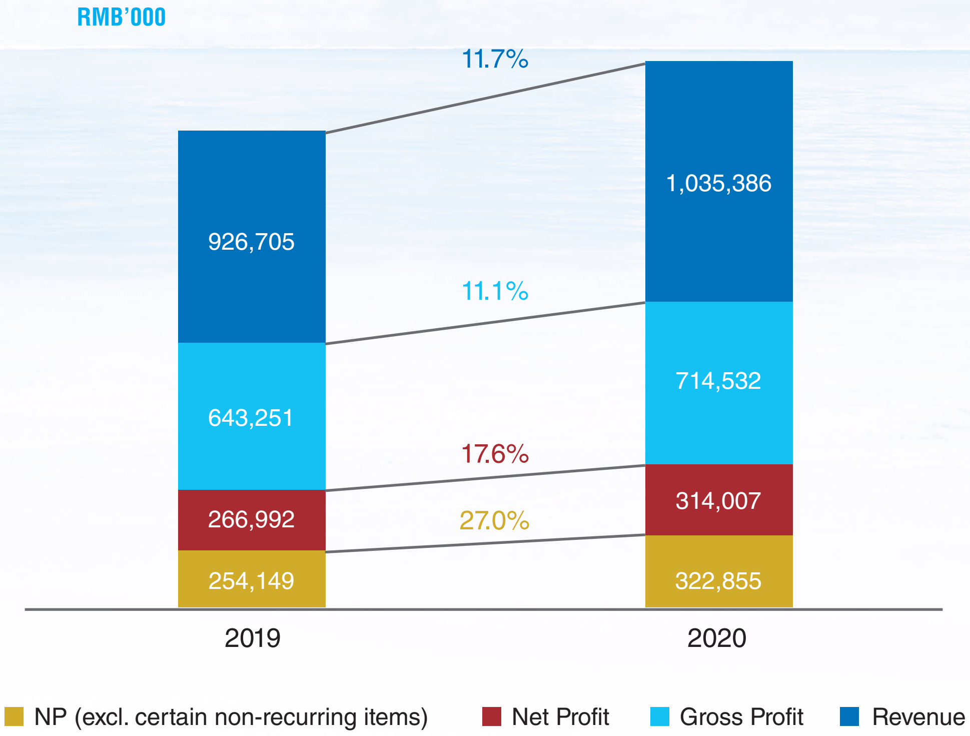
	Year ended 31 December		
	2020	2019	Variance
	RMB'000	RMB'000	%
Revenue	**1,035,386**	926,705	11.7%
Cost of sales	**(320,854)**	(283,454)	13.2%
Gross profit	**714,532**	643,251	11.1%
Gross profit margin (%)	**69.0%**	69.4%	(0.4%)
Profit for the year	**314,007**	266,992	17.6%
Profit for the year attributable to equity shareholders of the Company	**314,007**	266,992	17.6%
Profit for the year, excluding certain non-recurring items*	**322,855**	254,149	27.0%
Earnings per share			
Basic	**RMB0.28**	RMB0.26	
Diluted	**RMB0.28**	RMB0.25	

* Certain non-recurring items included impairment loss on goodwill in 2020 and insurance compensation in 2019.

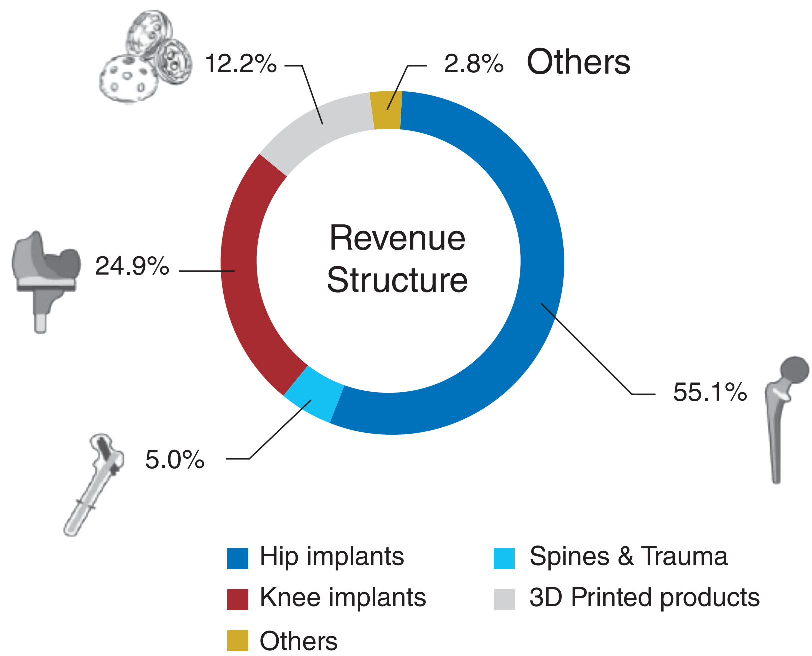
Affected by the COVID-19 pandemic, the growth of the Group significantly slowed down. For the year ended 31 December 2020, the Group achieved revenue of RMB1,035.4 million, representing an increase of 11.7% as compared to 2019. The Group sustained revenue growth despite the impact of the pandemic which was mainly attributable to the established brand image and the leading position in the market, hence effectively promoted the sales of its joint products. Due to an increase in revenue, the net profit of the Group for the year ended 31 December 2020 also increased by 17.6% as compared to 2019. In 2020, affected by the uncertainty of the pandemic and policies in overseas regions, the goodwill derived from the acquisition of JRI by the Group showed signs of impairment and the Group made provision of RMB8.8 million for impairment on goodwill derived from the acquisition of JRI. After deducting the impact of goodwill impairment in 2020 and deducting the one-off insurance compensation income from JRI in 2019, the net profit of the Group for the year ended 31 December 2020 increased significantly by 27.0% as compared to 2019.

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

Growth of Revenue, Gross Profit, and Net Profit



Revenue Breakdown by major products
For the Year Ended 31 December 2020



FIVE YEARS' FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,035,386**	926,705	600,562	372,700	270,777
Profit for the year	**314,007**	266,992	144,936	105,376	77,326
Assets					
Non-current assets	**624,085**	364,167	267,811	126,039	83,078
Current assets	**1,902,821**	1,118,059	824,989	731,568	322,457
Total assets	**2,526,906**	1,482,226	1,092,800	857,607	405,535
Liabilities					
Current liabilities	**417,838**	327,877	228,486	179,362	99,034
Non-current liabilities	**66,292**	38,339	22,556	10,262	12,108
Total liabilities	**484,130**	366,216	251,042	189,624	111,142
Total equity	**2,042,776**	1,116,010	841,758	667,983	294,393

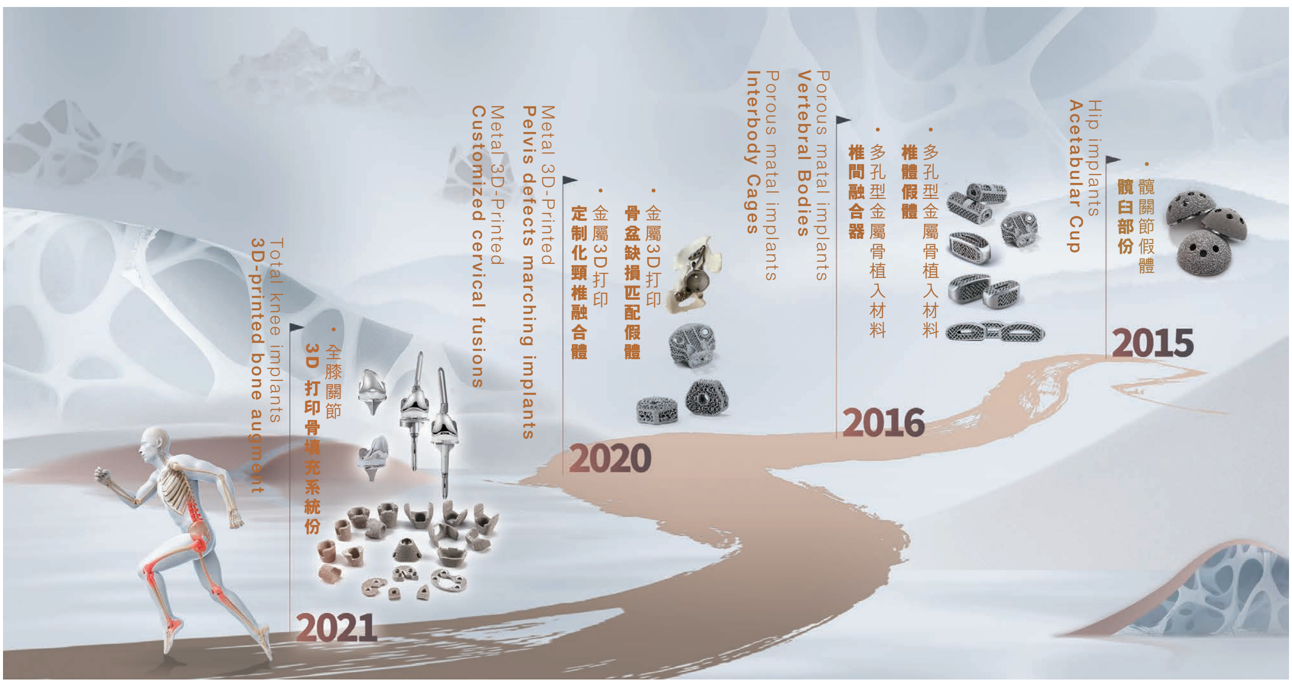
CHAIRMAN'S STATEMENT

Despite the impact of COVID-19 pandemic and uncertain external environment in 2020, the Group still leveraged the advantages of extensive product lines and strong R&D capability to respond productively and flexibly, for ensuring continued steady development. For the year ended 31 December 2020, the Group achieved sales revenue of RMB1,035.4 million, representing an increase of 11.7% as compared to last year; net profit amounted to RMB314.0 million, representing a growth of 17.6% as compared to last year. The annual profit, excluding certain non-recurring items, was RMB322.9 million, representing an increase of 27.0% as compared to last year.

In 2020, AK Medical continued to increase its investment in R&D to improve its R&D capabilities. The Group obtained two of the first – and thus far, only – 3D printing customised registration certificates approved by National Medical Products Administration in the PRC. During the period, the Group obtained the CE Full Quality Assurance System Certificate for its hip system and knee system products, as well as the 3D-printed intervertebral fusion device. Not only are these relevant products eligible to enter the European market, but will also facilitate registration in other non-European countries.

During the first half of the year, the Group completed the acquisition of all the equity interest in Beijing Libeier Bio-engineering Institute Co., Ltd. (北京理貝爾生物工程研究所有限公司) ("**Libeier**"). Libeier is an orthopedic PRC company, mainly engaged in the production, sales and research of orthopedic implants and surgical instruments. The acquisition of Libeier is beneficial to the Group in further enriching the product lines of spines and traumas which will realize its long term strategic goal of becoming the orthopedic leading brand in the PRC. Through in-depth resources integration and complementary advantages, a more solid foundation will be laid for the Group's business development in the future.

Amid the rapid development of medical device industry, as a leader in orthopedic joint industry in the PRC, AK Medical will pursue proactive development strategies to continue strengthening its leading position in the orthopedic joint industry. Going forward, the Group will continue to enhance its applications in joint, spine, trauma and other product lines based on the advantages of 3D printing technology, regularly introduce standardized and customized 3D printing products, and utilise 3D ACT preoperative planning assistance technologies to gradually expand into the field of intelligent equipment and surgical robotics. The Group will actively respond to the changes in the industry based on its own advantages and capabilities. In the future, the Group will identify opportunities in other segments of orthopedics, explore new technologies and products, and continuously enrich its product portfolio. At the same time, the Group will seize opportunities for growth and enhance business in overseas markets, further establish the brand influence of AK Medical, so as to deliver returns to shareholders, customers and the society!



BUSINESS OVERVIEW AND OUTLOOK

Overview

The year of 2020 was filled with extraordinary external change. The COVID-19 pandemic affected both daily life and global economic development. In China, the pandemic was effectively brought under control during the second half of the year, enabling economic activity and hospital operations to gradually recover to normal levels. Through implementing precise strategic plan that responded to industry trends, the Group could control the pandemic's impact and maintain a steady pace of growth.

In 2020, the National Healthcare Security Administration (the "**NHSA**") enhanced the medical insurance system's top-level design as part of its continuing reforms. Among these, a series of policies concerning volume-based procurement made a significant impact on the pharmaceuticals and medical devices industries. On 5 November 2020, the NHSA initiated the centralised procurement of high-value medical consumables, including coronary stents. The terminal price of selected products subsequently dropped by more than 90%. Meanwhile, the orthopedics industry was affected by the gradual implementation of provincial volume-based procurement of joint products in Jiangsu, Fujian, Zhejiang, Anhui and other provinces in 2020. This similarly resulted in a decline of the terminal price of products. It is expected that volume-based procurement will continue to be promoted at provincial or national levels in 2021.

Despite the impact of the COVID-19 pandemic and the uncertain external environment, the Group remained dealing with the changes positively and flexibly, leveraging on its rich product portfolio and R&D advantages. As of 31 December 2020, the Group recorded sales revenue of RMB1,035.4 million and a net profit of RMB314.0 million, representing increases of 11.7% and 17.6% respectively compared to the same period of the previous year. Profit for the year, excluding certain non-recurring items was RMB322.9 million, representing an increase of 27.0% as compared to the same period of last year.

3D-printed Products

3D-printed products are the products produced using 3D-printing technologies.

As of 31 December 2020, the Group held a total of three Class III medical device registration certificates for 3D printed standardized products, namely for 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and 3D-printed interbody cages. The Group also held two Class III medical device registration certificates for 3D printed customized products, namely 3D-printed pelvis implants and 3D-printed customized cervical fusion. In total, the Group has filed 20 3D-printed customized products with local drug regulatory departments.

In 2020, the Group's 3D-printed products achieved sales revenue of RMB126.2 million, slightly higher than 2019. This performance was mainly due to the fact that the 3D spinal business was affected by the COVID-19 pandemic, which during the first half of 2020 saw a sharp drop in operations at high-end Class III Level A hospitals. As restrictions eased, these hospitals gradually began to resume operations in the second half of the year. However, restrictions on middle- and low-end hospitals were relatively limited, and these began to resume operations in the second quarter. As the Group's 3D printing products, especially the 3D-printed spinal products, are targeted mainly at Class III Level A hospitals, their sales were more deeply impacted by the pandemic than were traditional products. Excluding the impact of the 3D-printed spinal products and other business, 3D-printed hip still maintained a rapid growth of 21.8%.

In 2020, the Group officially launched 3D printed customized products for complex customized multiple joint surgeries, and especially the complex customized surgery on the half pelvis and even the whole sacrum through pelvic customization. The latter operations can help patients with bone tumors recover function and greatly improve their quality of life. The combination of conventional surgery and customized products helps doctors to operate more simply and conveniently, shorten the operation time, reduce bleeding and control the infection. 3D-printed customised products have also further enhanced the impact of the AK brand in the end market.

In 2020, the Group continued to promote 3D Accurate Construction Technology ("**3D ACT**") to provide personalised customer services. For the year ended 31 December 2020, the platform covered 1,032 hospitals, 68 more than in 2019. The platform has assisted doctors in designing 6,157 surgical solutions, 1,415 cases more than in 2019. The platform's accumulation of surgical solutions will help the Group better understand various diseases and develop suitable prosthesis. Meanwhile, the platform also aided the Group in entering the high-end medical market, and especially Class III Level A hospitals in first- and second-tier cities.

Hip and Knee Products

The business under this section does not include 3D-printed products.

In 2020, the Group continued to provide customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries.

In 2020, the Group's hip and knee products delivered RMB829.0 million in revenue, representing a year-on-year increase of 7.1%. The slower growth of revenue from the hip and knee products business was mainly attributable to a decreased number of operations in hospitals caused by the COVID-19 pandemic. Despite the decline in revenue growth, the market share of the Group's joint products in Chinese market further improved, leveraging on a rich product line and good market reputation.

Spinal and Trauma Implants

With the completion of the acquisition of Libeier on 24 April 2020, the Group further replenished its orthopedic portfolio with spinal and trauma implants products. Libeier had a complete spinal and trauma implants product line and 15 Class III registration certificates approved by the National Medical Products Administration. After its acquisition, the Group made technical improvements based on its original registration certificates and quickly launched five new spinal products and four new trauma products, enriching the Libeier product portfolio and improving the product price system. Further, the Group leveraged on the brand's good reputation and product features to expand Libeier market channels. As of 31 December 2020, spinal and trauma implant products under the Libeier brand covered more than 1,000 hospitals, one-third of which were Class III Level A hospitals. In 2020, the Group's spinal and trauma implants products delivered RMB51.8 million in revenue.

Research and Development

As a company mainly driven by research and development ("**R&D**"), the Group continues to strengthen its investment and improve capabilities in this area.

In 2020, the Group obtained the first two registration certificates for 3D printed customized products approved by the NMPA, in China, being the 3D-printed pelvis implants and 3D-printed customized cervical fusion. The approval of these products facilitates the Group's commercialization of products for difficult and complicated surgeries and further consolidates its leadership in 3D printing technology. The Group obtained CE Full Quality Assurance System Certification for its hip and knee systems and 3D-printed interbody cage. The obtaining of CE Certification for orthopedic products of the Company has signified that its hip, knee and spinal products are allowed to be sold in the European market and will contribute to the registration of certain products in non-European countries.

In 2020, we streamlined the Group's internal R&D system, established internal R&D operational and information management systems, designed an online management and internal audit system for the progress of R&D projects, and improved the efficiency of R&D work. In the third quarter, the Company obtained the qualifications of "specialised, sophisticated, special and new" enterprise of Beijing and "little giant" enterprise of MIIT.

For the year ending 31 December 2020, AK Medical brand held a total of 36 registration certificates for Class III medical devices approved by the NMPA, five CE certifications approved by European regulators, and one US FDA certification. The ITI brand held a total of seven Class III medical device registration certificates for hip and knee joint implants. The Libeier brand held a total of fifteen Class III medical device registration certificates for spinal and trauma implant products. The JRI brand held nine CE certifications approved by European regulators, 16 Anvisa certifications approved by Brazilian regulators, one US FDA certification, and two registration certificates for Class III medical devices approved by the NMPA. The number of patents obtained by the Group also continues to grow. As of 31 December 2020, the Group had obtained a total of 87 invention patents, 300 utility patents and eight patents granted under PCT, demonstrating its innovative R&D capabilities.

Sales and Marketing

In 2020, the Group's marketing activities were affected by the COVID-19 pandemic. During the first half of the year, the Group quickly shifted a portion of its marketing and training activities online, where it trained more than 30,000 surgeons. The Group also used idle time created by the pandemic to provide frequent large-scale training activities for distributors and internal employees. In the second half of 2020, as hospitals resumed normal operation, the Group continued its efforts to explore new sales channels and enter more major hospitals.

In 2020, the Group stepped up the marketing of revision products and promoted the application of new products such as HDR and AHK in revision and complex surgeries. These actions helped to establish the image of AK Medical as a revision leader while enhancing the Company's position in the revision market.

In 2020, volume-based procurement for orthopedic consumables was implemented nationwide. In response, the Company established a bidding analysis database to conduct specific analysis on the data of various product lines and the Company's competitive products. A management mode of advance communication, in-process analysis and subsequent adjustment was also established as an aid to effective decision-making. As of 31 December 2020, the tender process for volume-based procurement had been completed in seven provinces, and the results have been implemented in four provinces. The Company employed bidding strategies adjusted in consideration to different regions' product lines, the Company's local market shares and the local competitive landscape to ensure effective implementation of its sales strategy throughout the country.

Acquisition of Libeier

In the first half of 2020, the Group completed the acquisition of all shares of Libeier with a consideration of US$40,200,000. Libeier is a PRC-based company established under the laws of the PRC with limited liability, mainly engaged in the production, sales and research of orthopedic implants and surgical instruments. Prior to the acquisition, Libeier was wholly-owned by Medtronic China Kanghui Holdings. Libeier is a well-regarded company with considerable professional knowledge and skill in the design, development and manufacture of orthopedic spinal and trauma implants and surgical instruments.

As leadership in China's orthopedic field is a long-term strategic goal of the Group, the acquisition of Libeier furthers its progress toward this aim and will enhance the Group's overall financial performance in the future.

Upon the acquisition of Libeier, the Company established a new board of directors and dispatched a management team to fully integrate Libeier, including its R&D, marketing and sales, with the aim of gradually resuming the brand's business and improving its operational efficiency.

PROSPECTS

Against a backdrop of a rapidly developing medical devices industry, and as a leader in China's orthopedic joint industry, the Group will continue to strengthen its leadership through a series of proactive development strategies, including but not limited to:

1. Continuously enhancing core competitiveness and committing to becoming a global orthopedic innovator

As a leading brand in China's orthopedic industry, the Company believes that R&D and innovation are at the core of its competitiveness. The Group will continue to strengthen the application of 3D printing technology in its joint, spine and trauma product pipelines, and introduce 3D printed standardized and customized products to provide personalised solutions for patients. The Group will gradually extend the application of 3D ACT assistant technology for preoperative planning to the field of intelligent devices and surgical robots, further consolidating the Company's leading position in the field of orthopedics.

2. Closely follow orthopedic industry policy and respond by adjusting corporate strategy

In 2019, the PRC government commenced a new round of medical and pharmaceutical system reform. In 2020, this led the NHSA to introduce a series of policies concerning high-value medical consumables which will have a profound influence on the industry landscape and its future development. The next few years may see the NHSA introduce yet more reform policies. To these changes, the Company will respond proactively on the basis of its advantages and characteristics, including but not limited to adjusting the direction of R&D, changing its business model and strengthening cost control, in order to seize the opportunities presented by industry reform.

3. Keep abreast of innovative technologies and products in the field of orthopedics, expand overseas markets

The acquisition of Libeier enabled the Company to further enrich its spinal and trauma product portfolios and become an orthopedic platform. In the future, the Group will seek further opportunities in other segments of orthopedics, explore new technologies and products, and constantly enrich its product offerings. At present, the scale of the Company's overseas sales is small. In light of the potential of overseas markets, and especially the orthopedics industry in emerging market countries with rapid growth, the Company intend to leverage on its products' high cost performance advantage to expand its presence and spread the uncertainty risk brought by domestic policies.

FINANCIAL REVIEW

Overview

	Year ended 31 December		
	2020	2019	Variance
	RMB'000	RMB'000	%
Revenue	**1,035,386**	926,705	11.7%
Cost of sales	**(320,854)**	(283,454)	13.2%
Gross profit	**714,532**	643,251	11.1%
Gross profit margin (%)	**69.0%**	69.4%	(0.4%)
Profit for the year attributable to equity shareholders of the Company	**314,007**	266,992	17.6%
Profit for the year, excluding certain non-recurring items*	**322,855**	254,149	27.0%
Earnings per share			
Basic	**RMB0.28**	RMB0.26	
Diluted	**RMB0.28**	RMB0.25	

* *Certain non-recurring items included impairment loss on goodwill in 2020 and insurance compensation in 2019.*

The Group achieved revenue of RMB1,035.4 million for the year ended 31 December 2020, representing an increase of 11.7% as compared to 2019. The Group sustained revenue growth despite the impact of the pandemic which was mainly attributable to the established brand image of the Company by virtue of its 3D-printing technology and 3D ACT platform, hence effectively promoted the sales of its 3D-printed products and regular hip and knee products. The Group maintained its leading position in the China joint implants market in terms of sales, and recorded a further increase in market share. The Group firmly believes that it will grow its business even further and continue to improve the quality of life for patients, with its subsequent R&D of more new products, implementation of the dual-brand global strategy and its advantages on international clinical education resources and 3D ACT platform.

The Group's net profit for the year ended 31 December 2020 also increased by 17.6% compared to 2019 due to the increase in income. The Group made an impairment provision of RMB8.8 million for goodwill formed on the acquisition of JRI at the end of 2020. Excluding the impact of the impairment of goodwill in 2020 and excluding the one-off insurance claim income from JRI in 2019, the Group's net profit for the year ended 31 December 2020 increased significantly by 27.0% as compared to 2019.

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

Revenue

	Year ended 31 December		
	2020	2019	**Variance**
	RMB'000	RMB'000	%
Hip replacement implants[1]	**570,953**	544,418	4.9%
Knee replacement implants	**258,019**	229,728	12.3%
3D-printed products[2]	**126,246**	123,433	2.3%
Spinal and trauma implants[3]	**51,814**	–	N/A
Third party orthopedic products	**11,055**	13,585	-18.6%
Others[4]	**17,299**	15,541	11.3%
Total	**1,035,386**	926,705	11.7%

Notes:

(1) Excluding 3D-printed hip replacement implants.

(2) Including 3D-printed hip replacement implants, spinal interbody cages, artificial vertebral bodies and artificial pelvis.

(3) Excluding 3D-printed spinal and trauma implants.

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

The revenue of the Group amounted to RMB1,035.4 million for the year ended 31 December 2020, representing an increase of 11.7% as compared with RMB926.7 million for the year ended 31 December 2019. The continuous increase in revenue was mainly attributable to the established brand image of the Company by virtue of 3D-printing technology and 3D ACT platform, hence effectively promoted the sales of its 3D-printed products and regular hip and knee products. On the other hand, the Group expedited the expansion of its spinal and trauma implants business after the acquisition of Libeier.

Hip and Knee Implants Products

The Group's hip and knee implants products include hip implants and knee implants. The Group's hip implants recorded revenue of RMB571.0 million for the year ended 31 December 2020, representing an increase of 4.9% as compared with RMB544.4 million for the year ended 31 December 2019. Such increase was attributable to the Group's 3D-printing technology and the established good brand in the market, which enabled the sales growth of hip implants. During the same period, the decline of sales revenue in the UK derived from JRI due to the impact of COVID-19 offset the growth in Chinese market partially.

The Group's knee implants recorded revenue of RMB258.0 million for the year ended 31 December 2020, representing an increase of 12.3% as compared with RMB229.7 million for the year ended 31 December 2019. Such increase was mainly attributable to providing total solutions for knee replacement surgery, such as the launch of AHK for complicated surgery, which facilitated in consolidating the brand image of the Group as a comprehensive solution provider for knee implants products and thus has driven the increase in the sales of the Group's cost-effective knee implants products.

3D-printed Products

The Group's 3D-printed products mainly include 3D-printed hip implants, 3D-printed artificial vertebral bodies and spinal interbody cages and 3D-printed artificial pelvis implants. The Group's 3D-printed products recorded revenue of RMB126.2 million for the year ended 31 December 2020, representing an increase of 2.3% as compared with RMB123.4 million for the year ended 31 December 2019. The flat growth is due to the decline in sales of 3D-printed spinal products impacted by COVID-19. The market coverage of the 3D-printed spinal products covered are mainly Class III Level A hospitals, which were more affected by COVID-19 epidemic control. Excluding the impact of the 3D-printed spinal products and other business, the 3D-printed hip products business grew by 21.8% as compared to the same period last year and still maintained significant growth.

Spinal and Trauma Implants

With the completion of the acquisition of Libeier on 24 April 2020, the Group further replenished its orthopedic portfolio with spinal and trauma implants products. After the consolidation of financial statements, the Group's spinal and trauma implants products delivered RMB51.8 million in revenue.

Third Party Orthopedic Products

To enrich the Group's product portfolio, the Group also distributed the orthopedic products produced by third parties. In 2020 and 2019, the Group's revenue derived from distributing third party orthopedic products amounted to RMB11.1 million and RMB13.6 million, representing 1.1% and 1.5% of its revenue, respectively.

Domestic and Overseas Sales

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

	Year ended 31 December		
	2020	2019	**Variance**
	RMB'000	RMB'000	%
China	**932,256**	799,611	16.6%
Other countries	**103,130**	127,094	–18.9%
Total	**1,035,386**	926,705	11.7%

As the overseas market has been affected by the pandemic for a relatively longer duration, the sales revenue derived from the overseas for the year ended 31 December 2020 was RMB103.1 million, representing a decrease of 18.9% as compared to the corresponding period of last year; the revenue from China for the year ended 31 December 2020 was RMB932.3 million, representing an increase of 16.6% as compared to the corresponding period of last year.

Cost of Sales

For the year ended 31 December 2020, the Group's cost of sales was RMB320.9 million, representing an increase of 13.2% as compared with RMB283.5 million for the year ended 31 December 2019. 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 grew by 11.1% to RMB714.5 million for the year ended 31 December 2020 from RMB643.3 million for the year ended 31 December 2019. The increase in gross profit was primarily driven by the increase in the Group's overall business scale. Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 69.0% for the year ended 31 December 2020, representing a slight decrease of 0.4% as compared with 69.4% for the year ended 31 December 2019. The decrease in gross profit margin was mainly due to the relatively lower gross profit margin of Libeier which was acquired in the current year. Excluding the impact of Libeier, the gross margin for the year ended 31 December 2020 was in line with the prior year.

Other Income, net

The Group's other income for the year ended 31 December 2020 was RMB5.3 million, representing a decrease of RMB15.0 million as compared with RMB20.3 million for the year ended 31 December 2019. This is attributable to the fact that other RMB12.8 million of income in 2019 was from the one-off insurance compensation received by JRI.

Selling and Distribution Expenses

Selling and distribution expenses were RMB154.1 million for the year ended 31 December 2020, representing a decrease of 12.1% as compared with RMB175.3 million for the year ended 31 December 2019. The decrease was primarily due to the limitation to carry out marketing activities as a result of the pandemic, which led to the corresponding decrease in related expenses such as marketing activity expenses and travelling expenses.

General and Administrative Expenses

General and administrative expenses amounted to RMB83.0 million for the year ended 31 December 2020, representing a decrease of 10.0% as compared with RMB92.2 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in share option expenses.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2020 was RMB105.0 million, representing an increase of 30.4% as compared with RMB80.5 million for the year ended 31 December 2019. The increase was mainly due to the increase in labor costs for R&D staff, service fee from external cooperative R&D institutions and R&D materials as a result of the continuous investment in R&D and the proactive promotion of R&D projects of the Group amid the pandemic.

Net Finance Income

Net finance income was RMB7.7 million for the year ended 31 December 2020, representing an increase of RMB1.8 million from RMB5.9 million for the year ended 31 December 2019. Such increase was primarily attributable to the increase in the average balance of capital held by the Company in 2020.

Goodwill Impairment

The Group assesses assets for impairment annually and more frequently if there is an indication that the carrying amount may be impaired. The excess of an asset's carrying amount over its recoverable amount, which is the higher of the asset's fair value less costs of disposal and value in use, is recognised as a provision for impairment. In 2020, due to the uncertainty of the COVID-19 outbreak in overseas regions and the uncertainty of the national policy on centralised volume procurement of medical consumables on the future procurement pattern of high value medical consumables. The Group assessed the commercial impact of the acquisition of JRI. The Group assessed the goodwill arising from the acquisition of JRI as an indication of impairment. Based on the results of the impairment test, the Group made an impairment provision of RMB8.8 million for the goodwill arising from the acquisition of JRI.

Income Tax Expenses

Income tax expense was RMB62.6 million for the year ended 31 December 2020, representing an increase of 15.1% as compared with RMB54.4 million for the year ended 31 December 2019. Such increase was primarily due to an increase in the Group's profit before tax resulting from its expansion of operations. At the same time, the withholding income tax that withholds 10% of the expected profit available for distribution from the operating entities in China for the year ended 31 December 2020 also led to the increase in income tax. The effective tax rate for 2020 was approximately 16.6% (2019: 16.9%).

Liquidity and Financial Resources

As at 31 December 2020, the Group had cash and cash equivalents of RMB713.1 million, structured deposit of RMB188.4 million, time deposits over 3 months of RMB49.6 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB956.1 million in aggregate, as compared with RMB498.9 million as at 31 December 2019. 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 RMB1,485.0 million as at 31 December 2020, representing an increase of RMB694.8 million as compared with RMB790.2 million as of 31 December 2019. 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 a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US$ and Euro. For the year ended 31 December 2020, the Group recorded an exchange loss of RMB4.0 million, as compared with an exchange loss of RMB3.6 million for the year ended 31 December 2019. 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 2020, the Group's total capital expenditure amounted to approximately RMB100.3 million, which was primarily used in (i) procurement of equipment, machinery, and software for manufacturing and R&D activities; and (ii) construction of factories.

Charge of Assets/Pledge of Assets

As of 31 December 2020, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2020, 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 2020, the gearing ratio of the Group was 0% (as of 31 December 2019: 0.2%).

Contingent Liabilities

As of 31 December 2020, the Group did not have any material contingent liabilities.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associated Companies and Joint Ventures

During the financial year ended 31 December 2020, the Group has acquired the entire equity interest in Libeier, subsequent to which Libeier is classified as an investment in subsidiary where the financial result of which is consolidated into the consolidated financial statements of the Company. Such acquisition is regarded as a material acquisition of the Company. For further details of the acquisition of Libeier, please refer to the paragraph headed "Management Discussion and Analysis – Acquisition of Libeier" and note 30 to the consolidated financial statements in this annual report.

Other than the above, the Group has not made any significant investments or material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the same period.

Future Plans for Material Investments and Capital Assets

As of 31 December 2020, in addition to the construction of Changzhou Facilities as disclosed in the Prospectus, the Group plans to acquire 50 acres of land in the Beijing Changbei base for production and to consolidate leased premises in multiple locations to improve operational and management efficiency and to reduce overall operating costs.

Employee and Remuneration Policy

As of 31 December 2020, the Group had 1,019 employees (31 December 2019: 790 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2020 amounted to RMB164.8 million (for the year ended 31 December 2019: RMB156.2 million). The increase in staff remuneration was primary due to the increase in headcounts.

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.

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HK$477.0 million. During the two years ended 31 December 2018 and 2019, respectively, the net proceeds were used in the manner consistent with that disclosed in the prospectus of the Company dated 7 December 2017 under the section headed "Future Plans and Use of Proceeds" and there was no material change in the use of proceeds. The unutilised amount has been totally used as at 31 December 2020.

The table below sets out the actual use of the net proceeds from the initial public offering of the Company as at 31 December 2020.

	Percentage of total amount	**Use of proceeds in the same manner and proportion as stated in the prospectus** (HK$ million)	**Actual use of proceeds as at 31 December 2020** (HK$ million)	**Balance as at 31 December 2020** (HK$ million)
Construction of the Changzhou Facilities, and, to a lesser extent, upgrading the existing facilities in Beijing and acquisition of new equipment for both the Changzhou Facilities and the existing facilities in Beijing	41%	195	195	–
Development and upgrade of the 3D-printed products and PTIP	21%	100	100	–
Other R&D activities	15%	73	73	–
Funding potential acquisitions and developing strategic alliances that could complement the existing product portfolio, technology and business growth	15%	73	73	–
General corporate purposes	8%	36	36	–
Total	100%	477	477	–

Issue of Equity Securities and 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 (and subsequently with the same number of shares being issued for top-up subscription, being all ordinary shares with nominal value of HK$0.01 each) were placed at a placing price of HK$15.0 per share (with a net placing price of HK$14.65) which represents a discount of approximately 7.9% to the closing price of HK$16.28 per share as quoted on the Stock Exchange on 20 February 2020 to no fewer than six independent placees whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons.

The reason for having this exercise was to strengthen the capital base of the Company. 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$130.0 million). Up to the date of this annual report, the net proceeds had not been fully utilised by the Group. It is expected that the remaining proceeds (being approximately HK$340.3 million) will be used in full for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022.

Subsequent Event

As of date of this annual report, the Group had no materiel events since 31 December 2020.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 53, 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) and Beijing Ximai Kesi Medical Device Limited* (北京西麥克斯醫療器械有限公司) since 21 July 2015, 28 July 2015, 15 March 2016, 8 May 2003 and 11 November 2009, 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 53, 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, the chairman of the Board, an executive Director and the chief executive officer of the Company, and the sister of Mr. Zhang Chaoyang, an executive Director and a senior vice president of the Company.

Ms. Zhang has over 20 years of experience in the medical industry. She has been a director of Bright AK Limited (formerly known as OrbiMed Asia AK Limited) and AK Medical Beijing since 15 March 2016 and 30 July 2015, respectively. She has also been a vice general manager of AK Medical Beijing since December 2009. Prior to joining the Group, Ms. Zhang had served several roles including physician, head of the hospital chief executive office and radiologist in the CT room of the radiological department in Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China respectively 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 51, 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, 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 to be the chairman of AK Medical Beijing since 24 December 2020. Prior to joining the Group, Mr. Zhang had 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 43, is an executive Director of the Company, primarily responsible for overseeing the sales management and business operation of the Group. She was appointed as a Director on 29 February 2016 and was designated as an executive Director the Company on 6 April 2016. Ms. Zhao was appointed as a vice president of the Company on 21 December 2018.

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

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

Non-executive Director

Dr. Wang David Guowei (王國瑋), aged 59, is a non-executive Director primarily responsible for providing advice on 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 healthcare industry, where he has worked from August 2011. Dr. Wang is a director of Amoy Diagnostics Co., Ltd. (a company listed in the Shenzhen Stock Exchange, stock code: 300685) and a director of Gracell Biotechnologies Inc. (a company listed in NASDAQ, stock code: GRCL). From April 2006 to July 2011, he served as managing director at WI Harper Group, responsible for investment activities in life sciences and healthcare areas. From March 2010 to July 2012, he served on the board of directors of Edan Instruments, Inc. (a company listed in the Shenzhen Stock Exchange, stock code: 300206), a provider of advanced electronic medical equipments, where he also served on both the audit committee and strategic committee. He ceased to be a director of Suzhou Medical System Technology Co., Ltd. (a company listed in the Shanghai Stock Exchange, stock code: 603990) on 6 May 2019 and a non-executive director of Union Medical Healthcare Limited (a company listed in the Hong Kong Stock Exchange, stock code: 2138) on 24 April 2020.

Dr. Wang received his doctorate in developmental biology from 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), aged 45, 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 Company.

Mr. Kong has over 22 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance. Presently, Mr. Kong holds the position of independent non-executive director in Huazhang Technology Holding Limited (stock code: 01673) and ZACD Group Ltd. (stock code: 08313), both these public companies listed on the main board or growth enterprise market of the Hong Kong Stock Exchange.

After graduation, Mr. Kong started his first 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), a company listed on the main board of the Hong Kong Stock Exchange) from June 1997 to March 1998. Mr. Kong worked as a tax associate in PricewaterhouseCoopers from March 1998 to October 1999 and worked in KPMG from October 1999 to December 2007, during which he was promoted to audit senior manager in July 2006. Mr. Kong was the independent non-executive director of Starlight Culture Entertainment Group Limited (stock code: 01159) from May 2017 to May 2019 and Aowei Holding Limited (stock code: 01370) from June 2013 to March 2021 and Mr. Kong held various positions, namely executive director, chief financial officer, company secretary and authorised representative, during his employment with China Vanadium Titano-Magnetite Mining Company Limited (stock code: 00893) from May 2008 to March 2020, all these public companies listed on the main board of the Hong Kong Stock Exchange.

Mr. Kong obtained his Bachelor's Degree in Business Administration from The Chinese University of Hong Kong in December 1997. Mr. Kong is a fellow of The Association of Chartered Certified Accountants (United Kingdom), a fellow of each of The Chartered Governance Institute (United Kingdom) and The Hong Kong Institute of Chartered Secretaries, a member of The Hong Kong Institute of Directors and an ordinary member of Hong Kong Securities and Investment Institute. Mr. Kong was also awarded the Chartered Governance Professional qualification from The Chartered Governance Institute (United Kingdom) and The Hong Kong Institute of Chartered Secretaries in September 2018.

Dr. Li Shu Wing David (李澍榮), aged 56, is an independent non-executive Director primarily responsible for overseeing the management of the Group independently. He joined the Group on 17 November 2017, when he was appointed as an independent non-executive Director. He is the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company.

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

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

Mr. Eric Wang, aged 53, is an independent non-executive Director primarily responsible for overseeing the management of the Group independently. He joined the Group on 15 June 2020, when he was appointed as an independent non-executive Director.

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

Mr. Wang is a member of 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 47, 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 48, is the director of research center of AK Medical Beijing, primarily responsible for overseeing the management of the research center of AK Medical Beijing. Ms. Wang has over 10-year R&D experience in orthopedic implants. She joined the Group in October 2010 as the supervisor of research center of AK Medical Beijing and was promoted to the director of 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 38, is one of our joint company secretaries, 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, 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 36, has been the Chief Financial Officer of the Company since December 2020. She is primarily responsible for 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 was graduated from Tianjin University of Finance and Economics with Bachelor Degree in Accounting. She is a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants.

Ms. Zhou Qunfang (周群芳), aged 48, was appointed to be the General Manager 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 April 2020. She is primarily responsible for production & operation management, quality control and customer services of Beijing Libeier. She has rich experience in operations. Prior to joining the Group, Ms. Zhou worked as the director of the operation management department at Changzhou Kanghui Medical Devices Co., Ltd.*(常州市康輝醫療器械有限公司) and Beijing Libeier from April 2015 to April 2020.

Ms. Zhou obtained an Executive Master of Business Administration (EMBA) from the Information Institute of Beihang University (北京航空航天大學軟件學院) in 2011. She obtained a master degree in international trading from Graduate School of Chinese Academy of Social Sciences in 1998 and a bachelor degree in automatic control from Beihang University 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 2020.

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 Group's activities during the year.

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE

Leveraging on the opportunities brought about by the policy development, the Group promoted its business growth on a steady pace. For the year ended 31 December 2020, the Group achieved an annual revenue of RMB1,035.4 million, representing an increase of 11.7% as compared to the same period in 2019; the Group achieved profit of RMB314.0 million, representing a growth of 17.6% as compared to the same period in 2019.

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 part of "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 2020 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

Market risk

In recent years, the Chinese government announced a series of healthcare reform plans, including the reform on tender system, and insurance system, etc., among others, and the volume-based procurement policy had been implemented in certain medical device products. The Chinese government may decide to impose stronger price controls over the medical device industry, which may impact the retail price of our product. We also have the risk that we may not win the bid.

We will conduct an analysis and research and make a judgment on these policies, so as to grasp the opportunities arising from the trend of import substitution brought by these policies, and continuously introduce new competitive products to cope with the price pressure.

COVID-19 risk

Since the outbreak of COVID-19 virus in 2020, authorities in China have taken emergency public health measures including imposing travel and other work-related restrictions. The outbreak and the measures taken by the government could have the following adverse effects on our business: (i) some patients who expect to undergo joint implant operations delayed their surgery appointments or plans; (ii) there may be disruption or delay to the supply chain of the Group including the procurement of raw materials and delivery of finished products; and (iii) certain other suppliers and service providers may not be able to fully resume their supply or service capacities. Until 31 December 2020, the COVID-19 pandemic didn't end yet.

KEY RELATIONSHIP

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

Employees

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

Customers

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

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

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

We also strive to enhance the 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 the United Kingdom (the "**UK**") laws, rules and regulations with regard to environmental matters, at both the national level and then 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.

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 2020, 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.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 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$4.0 cents per ordinary share for the year ended 31 December 2020 (2019: HK$7.5 cents) to the shareholders whose names appear on the register of members of the Company on Wednesday, 23 June 2021. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on Tuesday, 15 June 2021, will be payable on or around Tuesday, 13 July 2021.

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 Wednesday, 9 June 2021 to Tuesday, 15 June 2021, 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, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 8 June 2021.

(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, 21 June 2021 to Wednesday, 23 June 2021, 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, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 18 June 2021.

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 2020, the Group has no borrowings.

PLEDGE OF ASSETS

As of 31 December 2020, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, sales to the Group's five largest customers accounted for approximately 16.2% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB35.1 million, which amounts to approximately 3.4% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 45.4% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB82.7 million, which amounts to approximately 22.3% of the Group's total purchases.

None of the directors or any of their 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 customer and supplier during the year ended 31 December 2020.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2020 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 2020 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

At 31 December 2020, 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 RMB1,082.9 million.

DIRECTORS

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

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

Non-executive Directors
Dr. Wang David Guowei
Mr. Li Wenming (retired on 15 June 2020)

Independent Non-executive Directors
Mr. Kong Chi Mo
Dr. Li Shu Wing David
Mr. Eric Wang (appointed on 15 June 2020)
Mr. Dang Gengting (retired on 15 June 2020)

In accordance with Article 84 of the Company's Articles of Association, Mr. Li Zhijiang, Ms. Zhang Bin and Dr. Wang David Guowei shall retire by rotation at the AGM, and are eligible to offer themselves for re-election at the AGM. Dr. Wang David Guowei will not offer himself for re-election and will therefore retire at the AGM as he intends to spend more time on his personal business whereas the other two retiring Directors, i.e. Mr. Li Zhijiang and Ms. Zhang Bin, shall offer themselves for re-election at the AGM. In accordance with Article 83(3) of the Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. Mr. Eric Wang who has been appointed by the Board on 15 June 2020 shall hold office until the AGM and offer himself for re-election at the AGM.

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 2020, 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 comparable market practices.

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

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

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

The annual remuneration of the Executive Directors and the senior management by band for the year ended 31 December 2020 is as follows:

Annual Income	Number of Persons
Below RMB500,000	1
RMB500,000 to RMB999,999	5
Over RMB1,000,000	3

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S INTEREST IN TRANSACTIONS, AGREEMENTS AND CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, agreements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year ended 31 December 2020.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company 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 2020 or at any time during the year ended 31 December 2020.

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 2020. 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 2020 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 2020, 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, were as follows:

(i) Interest in 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 Interest of spouse	505,157,500 (L) 10,125,000 (L)	45.29% 0.91%
Ms. Zhang Bin (Note 4)	Interest of controlled corporation Interest of spouse	10,125,000 (L) 505,157,500 (L)	0.91% 45.29%
Mr. Zhang Chaoyang (Note 5)	Founder of a discretionary trust	58,818,500 (L)	5.27%
Ms. Zhao Xiaohong (Note 6)	Beneficial owner	2,000,000 (L)	0.18%

Notes:

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

(2) The percentage is calculated based on the total number of 1,115,500,000 shares in issue as at 31 December 2020.

(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. 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 and 1,000,000 shares of the Company.

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

As at 31 December 2020, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust Interest of spouse	505,157,500 (L) 10,125,000 (L)	45.29% 0.91%
Ms. Zhang Bin	Interest of controlled corporation Interest of spouse	10,125,000 (L) 505,157,500 (L)	0.91% 45.29%
Mr. Zhang Chaoyang	Founder of a discretionary trust	58,818,500 (L)	5.27%
Ximalaya Limited	Beneficial owner	505,157,500 (L)	45.29%
Suntop Limited	Beneficial owner	58,818,500 (L)	5.27%
Trident Trust Company (HK) Limited (Note 3 & 4)	Trustee of a discretionary trust	563,976,000 (L)	50.56%
Bamboo Group Management Limited (Note 4)	Interest of a controlled corporation	58,818,500 (L)	5.27%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	505,157,500 (L)	45.29%
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 1,115,500,000 shares in issue as at 31 December 2020.

(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.

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

During the period from 1 January 2020 to 31 December 2020 (the "**Reporting Period**"), neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2020 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 2020.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 9,425,000, representing approximately 0.84% of the shares of the Company in issue.

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

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

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

(aa) For the purpose of this paragraph:

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

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

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

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

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

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

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

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

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

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

During the 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 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ lapsed during the Reporting Period	Outstanding as at 31 December 2020	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	2,000,000	0	1,000,000	0	1,000,000	10 YEARS	HK$1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	16,775,000	0	8,300,000	50,000	8,425,000	10 YEARS	HK$1.34
Total		**18,775,000**	**0**	**9,300,000**	**50,000**	**9,425,000**		

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

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

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

1. Purpose

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.	Period within which the securities must be taken up under an option	An option may be exercised 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 prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, except that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date.
6.	Minimum period, if any, for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
7.	Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for shares may be accepted in respect of less than the number of shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.
8.	Basis of determining the exercise price	The exercise price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, except that such price will not be less than the highest of: (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.
9.	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 20 December 2027.

There is no outstanding share option as at 1 January 2020 and during the Reporting Period, no share options were granted, exercised, cancelled or lapsed by the Company.

SHARE AWARD SCHEME

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

PURPOSES OF THE SHARE AWARD SCHEME

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

ADMINISTRATION

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

ELIGIBILITY

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

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

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

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

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

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

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

SHARES POOL

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

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

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

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

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

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

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

AWARD OF SHARES

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

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

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

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

VOTING RIGHTS OF THE SHARES IN THE SHARES POOL

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

VESTING OF THE AWARDED SHARES

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

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

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

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

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

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

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

BLACK-OUT PERIOD

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

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

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

LAPSE OF AWARD

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

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

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

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

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

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

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

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

SCHEME LIMIT

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

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

RIGHTS ATTACHING TO THE AWARDS AND THE AWARDED SHARES

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

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

ALTERATION OF THE SHARE AWARD SCHEME

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

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

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

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

MOVEMENTS OF AWARDED SHARES

During the financial year ended 31 December 2020, no awarded Shares were granted under the Share Award Scheme.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Except as disclosed in note 32 to the consolidated financial statements, the text of which is set out in consolidated financial statement, during and at the end of 2020, the Company has not engaged in any other material connected transactions or related party transactions. All such related party transactions as disclosed in note 32 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 as defined under the "Listing Rules" of the Company or their respective associates has any interest in a business which competes or may compete with the business of the Group or has any other during the year ended 31 December 2020.

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 19 to 22 of this annual report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

DONATION

In 2020, the Group made a total donation of RMB1,112,000 to support public health and welfare.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Tuesday, 15 June 2021. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 46 to 58 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 2020 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 2020.

SUBSEQUENT EVENTS

No material events have occurred since 31 December 2020.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2020. 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, 22 March 2021

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 2020 in the Company's annual report for the year ended 31 December 2020.

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 and Corporate Governance Report (the "**CG Code**") 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 2020, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 2020.

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

BOARD OF DIRECTORS

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

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Li Zhijiang — *(Chairman of the Board, Chief Executive Officer, Chairman of Nomination Committee and Member of Remuneration Committee)*

Ms. Zhang Bin

Mr. Zhang Chaoyang

Ms. Zhao Xiaohong

Non-executive Director

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

Independent Non-executive Directors

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

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 20 to 23 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 to 23.

Board Meetings and Directors' Attendance Records

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

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

	Attendance/Number of Meetings	
Name of Directors	**Board Meetings**	**Annual General Meeting**
Executive Directors		
Mr. Li Zhijiang *(Chairman)*	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 Directors		
Mr. Li Wenming (1)	1/1	N/A
Dr. Wang David Guowei	3/4	1/1
Independent Non-executive Directors		
Mr. Dang Gengting (2)	1/1	N/A
Mr. Kong Chi Mo	4/4	1/1
Dr. Li Shu Wing David	4/4	1/1
Mr. Eric Wang (3)	2/2	N/A

Notes:

(1) Mr. Li Wenming retired as a Non-executive Director by rotation at the annual general meeting of the Company held on 15 June 2020.

(2) Mr. Dang Gengting retired as an Independent Non-executive Director at the annual general meeting of the Company held on 15 June 2020.

(3) Mr. Eric Wang was appointed as an Independent Non-executive Director with effect from 15 June 2020.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The 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 2020, 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. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Non-executive Directors

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

The Articles of Association of the Company (the "**Articles of Association**") provides 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 2020 are summarized as follows:

Name of Directors	**Attending Internally-facilitated Briefings or Training, Attending seminars, Reading materials**
Executive Directors	
Mr. Li Zhijiang *(Chairman)*	✓
Ms. Zhang Bin	✓
Mr. Zhang Chaoyang	✓
Ms. Zhao Xiaohong	✓
Non-executive Directors	
Mr. Li Wenming (1)	✓
Dr. Wang David Guowei	✓
Independent Non-executive Directors	
Mr. Dang Gengting (2)	✓
Mr. Kong Chi Mo	✓
Dr. Li Shu Wing David	✓
Mr. Eric Wang (3)	✓

Notes:

(1) Mr. Li Wenming retired as a Non-executive Director by rotation at the annual general meeting of the Company held on 15 June 2020.

(2) Mr. Dang Gengting retired as an Independent Non-executive Director at the annual general meeting of the Company held on 15 June 2020.

(3) Mr. Eric Wang was appointed as an Independent Non-executive Director with effect from 15 June 2020.

BOARD COMMITTEE

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 "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 2020, 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 without the presence of the Executive Directors.

The attendance record of each Director at the said Audit Committee meeting of the Company held in 2020 is set out in the table below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Kong Chi Mo *(Chairman)*	2/2
Mr. Li Wenming (1)	1/1
Dr. Li Shu Wing David	2/2
Dr. Wang David Guowei (2)	1/1

Notes:

(1) Mr. Li Wenming retired as a Non-executive Director by rotation at the annual general meeting of the Company held on 15 June 2020 and thus ceased to be a member of the Audit Committee on 15 June 2020.

(2) Dr. Wang David Guowei was appointed as a member of the Audit Committee with effect from 15 June 2020.

Remuneration Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration Committee met twice to review and make recommendation to the Board on appointment of Independent Non-executive Director, 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 2020 is set out in the table below:

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

The remuneration of the Directors and the senior management by band for the year ended 31 December 2020 is set out below:

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

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.

The Nomination Committee met once to review the structure, size and composition of the Board, the independence of the Independent Non-executive Directors, to make recommendation to the Board on the appointment of the Independent Non-executive Director 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 2020 is set out in the table below:

Name of Directors	**Attendance/ Number of Meetings**
Mr. Li Zhijiang *(Chairman)*	1/1
Mr. Dang Gengting (1)	1/1
Dr. Li Shu Wing David	1/1
Mr. Kong Chi Mo (2)	N/A

Notes:

(1) Mr. Dang Gengting retired as an Independent Non-executive Director at the annual general meeting of the Company held on 15 June 2020 and thus ceased to be a member of the Nomination Committee on 15 June 2020.

(2) Mr. Kong Chi Mo was appointed as a member of the Nomination Committee with effect from 15 June 2020.

Board Diversity Policy

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

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

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

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

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

Director Nomination Policy

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

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

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

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committees of the Company.

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

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year ended 31 December 2020, 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 and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable 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 Company'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 Company 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, provide treatment plans, and monitor the risk management progress.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2020.

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

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems for the year ended 31 December 2020, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

The Company has developed its inside information policy which provides a general guide to the Company's Directors, officers and all relevant employees of the Company to ensure inside information of the Company to be 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 2020.

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 80 to 87 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 2020 is set out below:

Service Category	**Fees Paid/Payable** RMB
Audit Services	4,022,000

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

JOINT COMPANY SECRETARIES

Ms. Han Yu and Ms. Li Yan Wing Rita have been appointed as the Company's joint company secretaries. Ms. Li Yan Wing Rita is an executive director of corporate services of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

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

For the year ended 31 December 2020, Ms. Han Yu and Ms. Li Yan Wing Rita have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

To safeguard shareholder interests and rights, separate 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.

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 meeting to meet shareholders and answer their enquiries.

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

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

Policies relating to Shareholders

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

The Company has adopted a policy on payment of dividends ("**Dividend Policy**") pursuant to code provision E.1.5 of the CG Code that has become effective from 1 January 2019. 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.

AK Medical is the first medical device company that has commercialized the application of 3D-printing technology in orthopedic joint and spine replacement implants in China. We are committed to offering domestically produced products with high quality to patients and striving to become a leading company in the orthopedic sector across. In the development of the Company, we pay attention to the issues related to environment, society and governance, making efforts to achieve sustainability of the Company and social development.

THE STATEMENT OF THE BOARD

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

The Board of AK Medical is the highest responsible and decision-making body for ESG matters, and assumes full responsibility for the Company's ESG strategy and reporting issues. In order to effectively fulfill the management and supervision responsibilities of the Board on environmental, social and governance issues, the Company's executive directors and senior vice presidents are specifically responsible for and implement various ESG resolutions of the Board, review ESG risks, monitor the development of specific ESG issues and regularly report the work progress to the Board.

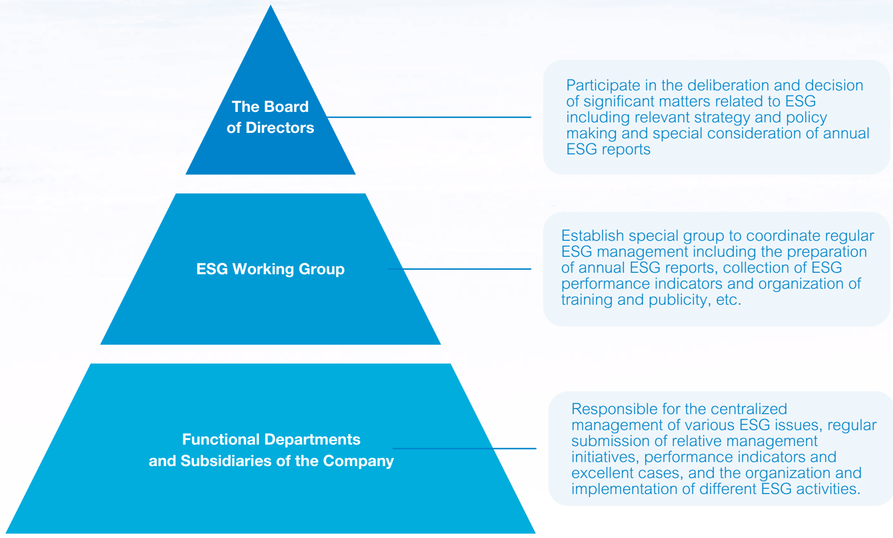
AK Medical regards sustainable development as an important part of the Company's strategy establishment. In 2020, the Company continued to standardize the ESG governance and management work process, improve the *ESG Working Group Management Measures (《ESG工作小組管理辦法》),* and standardize the responsibilities of the working group. The Company attaches great importance to ESG risk identification and determination, participates in the ESG material issue determination process, optimizes the ways in which stakeholders participate in communication, identifies, evaluates and manages important ESG issues, summarizes the results and main issues of AK Medical's materiality analysis in 2020, and compares the main differences in the analysis results of previous years. In addition, the ESG working group is responsible for collecting ESG performance indicators and organizing ESG training and promotion. The Company places emphasis on ESG information disclosure. The ESG working group is responsible for the preparation of the annual ESG report, which will be reviewed by the Board finally to ensure the authenticity and effectiveness of information disclosed.

This report fully discloses the progress and effectiveness of AK Medical's ESG work in 2020, and was reviewed and approved by the meeting of the Board on 22 March 2021. The Board of AK Medical and all directors guarantee that there is no false or misleading information or major omission in the contents of this report, and take individual and joint responsibilities for the truth, accuracy and completeness of its content.

ESG GOVERNANCE

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

The Group has complied with the disclosure requirements of the "comply or explain" provisions set out in the ESG Reporting Guide.



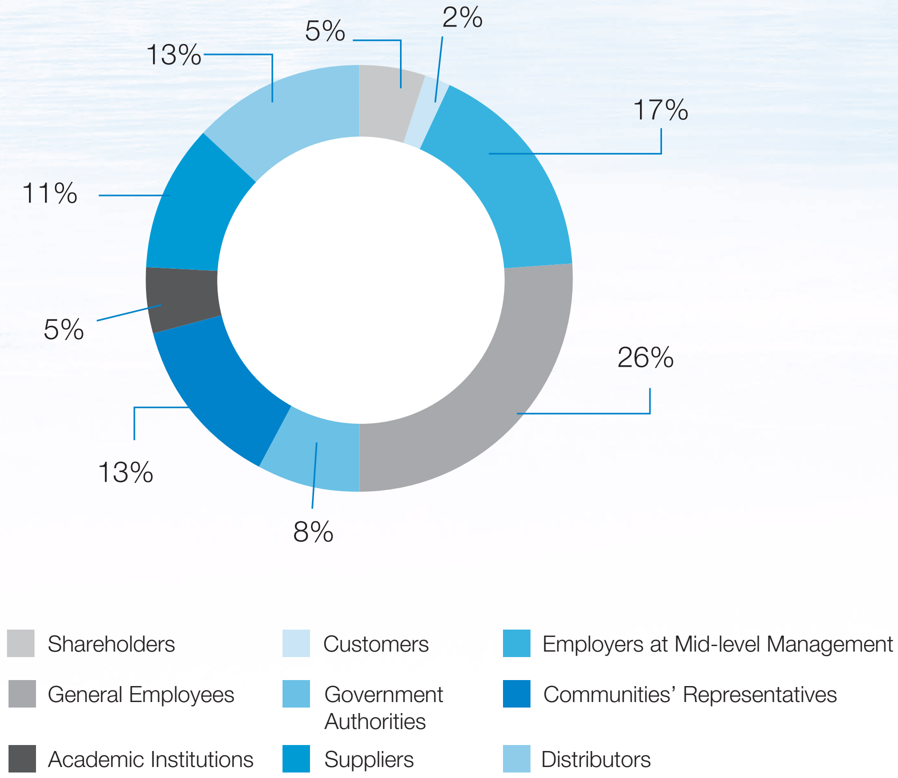
In accordance with *ESG Working Group Management Measures (《ESG工作小組管理辦法》)* established internally by the Company, AK Medical formed a three-level management structure comprising of the Board of Directors, ESG working group and functional departments and subsidiaries. The Board of Directors is responsible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

STAKEHOLDERS ENGAGEMENT

One of the important tasks of the ESG working group is that each department of the Company should continue to communicate with stakeholders to understand their demand and take actions to satisfy their reasonable expectations.

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

In 2020, the ESG working group of the Company began a questionnaire survey on stakeholders to have a systematical and comprehensive understanding of the stakeholders' comments on our ESG relative activities and obtained related recommendations on ESG matters for an important reference of future continuous improvement. In 2020, AK Medical collected a total of 104 valid questionnaires and composition of stakeholders is as follow:



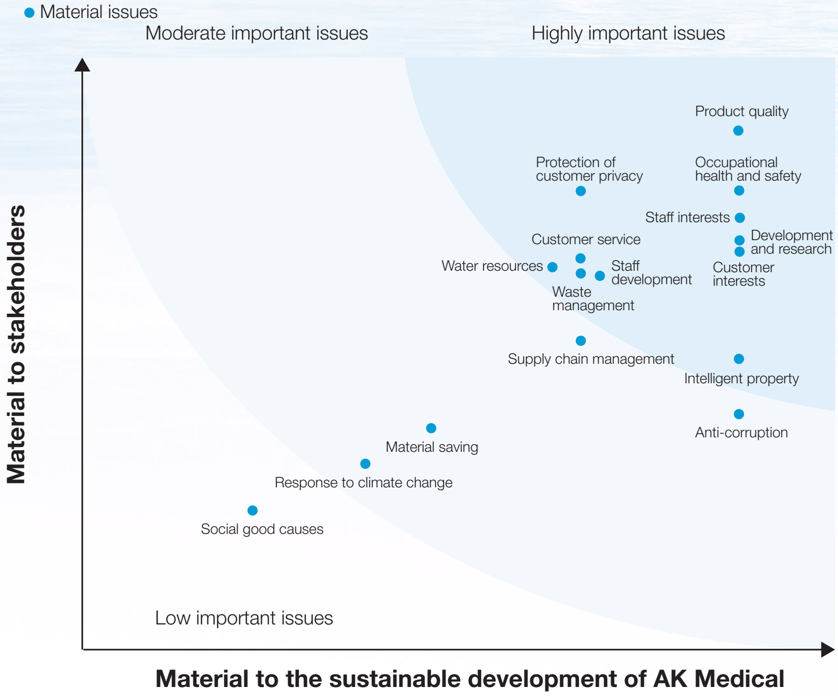
RESPONSE TO THE ESG REPORTING PRINCIPLES OF THE STOCK EXCHANGE

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

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

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

Sustainability Materiality Matrix of AK Medical in 2020



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

Balance: The Company spares no effort to ensure that the disclosed information is objective, fair and impartial. The contents in this report are from the internal management files, statistics and open information of the Company and reports from public media without improper amendments.

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

ENVIRONMENT

AK Medical attaches great importance to environmental management, focuses on green development in its operation process, pays attention to the possible impacts of climate change on the Company, put effort in reduction of carbon dioxide emissions, continues to standardize emission management, improves the efficiency of resource and energy utilization and promotes green office to create an environmentally-friendly enterprise.

Tackling climate change

Climate change is the common challenge that the world is facing and control and reduction of carbon emissions have become an inevitable responsibility amongst the world's development. AK Medical concerns the possible impacts of climate change on the Company's development, thus it establishes a climate change responsibility management system which identifies and responds to climate change risks, sets carbon emission reduction targets and monitors and tracks the progress of such targets.

AK Medical has formed a multi-level climate change management system:

Top level

- The Board convenes meetings regularly to discuss climate change-related risks and opportunities, strategic changes, targets setting and other related topics, and considers to include the climate-related risks and financial impacts in the future consideration scope. As the Company's climate change management has gradually well-developed, it will introduce incentives to manage climate-related issues in future.

- An executive director is appointed as the person-in-charge, being responsible for monitoring climate-related issues and strategies, formulating plans and managing policies and performance targets.

Execution level

- The ESG working group is responsible for assessing and managing climate-related risks and opportunities quarterly. The head of the ESG working group assumes the highest governance responsibilities except the Board and has the major capabilities required to make the final management decisions related to climate protection, such as establishment, control and reporting of environmental goals, energy efficiency and climate change monitoring.

Internal control team

- Conducting independent review of the adequacy and effectiveness of climate risk management.

In 2020, by conducting a detailed analysis of the Company's operating status, AK Medical has identified the following main climate risks and the countermeasures:

Type of risk	Description of risk	Countermeasures
Entity risk	Frequent extreme weather events, which will affect or even destroy our infrastructure (for example, electricity, water, transportation and communications), result in delays in the supply chain, manufacturing and delivery of products, and may affect the safety of personnels, thereby affecting the Company's operations.	• Give early warning of relevant natural disasters in time, select multiple suppliers to conduct procurement, and gradually require suppliers to formulate plans to adapt to the long-term climate change
Transition risk	Companies with poor environmental performance are subject to reputational risks. The accumulation of such incidents will damage the Company's brand value and may reduce customers' willingness to buy out products, invest into or work for the Company.	• Actively communicate with relevant stakeholders including customers, suppliers, distributors and investors, and transparently report their strategies and other information related to climate change to them. • Discuss with investors about issues related to climate change and energy efficiency
Transition risk	Given that consumers tend to choose products and services with low-carbon emission, the company will face certain risks related to market loss if it provides products with a high carbon footprint.	• Maintain regular communication with its distributors regularly, while the distributors inform customers about the strategies and measures of carbon footprint and climate protection • Disclosure and report carbon emission performance via public media (such as ESG reports, official websites, etc.)

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

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

The Company emphasizes on the control and management of carbon emission and formulates mechanisms to monitor energy consumption in production, construction and office to reduce greenhouse gas emissions. The Company requires the QHSE department to carry out the carbon footprint measurement and tracking to gain in-depth understanding of the production process that involves high carbon emissions. Thus it can make targeted management improvements. Looking forward, we will actively consider conducting verification and certification for third-parties in regard to carbon emissions to enhance the scientificity and authenticity of carbon emissions management. In 2020, the Company emitted 0.04 tons of CO_2 equivalent per RMB10,000 of output value. The comparison of the Company's greenhouse gas emissions in recent three years is as follows:

Type(note 1)	**2020**	**2019**	**2018**
Scope 1 (direct emissions) (tons of CO_2 equivalent)	**394.9**	529.5	363.1
Scope 1 (direct emissions) Emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.00**	0.01	
Scope 2 (indirect emissions) (tons of CO_2 equivalent)	**4,196.2 (note 2)**	2,451.5	1,974.9
Scope 2 (indirect emissions) Emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.04**	0.03	0.03
Total (tons of CO_2 equivalent)	**4,591.1**	2,981.0	2,338.0
Total emission intensity (tons of CO_2 equivalent per RMB10,000)	**0.04**	0.03	0.03

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

Note 2: In 2020, AK Medical's environmental data collection method was newly incorporated into Libeier, and ITI Medical was officially put into operation, resulting in a significant increase in electricity consumption and carbon dioxide emissions. In the future, we will launch targeted management improvements in production areas that involve high carbon emissions.

WASTE MANAGEMENT

AK Medical undertakes to impose strict waste management in accordance with the laws and regulations in the places where it operates. In China, we strictly comply with the national laws and regulations including the *Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)*, *the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》)*, *the Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》)*, *the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》)* and *National Safety Management Ordinance for Hazardous Chemicals (《危險化學品安全管理條例》)*. In addition, regarding to the hazardous chemicals or hazardous wastes with greater environmental impact and toxicity, the Company established the *Safety Management System for Hazardous Chemicals (《危險化學品安全管理制度》)* in order to strictly monitor and manage the storage, usage and dispose of such chemicals. For the hazardous waste incurred, we implemented the *Regulations on the Administration of Hazardous Waste Transfer (《危險廢棄物轉移聯單管理辦法》)* to ensure the hazardous waste to be disposed by experienced third parties.

JRI which operates in the UK also strictly complies with environmental laws and regulations such as *British Environmental Permitting (England and Wales) Regulations 2010*, Environment Protection Act and other industry-related environmental laws and regulations such as *Regulation (EC)No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)* in launching operation and business activities. It formulates the Environmental Control Procedure, which is an internal environmental control procedure, to regularly sort out the regulation requirements in internal control, waste management, noise control, chemicals management and packaging materials. JRI has formed an environmental committee that is responsible for external compliance and internal operation and management related to the environmental management. The committee receives environmental improvement advice from the employees and helps introduce the governance work.

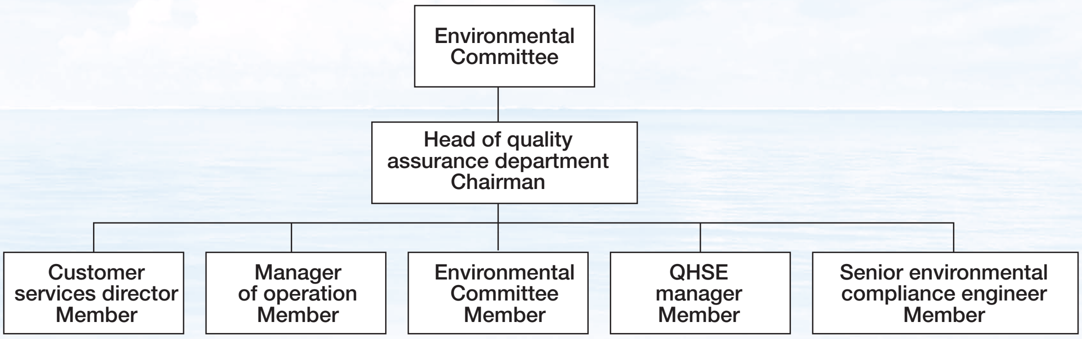


Chart: Structure of Environmental Committee of JRI

In 2020, AK Medical further expanded its business scope through internal business operations and external acquisitions. The newly added business will align with the Company's main business, and there will be no significant changes in environmental impact. The main pollutants of AK Medical are wastewater discharge, dust discharge, toxic and hazardous waste discharge, non-hazardous solid waste and noise pollution during the course of production. The waste water discharge is mainly generated from the product cleaning and grinding process, in which the waste water has been handled by the Company to remove the particulate and Raw material grinding particles and discharged into sewage treatment plants, which strictly fulfill the criteria of *Wastewater Discharge Standard of Beijing (《水污染排放標準》)* and the *British Law of Water Industry in 1991 (《英國1991年水工業法》)*. For the dust which is mainly generated from grinding and other production and processing processes, the Company established dust treatment and recycling system which is handled by professional company after collection and ensure that the air emissions is within the limit in the *Comprehensive Emission Standard of Atmospheric Pollution (《大氣污染物綜合排放標準》)* of Beijing. The Company's toxic and hazardous wastes are mainly generated from the use of saponification fluid, waste cutting oil, and toxic and hazardous chemicals. Such waste is collected, sorted and stored by the Company, thus being regularly transferred to qualified third-parties for proper disposal. Hazardous waste is transferred to "Wuliandan" to be properly stored for future inspection. The Company's general non-hazardous wastes are mainly generated from its general operation, household waste and production solid waste (adhesive cloth, grinding wheels, belts, gloves, polyethylene waste, grinding dust, titanium alloys metal shavings, cobalt-chromium-molybdenum alloy metal shavings, carton packaging, etc.). Such waste is collected and stored by the Company, and recycled in accordance with the garbage classification and recycling standards or transferred to the municipal government. The noise pollution mainly comes from product processing and manufacturing. To control the pollution, we strictly follow the *Emission standard for industrial enterprises noise at boundary (《工業企業廠界環境噪聲排放標準》)* to monitor and manage the pollution caused by our plants, which has reached Class II noise control standard.

In 2020, the volume of water discharge per RMB10,000 of output value was 0.1 ton; the volume of dust production per RMB10,000 of output value was 0.1 kg. Total volume of waste liquid (hazardous waste) produced, with 1.0 kg per RMB10,000 of output value. The total volume of non-hazardous waste produced is 13.6 tons, with 0.1 kg per RMB10,000 of output value.

The comparison of waste emission and disposal in recent three years is as follows:

Waste type		2020	2019	2018
Waste Water	Total water discharge volume (tons)	**12,961.1**	10,312.4	14,406.6
	Biochemical oxygen demand (BOD) (kg)	**476.5**	339.3	277.5
	Chemical oxygen demand (COD) (kg)	**346.4**	1,169.3	684.6
	Suspended solids (SS) (kg)	**118.1**	108.5	197.0
	Ammoniacal nitrogen (NH_3) (kg)	**0.8**	0.2	1.0
Waste Liquid (hazardous waste)	Total waste liquid production (tons)	**102.9**	85.4	60.8
	Waste liquid handling volume (tons) (note 1)	**92.9**	85.4	60.8
Dust	Total dust production (kg)	**8,916.7**	17,736.0	16,163.0
	Dust handling volume (kg) (note 2)	**8,850.0**	17,736.0	16,163.0
Solid Waste (non-hazardous waste)	Titanium waste handling volume (kg)	**6,043.0**	8,813.9	6,232.1
	Cobalt-chromium-molybdenum waste handling volume (kg)	**3,452.5**	4,357.5	4,272.3
	Other waste handling volume(kg)	**4,066.7**	3,368.0	4,185.0

Note 1: In 2020, ITI Medical produced 10 tonnes of waste liquid, which are stored temporarily in the plant, pending treatment by a qualified treatment facility.

Note 2: In 2020, 66.7kg of dust was produced by Libeier, which are stored temporarily in the plant, pending treatment by a qualified treatment facility.

USE OF RESOURCES

AK Medical is mainly engaged in the manufacturing and sales of traditional joint implants and 3D-printed products. As compared to the traditional manufacturing industry, 3D-printing technology consumes less energy and resources and there is less impact on the environment and natural resources. In the course of production and daily operation, the energy consumptions are mainly electricity, gasoline and diesel and the resource consumption is water. It also requires polyethylene, stainless steel, titanium alloy and cobalt-chromium-molybdenum. In addition, cardboard boxes, packaging boxes, plastic film and shock-absorbing plastic products are used in the packaging process.

The Company strictly complies with the *Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) and Energy Performance of Buildings (England and Wales) Regulations 2007 (《2007年建築能效指令(英格蘭和威爾士)》)* in the places where it operates, in order to improve the scientific management of the energy resources such as energy, water resources and production materials, reduce resource consumption and enhance the efficiency. The Company actively puts efforts in energy monitoring, energy- saving technology transformation and the reform of new energy, how to conduct refined comparisons among the workshops in terms of energy consumption, the installation of independent water and electric meters and the frequency of checking the reading of meters, so as to closely monitor the energy consumption, as well as achieving energy saving reform and setting a targeted goal. Moreover, we optimise the product design to reduce the consumption of raw materials per product unit, which achieves the goal of energy saving. In 2020, the Company's volume of water usage per RMB10,000 of output value is 0.2 tons. The comparison of emission in recent two years is as follows:

Type		2020	2019	2018
Energy use	Electricity consumption (ten thousand KWh)	**603.9**	359.9	294.9
	Gasoline consumption (ten thousand liters)	**18.3**	24.4	19.7
Water use	Water usage (municipal water supply) (tons)	**24,889.5**	23,434.4	18,690.8
Raw materials	Polyethylene (tons)	**22.1**	16.6	11.9
	Stainless steel(tons)	**43.5**	128.2	113.6
	Titanium alloy(tons)	**10.4**	49.4	35.0
	Cobalt-chromium-molybdenum (tons)	**2.09**	41.3	28.7
	POM stick(tons)	**0.0**	0.0	1.0
Packaging materials	Cardboard boxes (tons)	**30.65**	22.7	21.4
	Product packaging boxes (tons)	**46.32**	19.2	13.3
	Product plastic film (tons)	**4.35**	6.5	6.5
	Bubble bag (tons)	**1.7**	0.0	0.1
	Other materials (tons)	**31.8**	2.6	2.1

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

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

GREEN OFFICE

AK Medical has established the *Green Office Management regulations (《綠色辦公管理規定》),* so as to strictly control the energy and resource consumption in the non-production process, and the process of waste generation and treatment. In terms of saving energy and resources, the Company encourages the employees to save electricity and water, promotes online office to reduce waste of paper as well as carbon emissions caused by employees' travel and gives priority to purchasing green office products and environmentally-friendly paper. In terms of reducing waste discharge, we strictly comply with the *Notice on the Comprehensive Implementation of Domestic Waste Sorting in Cities at Prefecture Level and Above (關於在全國地級及以上城市全面開展生活垃圾分類工作的通知》),* and classify waste generated in office as well as sorting and treating the recyclable waste, general waste and hazardous waste. In addition, the Company actively promotes green office and continuously arouses employees' knowledge and awareness of energy conservation.

Type		2020
Office waste	Volume of office waste produced (tons)	**4.15**
	Volume of electronic waste disposed (tons)	**0.25**
	Used battery recycled (piece)	**142**

EMPLOYEE

AK Medical always regards employees as the cornerstone of the Company's everlasting success. It effectively protects the rights and interests of employees, creates a fair, open, harmonious and tolerant working environment for employees, continues to build a talent management system, improves talent training mechanisms, cultivates industrial leaders and business talents, integrates employee care into the corporate culture, and endeavours to creating a cohesive spiritual home for employees.

EMPLOYMENT

In strict compliance with the relevant laws and regulations,including the *Labor Law of the PRC (《中華人民共和國勞動法》)*, *the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)*, *Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》)* and *Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》)*, AK Medical formulated internal systems, including *the Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor《(關於禁止雇傭童工強制勞工的管理規定》)*, *Compensation Management System《(薪酬管理制度》)* and *Employee Training System《(員工培訓制度》)*, to safeguard the legal rights and interests of the staff. The Company adheres to legal employment and avoids engaging in child labor or forced labor in any ways, provide equal treatments for employees, regardless of their gender, age, race and cultural background, so as to promote employment diversity and provide fair employment opportunities for all staff.

In 2020, the distribution of employment types of AK Medical is as follows:

Employment type	2020 (number of employees)	2019 (number of employees)
Full-time employee	**1,017**	786
Part-time employee	**2**	4
Total	**1,019**	790

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

Gender	2020 Number of employees	2020 Number of turnover staff	2020 Turnover rate (%)	2019 Number of employees	2019 Number of turnover staff	2019 Turnover rate (%)
Male	**658**	**143**	**17.9**	502	111	18.1
Female	**361**	**78**	**17.8**	288	84	22.6
Total	**1,019**	**221**	**17.8**	790	195	19.8

The employment of employees by age structure is as follows:

Age	2020 Number of employees	2020 Number of turnover staff	2020 Turnover rate (%)	2019 Number of employees	2019 Number of turnove staff	2019 Turnover rate (%)
Under 30	**300**	**87**	**22.5**	220	47	17.6
30-39	**471**	**105**	**18.2**	362	100	21.6
40-49	**174**	**22**	**11.2**	145	36	19.9
50 and above	**74**	**7**	**8.6**	63	12	16.0
Total	**1,019**	**221**	**17.8**	790	195	19.8

The employment of employees by regions is as follows:

Region	2020 Number of employees	2020 Number of turnover staff	2020 Turnover rate (%)	2019 Number of employees	2019 Number of turnover staff	2019 Turnover rate (%)
PRC	**908**	**197**	**17.8**	669	164	19.7
Hong Kong, Macau and Taiwan	**1**	**0**	**0**	1	0	0
Overseas	**110**	**24**	**17.9**	120	31	20.5
Total	**1,019**	**221**	**17.8**	790	195	19.8

Health and Safety Management

AK Medical attaches great importance to production safety and spends a lot of manpower and material resources to build a safety line to protect the safety and occupational health of employees. The Company strictly complies with the *Labor Law of the PRC (《中華人民共和國勞動法》)*, the *Safety Production Law of the PRC (《中華人民共和國安全生產法》)* and the *Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》)*. It formulates the internal system documents on *Safety Production Responsibility Management System (《安全生產責任制管理制度》)*, *Safety Production Inspection Management System (《安全生產檢查管理制度》)*, *Safety Management System for Dangerous Operation (《危險作業安全管理制度》)* and *Safety Incidents Reporting and Handling Management System (《安全事故報告和處理管理制度》)*. The production safety and management are continuously improved and annual safety production targets were issued. Through the implementation of safety production accountability to achieve the safety production targets, the safety of employees and the properties of the Company were safeguarded.

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

The Company launched a "production safety month" publicity campaign to raise employees' awareness of safe production, and implemented fire drills during the "production safety month" to enhance employees' safety and fire-fighting quality, safety precautions and self-help ability, so as to eliminate hidden fire safety hazards without delay. The Company regularly holds various safety production educations and trainings to raise their awareness of self protection and safety and health protection in the production process. In 2020, the Company invested a total of RMB1.7344 million in safety management. First-line operating staff's per capita security training was 48 hours (JRI), 6 hours (ITI Medical), 16 hours (AK Medical Beijing) and 8.8 hours (Libeier), and the safety management personnel's average per capita security training hours was 40 hours (ITI Medical), 24 hours (AK Medical Beijing) and 41 hours (Libeier). As of 2020, the number of work-related deaths of the Company for three consecutive years was nil and total days of lost work due to occupational injury was 222 days.

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

Since the novel coronavirus (COVID-19) outbreak, in order to protect the employees' health, the Company deployed epidemic prevention and control work as soon as possible. It conducts epidemic monitoring procedures, sets up temperature measurement and inspection at the entrance, timely updates and collects employees' health conditions, actively announces the latest policies and information about COVID-19, and distributes medical surgical masks, disinfectants and alcohol hand sanitizers to employees. In 2020, there is no staff of AK Medical being infected.

EMPLOYEE REMUNERATION AND BENEFITS

The Company strictly complies with the *Social Insurance Law of the PRC (《中華人民共和國社會保險法》)* and the *Administrative Regulation on Housing Fund (《住房公積金管理條例》)* and has formulated the *Compensation Management System (《(薪酬管理制度》)*. The Company provides a comprehensive right 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. It implements employees incentive policies to provide remuneration and benefits (including allowances, performance-based bonus and rewards) and gives wedding, childbirth, birthday gifts to employees, as well as offering annual leaves according to regulations, so as to fully protect employees' remuneration and benefits.

AK Medical provides diversified benefits and cares for employees. We have formulated the *Women Workers Protection Management System (《女工保護管理制度》)* to protect female's rights and interests. Female workers will receive gifts on Women's Day, and are offered various lectures. The Company pays close attention to the physical and mental health of employees and encourages employees to strike a balance between work and life. It also organised diversified cultural activities for employees to enhance team cohesion.

Employee Development

AK Medical strives to give the priority to staff development and endeavours to cultivate the world-class medical talents. It values the professional knowledge and skills upgrading of its employees. While building up comprehensive training, assessment and promotion system for employees, the Company boosts the enhancement of personal ability and development of the career path of staff.

AK Medical has a comprehensive staff training mechanism, which provides its staff with rich internal training and external training. The training is in compliance with the *AK Medical Training System (《愛康醫療培訓制度》)*, which formulates and organises quarterly training sessions for staff at different grades and positions. It encourages all employees to receive external training to strengthen their personal abilities. Employees can fill out the *Training Requirement Survey (《培訓需求調查表》)* to receive external training opportunities and further education such as academic education. The Company establishes individual training accounts for each participant, combining with the accumulation of points according to their number of sign-in and examination results, in which the accumulation of points will be used as reference in the consideration for promotion and salary adjustment. In 2020, the average training hours of employees reached over 30 hours.

AK Medical's staff training mechanism

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

In 2020, employees trained by gender:

Gender	2020 Percentage of employees trained (%	2020 Average training hours (hours)	2019 Percentage of employees trained (%	2019 Average training hours (hours)
Male employees	**73.3**	**28.2**	78.7	37
Female employees	**73.7**	**30.7**	79.2	36.2

In 2020, employees trained by employee category:

Employee category	2020 Percentage of employees trained (%)	2020 Average training hours (hours)	2019 Percentage of employees trained (%)	2019 Average training hours (hours)
Senior management	**81.1**	**15.0**	93.5	19.9
Middle management	**81.9**	**58.9**	85.3	82.3
General employees	**72.3**	**26.4**	77.6	33.6

PRODUCT RESPONSIBILITY

As a pioneer in the field of bone and joints in China and with "changing the bad image of the made-in-China products" as its goal, AK Medical always regards the quality of its products as the foundation of its development, adheres to its own innovation, actively pays attention to customer application experience and feedback and improves service quality, striving to become a respectable world-class medical enterprise.

Quality Control

Adhering to the provision of high quality products, the Company strictly complies with the relevant laws and regulations, including the *Product Quality Law of the PRC (中華人民共和國產品質量法)*, *Medical Device Production Quality Management Regulations (醫療器械生產質量管理規範)*, *Regulations on the Supervision and Management of Medical Devices (醫療器械監督管理條例)*, *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 systems, to strictly control the raw material purchase and inspection process and continuously improve the product design and manufacturing quality with a focus on details.

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

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

The Company has formulated the *Service and Feedback Control Procedures (服務和反饋控制程序)* to collect and analyze internal and external customer-related information, and measure the quality management system based on such information, so as to ensure suitability, adequacy and effectiveness of the quality management system. In 2020, no product recall incidents occurred due to quality or health reasons.

Product Innovation

Being a leader in the 3D printing orthopedic sector, AK Medical regards product innovation as its core, striving for conducting R&D and application of new materials and technologies in the orthopedic sector.

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

AK Medical established its enterprise technology center in 2009. In July 2020, it was recognized as the Beijing Enterprise Technology Center (hereinafter referred to as the "Center") by the Beijing Municipal Bureau of Economy and Information Technology. The Center is a technology R&D and innovation special institution established by AK Medical in accordance with the needs and competition of the market. The center is mainly responsible for formulating the medical technology innovation plan of AK Medical, carrying out industrial technology research and development, while creating and using intellectual property rights, establishing a technical standard system, cultivating innovative talents, and promoting the implementation of the entire process of technological innovation. The Center has formed a high-level technological development team, with members majoring in mechanical engineering, materials science, mechanics, medicine and so on, which is a high-quality orthopedic implant development team. Since its establishment, the Center has carried out scientific and technological research in the fields of bone and joint implants and spinal implants, and achieved a series of scientific and technological achievements, such as producing hip joint implants, knee joint implants, vertebral prostheses, intervertebral fusion cages, which have been used in large-scale clinical applications. The research and development, production and clinical application of 3D printed titanium alloy orthopedic implants jointly carried out by the Center and Peking University Third Hospital, Peking University and other units have reached the international leading standard. The relevant achievement won the First Prize of 2018 Beijing Science and Technology (2018年北京市科學技術一等獎), First Prize of 2018 Capital Employees' Self Innovation (2018年首都職工自主創新成果一等獎) and the First Prize of 2019 scientific and technological innovation of China Association for Science and Technology (2019年中國醫院協會科技創新一等獎等榮譽).

In order to promote the technological advancement of enterprise R&D and achieve sustainable development of our products while enhancing independent R&D capabilities and technical reserves, the Company has formulated the *Patents and Articles Award Management Measures (2013 Revision) (專利及文章的獎勵管理辦法(2013修訂版))* in order to encourage all employees to create inventions in artificial joints and related fields. In 2020, AK Medical obtained a total of 103 patents, with 18 annual invention patents. Its accumulative patents reached 490 in total, including 87 accumulative invention patents.

Customer Service and Complaint Handling

AK Medical understands that the products it produced are related to human life and health. While ensuring product quality and safety, we must also fully understand our customers' application experience and feedback. The Company's main customers are distributors and end users. We will regularly conduct customer satisfaction surveys on our products and services. The Company's customer service team will issue a *"Customer Satisfaction Survey Form" (客戶滿意度調查表)* to the agents, and the sales and marketing team will issue the form to end-customers to collect statistics on customer ratings.

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

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

In 2020, AK Medical received a total of 82 complaints from customers. The completion rates of customer complaints handled by AK Medical Beijing, ITI Medical, JRI and Libeier were 100%, 100%, 61% and 100%, respectively, and customer satisfaction were 98%, 78%, 100% and 96%, respectively.

SUPPLY CHAIN MANAGEMENT

The Company attaches great importance to selection of suppliers, and intends to establish an equal, close and stable cooperative relations with mutual benefits, with excellent suppliers, which helps develop a supply chain that is responsible for the society and the environment as a whole.

AK Medical's suppliers mainly include import connection product providers, sample testing and waste disposal service providers. The Company has established the *Qualified Supplier Selection, Evaluation and Re-evaluation System (合格供方選擇、評價和重新評價制度)* and the *Procurement Control Program (採購控制程式)*, which stated the corresponding procedure and criteria in the process of supplier selection, engagement, evaluation and re-evaluation. In addition, we conduct inspection and review regularly for the suppliers by the *List of Qualified Suppliers (合格供方名冊)*, the *Quality Supplier Processing and Change Record (合格供方質量問題處理及變動記錄)* and the *Qualified Supplier Performance and Annual Review Form (合格供方業績及年度評審表)*, to ensure a fair supplier evaluation and the suppliers provide high quality services in general. The Company formulated a specified selection, review and exiting system for suppliers, details of which are as follows:

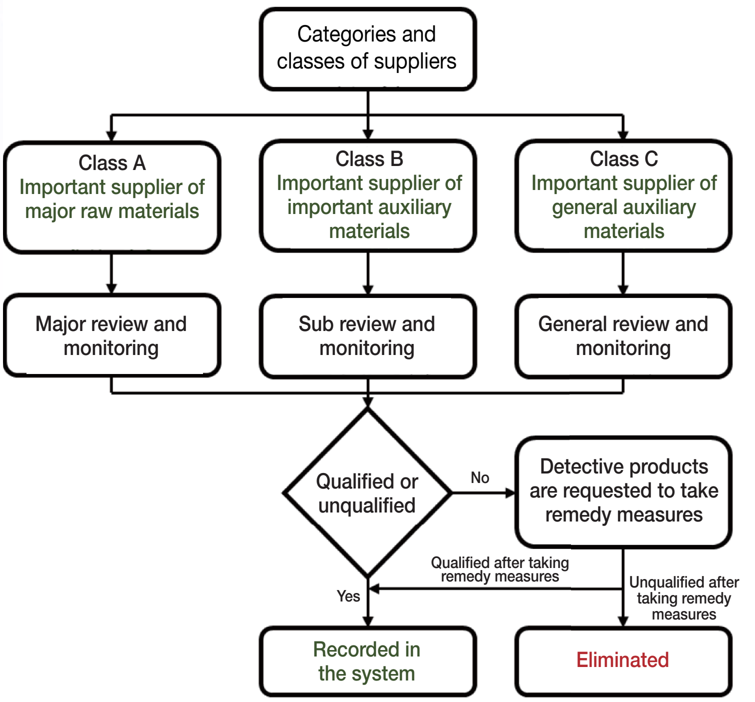


Chart: Qualified Supplier Selection, Evaluation and Re-evaluation System of AK Medical

The Company cooperates with suppliers who adhere to take the environmental and social responsibility, and pays attention to the selection of environmentally-certified products in the raw material selection process, while endeavoring to become one of the suppliers providing high-quality and environmentally-friendly products to medical institutions around the world. The Company purchases products or services from multiple suppliers and it concerns suppliers' issues related to climate change. In 2020, the Company implemented and required its suppliers to sign the "AK Medical and Supplier ESG Statement". In the future, we will gradually expand the range of supplier sign-ups.

In 2020, AK Medical had a total of 207 suppliers, in particular conducted reviews on 59 suppliers and conducted on-site inspections on 53 suppliers.The specific distribution is as follows:

Suppliers by geographical region	2020 (in number)
Asia	126
Europe	77
South America	1
North America	3

ANTI-CORRUPTION

AK Medical attaches great importance to the operation of integrity and strictly forbids any form of corruption through complying with the relevant laws and regulations, including the *Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》)*, the *Anti-Money Laundering Law of the PRC (中華人民共和國反洗錢法》)* and the *Tender Law of the PRC (《中華人民共和國招標投標法》)*. AK Medical endeavours to standardize the professional conduct of employees with integrity, and has formulated the *Administrative Regulations on Employees' Integrity and Self-discipline (《員工廉潔自律管理規定》)*, which discloses the integrity obligations about negotiating and cooperating with third parties and clarifies the regulations regarding the handling of significant and mineral matters. Such regulations are managed to guide all employees who participate in negotiation and cooperation with third parties. In 2020, the Company required employees to fill in the "Connected Relationship Rights and Interests Declaration Form" for integrity and self-discipline commitments, so as to prohibit conducting collusion or colluding with business partners to carry out activities that are violate to business ethics. Employees should perform their duties and exercise their powers fairly and correctly.

AK Medial has organised anti-corruption training for employees to enhance their awareness of integrity and self-discipline, eliminate violations of regulations and disciplines at the ideological level, and conducts various anti-corruption education activities for management and ordinary employees to ensure no corruption events occured. In 2020, management and employees of AK Medical received anti-corruption training for 25 hours in total, of which, middle and senior management received 10 hours of training. In 2020, no corruption or embezzlement cases were reported in AK Medical.

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

COMMUNITY RESPONSIBILITY

AK Medical always performs its social responsibilities as a corporate. With its own strengths, the Company adheres to share its advanced orthopedics knowledge and technology with the society and promote the development of the orthopedics medical industry.

In 2020, facing the sudden outbreak of COVID-19, AK Medical immediately formed an emergency team which purchased front-line medical supplies and donated N95 masks, surgical masks, ordinary masks, protective clothing, goggles, etc. to the affected areas, so as to actively participate in prevention and control of the epidemic. As of 31 December 2020, AK Medical donated approximately RMB1.112 million to the community, as well as 51,000 items of masks, goggles and protective clothing in total to the society to support the frontline against the COVID-19 pandemic.

Case: AK Medical immediately delivered overseas anti-epidemic materials to the frontline in Wuhan

In Wuhan in February 2020, when the epidemic situation commenced, there was a shortage in the supply of all kinds of epidemic prevention materials. Upon understanding such shortage of medical supplies in Wuhan's anti-epidemic frontline, we quickly started to procure anti-epidemic materials. The procurement teams in Beijing and the UK seamlessly asked for the price quotation from global medical suppliers in 24 hours a day. Once the team identified the source of the supplies, the Company's supply team carefully checked the product quality and standards and certificates provided by the suppliers to ensure that the materials delivered to the frontline are qualified and certified. Eventually, after overcoming certain difficulties, 309 boxes containing 40,000 pieces of medical protective materials weighing 3,500 kilograms and amounting to over RMB1 million, including N95 masks, protective clothing and goggles were delivered to the frontline hospitals in Wuhan that urgently needed such materials.

Picture: AK Medical Purchased Anti-epidemic Materials

AK Medical always adheres to share its advanced orthopedics knowledge and technology with the society. In 2012, the AK Medical established the "AK Institute", for the orthopedic medical workers, orthopedic industry practitioners and patients, aiming to provide professional education and training services for them. AK Institute regularly conducts training courses, seminars for special topics, academic salons, forums, academic summits and orthopedic specialist touring talks for artificial joint doctors, as well as offering advanced training courses at Beijing hospital. It launched over 10 online learning courses in 2020. As of 31 December 2020, AK Institute has held a total of 129 knee replacement workshops. Well-known experts in Beijing introduced orthopedic professional theoretical knowledge, practical points of application and surgical techniques while representatives of professionals and students from various provinces discussed classic cases to exchange their opinions.

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

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 88 to 148, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 109 and 106.

The Key Audit Matter

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

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

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

How the matter was addressed in our audit

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

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

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

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on pages 109 and 106.

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations. In addition, the variety of terms of sale may affect the timing of the recognition of revenue and significant management judgement can be required to estimate sales rebates and sales returns.	• selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including sales volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data recorded) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract; • comparing the actual sales rebates recorded after the financial year end with the contract liabilities recognised for sale rebates by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate and to assess if the related revenue had been accounted for in the appropriate financial period; • comparing the actual sales returns recorded by the Group with the sales returns provision made in the previous year to assess the reliability of management's process for the estimation of the sales return rate for the sales of the year and the refund liabilities recognised at the financial year end; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and • inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

KEY AUDIT MATTERS (continued)

Impairment of goodwill

Refer to notes 15 and 2(j)(ii) to the consolidated financial statements and the accounting policies on pages 123 and 102.

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 RMB19,665,000 and RMB113,411,000 as at 31 December 2020, respectively.

Management performs annual impairment assessments of the Group's goodwill by comparing the carrying values of these assets with their recoverable amounts, which is the greater of the fair value less costs of disposal and the value in use. In assessing the value in use, management prepared discounted cash flow forecasts for each separately identifiable cash-generating unit ("CGU") to which the assets have been allocated. The impairment assessments of goodwill are carried out by management with reference to a valuation report prepared by an external valuer appointed by management.

The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, in particular in assessing future revenue, future gross margins, future operating expenses, future capital expenditure and working capital movements and in determining the long-term growth rate and appropriate discount rates.

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 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 123 and 102.

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

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment 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
22 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in Renminbi)

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	4	**1,035,386**	926,705
Cost of sales		**(320,854)**	(283,454)
Gross profit		**714,532**	643,251
Other income, net	5	**5,333**	20,334
Selling and distribution expenses		**(154,101)**	(175,334)
General and administrative expenses		**(83,016)**	(92,203)
Impairment loss on goodwill	15	**(8,848)**	–
Research and development expenses		**(104,974)**	(80,527)
Operating profit		**368,926**	315,521
Net finance income	7	**7,681**	5,881
Profit before taxation	6	**376,607**	321,402
Income tax	8(a)	**(62,600)**	(54,410)
Profit for the year		**314,007**	266,992
Profit attributable to equity shareholders of the Company		**314,007**	266,992
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		**(25,553)**	11,611
Other comprehensive income, net of tax		**(25,553)**	11,611
Total comprehensive income		**288,454**	278,603
Total comprehensive income attributable to equity shareholders of the Company		**288,454**	278,603
Earnings per share			
Basic	11(a)	**RMB0.28**	RMB0.26
Diluted	11(b)	**RMB0.28**	RMB0.25

The notes on pages 94 to 148 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 2020
(Expressed in Renminbi)

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	13	**364,339**	284,384
Intangible assets	14	**76,045**	35,576
Goodwill	15	**133,076**	29,346
Deferred tax assets	26(b)	**50,625**	14,861
		624,085	364,167
Current assets			
Inventories	17	**360,711**	229,330
Trade receivables	18	**450,599**	271,742
Bills receivable	18	**101,892**	84,167
Deposits, prepayments and other receivables	19	**33,551**	33,913
Other financial assets	29(d)	**188,402**	217,386
Pledged deposits and time deposits		**54,575**	5,000
Cash and cash equivalents	20	**713,091**	276,521
		1,902,821	1,118,059
Current liabilities			
Trade payables	21	**145,766**	79,004
Contract liabilities	22	**46,400**	40,950
Accruals and other payables	23	**172,177**	170,573
Bank loans		**–**	1,700
Lease liabilities	24	**11,413**	3,940
Current taxation	26(a)	**42,082**	31,710
		417,838	327,877
Net current assets		**1,484,983**	790,182
Total assets less current liabilities		**2,109,068**	1,154,349

at 31 December 2020
(Expressed in Renminbi)

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Deferred income	27	**12,026**	13,193
Lease liabilities	24	**15,435**	6,295
Deferred tax liabilities	26(b)	**38,831**	18,851
		66,292	38,339
NET ASSETS		**2,042,776**	1,116,010
CAPITAL AND RESERVES			
Share capital	28(b)	**9,451**	8,888
Reserves	28(c)	**2,033,325**	1,107,122
Total equity attributable to equity shareholders of the Company		**2,042,776**	1,116,010
TOTAL EQUITY		**2,042,776**	1,116,010

Approved and authorised for issue by the board of directors on 22 March 2021 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

The notes on pages 94 to 148 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(Expressed in Renminbi)

	Note	Share capital RMB'000 28(b)	Share premium RMB'000 28(c)(i)	Treasury shares RMB'000 28(c)(iv)	Capital reserve RMB'000 28(c)(ii)	Share option reserve RMB'000 28(c)(v)	Exchange reserve RMB'000 28(c)(vi)	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2019		8,779	435,440	(3,439)	55,174	5,723	4,383	334,727	840,787
Total comprehensive income for the year		–	–	–	–	–	11,611	266,992	278,603
Equity settled share-based transactions	25	–	–	–	–	10,692	–	–	10,692
Shares issued under share option scheme	28(b)(ii)/ 28(c)(iv)&(v)	109	23,093	3,439	–	(8,560)	–	–	18,081
Dividends declared	12	–	(32,153)	–	–	–	–	–	(32,153)
Balance at 31 December 2019 and 1 January 2020		8,888	426,380	–	55,174	7,855	15,994	601,719	1,116,010
Total comprehensive income for the year		–	–	–	–	–	(25,553)	314,007	288,454
Insurance of new shares	28(b)(i)	479	700,876	–	–	–	–	–	701,355
Equity settled share-based transactions	25	–	–	–	–	1,995	–	–	1,995
Shares issued under share option scheme	28(b)(ii)/ 28(c)(v)	84	17,274	–	–	(6,059)	–	–	11,299
Dividends declared	12	–	(76,337)	–	–	–	–	–	(76,337)
Balance at 31 December 2020		9,451	1,068,193	–	55,174	3,791	(9,559)	915,726	2,042,776

The notes on pages 94 to 148 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2020
(Expressed in Renminbi)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**376,607**	321,402
Adjustments for:		
Depreciation of property, plant and equipment	**49,895**	24,604
Amortisation of intangible assets	**10,626**	7,553
Impairment for goodwill	**8,848**	–
Recognisation of deferred income	**(2,277)**	(3,922)
Interest on lease liabilities	**1,270**	664
Interest on bank loans	**13**	–
Interest income	**(12,959)**	(10,136)
Credit losses for trade receivables	**2,528**	4,450
(Profit)/loss on sales of property, plant and equipment	**(401)**	197
Equity-settled share-based payment expenses	**1,995**	10,692
	436,145	355,504
Changes in operating activities		
Inventories	**(69,437)**	(62,929)
Trade receivables	**(190,308)**	(172,566)
Deposits, prepayments and other receivables	**5,666**	(16,883)
Contract liabilities	**5,450**	(11,945)
Trade payables	**65,658**	23,135
Accruals and other payables	**(2,558)**	68,169
Pledged deposits	**–**	(5,000)
Cash generated from operations	**250,616**	177,485
Income tax paid	**(45,359)**	(32,823)
Net cash generated from operating activities	**205,257**	144,662

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Investing activities			
Interest received		**11,943**	8,412
Proceeds from sale of property, plant and equipment		**939**	109
Acquisition of a subsidiary, net of cash acquired		**(261,039)**	–
Uplift of structured deposits and time deposits		**528,328**	–
Placement of structured deposits and time deposits		**(547,903)**	(180,000)
Acquisition of intangible assets		**(4,542)**	(3,659)
Acquisition of property, plant and equipment		**(85,245)**	(103,259)
Government grants received relating to assets		**1,110**	6,593
Net cash used in investing activities		**(356,409)**	(271,804)
Financing activities			
Capital element of lease rentals paid		**(22,548)**	(5,186)
Issuance of new shares	28(b)(i)	**701,355**	–
Proceeds from bank loans		**–**	1,700
Repayment of bank loans		**(1,700)**	–
Interest element of lease rentals paid		**(1,270)**	(664)
Dividends paid		**(75,382)**	(32,153)
Proceeds from equity settled share-based payment		**11,299**	14,642
Interest on bank loans paid		**(13)**	–
Net cash generated from/(used in) financing activities		**611,741**	(21,661)
Net increase/(decrease) in cash and cash equivalents		**460,589**	(148,803)
Cash and cash equivalents at 1 January		**276,521**	421,054
Effect of movements in exchange rates on cash hold		**(24,019)**	4,270
Cash and cash equivalents at 31 December		**713,091**	276,521

The notes on pages 94 to 148 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

The consolidated financial statements for the year ended 31 December 2020 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 are stated at their fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

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

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions*

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

(d) Subsidiaries

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(f) Other investments in debt and equity securities

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

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

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)

(g) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

No depreciation is provided in respect of construction in progress.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

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.

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 any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognised the charge in consideration as if it were not a lease modification.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 is 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, lease 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.

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.

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 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.

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.

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)

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.

– 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).

– 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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Impairment of other assets (continued)

– 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.

(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.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(j)(i)).

(m) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Employee benefits

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

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

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

(ii) Share-based payments

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

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

(p) Income tax

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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.

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

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

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

  – the same taxable entity; or

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

(q) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income

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

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

(i) Sale of goods

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

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

Loyalty programme

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

(ii) Interest income

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

(iii) Government grants

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

(s) Translation of foreign currencies

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies (continued)

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) 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(t)(i).

g. A person identified in note 2(t)(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)

(u) Segment reporting

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Allowance for expected credit losses

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

(b) Impairment of goodwill

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

(c) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. Based on past experience, the percentage of subsequent returns will be approximately 2% of annual sales for certain products. Therefore, the Group has not recognised revenue for certain products expected to be returned at the estimated return rate of 2% of annual sales for 2020.

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:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	570,953	544,418
– Knee replacement implants	258,019	229,728
– 3D-printed products	126,246	123,433
– Spinal and trauma implants	51,814	–
– Third party orthopedic products	11,055	13,585
– Others	17,299	15,541
	1,035,386	926,705

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2020 (2019: nil). Details of concentrations of credit risk arising from major customers are set out in note 29(a).

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

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting

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

(i) Segment results, assets and liabilities

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

Disaggregation of revenue from contracts with customers, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue from external customers	974,290	834,970	61,096	91,735	1,035,386	926,705
Inter-segment revenue	–	–	82,369	51,150	82,369	51,150
Reportable segment revenue	974,290	834,970	143,465	142,885	1,117,755	977,855
Reportable segment profit	390,575	310,177	(11,149)	13,679	379,426	323,856
Interest income	12,959	10,136	–	–	12,959	10,136
Depreciation and amortisation for the year	47,088	18,671	13,433	13,486	60,521	32,157
Impairment loss on goodwill	–	–	8,848	–	8,848	–
Reportable segment assets	2,127,918	1,082,300	186,095	191,817	2,314,013	1,274,117
Additions to non-current assets during the year	179,027	115,813	4,155	16,481	183,182	132,294
Reportable segment liabilities	404,342	315,554	25,009	24,239	429,351	339,793

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

	2020 RMB'000	2019 RMB'000
Revenue		
Reportable segment revenue	1,117,755	977,855
Elimination of inter-segment revenue	(82,369)	(51,150)
Consolidated revenue	1,035,386	926,705
Profit		
Reportable segment profit	379,426	323,856
Elimination of inter-segment profits	(2,819)	(2,454)
Consolidated profit before taxation	376,607	321,402
Assets		
Reportable segment assets	2,314,013	1,274,117
Elimination of inter-segment receivables	(26,134)	(24,138)
	2,287,879	1,249,979
Other financial assets	188,402	217,386
Deferred tax assets	50,625	14,861
Consolidated total assets	2,526,906	1,482,226
Liabilities		
Reportable segment liabilities	429,351	339,793
Elimination of inter-segment payables	(26,134)	(24,138)
	403,217	315,655
Current tax liabilities	42,082	31,710
Deferred tax liabilities	38,831	18,851
Consolidated total liabilities	484,130	366,216

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	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
– China	**932,256**	799,611	**506,523**	261,717
– Other countries	**103,130**	127,094	**66,937**	87,589
	1,035,386	926,705	**573,460**	349,306

5 OTHER INCOME, NET

	2020 RMB'000	2019 RMB'000
Government grants	**5,139**	6,655
Insurance compensation	**–**	12,843
Others	**194**	836
	5,333	20,334

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	Note	**2020 RMB'000**	2019 RMB'000
Salaries, wages and other benefits		**162,850**	147,499
Contribution to defined contribution retirement scheme		**1,936**	8,653
Equity settled share-based transactions	25	**1,995**	10,692
		166,781	166,844

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

	2020 RMB'000	2019 RMB'000
Cost of Inventories* (note 17(b))	**334,791**	293,007
Amortisation cost of intangible assets (note 14)	**10,626**	7,553
Depreciation charge (note 13)		
– owned property, plant and equipment	**35,674**	19,014
– right-of-use assets	**14,221**	5,590
	49,895	24,604
Credit losses from trade and other receivables	**2,528**	4,450
Auditors' remuneration		
– Audit services	**4,022**	3,418

* Cost of inventories includes RMB75,722,000 in 2020 (2019: RMB60,516,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

7 NET FINANCE INCOME

	2020 RMB'000	2019 RMB'000
Interest income from bank deposits and investments in structured deposit	**12,959**	10,136
Foreign exchange loss	**(3,995)**	(3,591)
Interest on lease liabilities	**(1,270)**	(664)
Interest on bank loans	**(13)**	–
	7,681	5,881

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

	2020 RMB'000	2019 RMB'000
Current tax		
Provision for the year	**57,279**	50,456
Over-provision in respect of prior years	**(1,548)**	(1,195)
Deferred tax		
Origination and reversal of temporary differences	**6,869**	5,149
	62,600	54,410

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 2020 (2019: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2020 is 16.5% (2019: 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 2020 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 2020 are 25% (2019: 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 2020 (2019: 19%).

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. AK Medical HK and Bright AK HK, subsidiaries of the Company are subject to PRC dividend withholding tax at 10% on dividends receivables from the PRC subsidiaries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2020 RMB'000	2019 RMB'000
Profit before taxation	**376,607**	321,402
Notional tax of PRC statutory tax rate of 25%	**94,152**	80,351
Effect of PRC preferential tax rate	**(37,922)**	(31,459)
Effect of lower tax rates in other countries	**(1,267)**	(821)
Effect of non-deductible expenses	**3,789**	1,258
Effect of unused tax losses not recognised	**2,537**	2,873
Effect of additional deduction on research and development expenses *	**(7,108)**	(4,979)
PRC dividend withholding tax	**9,967**	8,382
Over-provision in respect of prior years	**(1,548)**	(1,195)
Actual tax expenses	**62,600**	54,410

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 75% (2019:75%) additional deduction for tax purpose.

9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2020	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 25)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	–	430	90	4	–	524
Zhang Bin	–	94	–	–	–	94
Zhang Chaoyang	–	532	75	4	–	611
Zhao Xiaohong	–	1,080	71	4	222	1,377
Non-executive directors						
Wang David Guowei	–	–	–	–	–	–
Li Wenming (retired on 15 June 2020)	69	–	–	–	–	69
Independent Non-executive directors						
Li Shu Wing David	155	–	–	–	–	155
Kong Chi Mo	168	–	–	–	–	168
Wang Eric (appointed on 15 June 2020)	83	–	–	–	–	83
Dang Gengting (retired on 15 June 2020)	69	–	–	–	–	69
	544	2,136	236	12	222	3,150

2019	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)	–	779	684	27	–	1,490
Zhang Bin	–	306	–	–	–	306
Zhang Chaoyang	–	506	584	27	–	1,117
Zhao Xiaohong	–	754	547	27	1,188	2,516
Non-executive directors						
Li Wenming	150	–	–	–	–	150
Wang David Guowei	–	–	–	–	–	–
Independent Non-executive directors						
Dang Gengting	150	–	–	–	–	150
Kong Chi Mo	158	–	–	–	–	158
Li Shu Wing David	158	–	–	–	–	158
	616	2,345	1,815	81	1,188	6,045

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 1 (2019: 1) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other 4 (2019: 4) individuals respectively, are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	**4,015**	3,304
Discretionary bonuses	**1,567**	1,655
Equity settled share-based transactions	**166**	1,218
Retirement scheme contributions	**4**	352
Compensation payment	**–**	876
	5,752	7,405

The emoluments of the 4 (2019: 4) individuals with the highest emoluments are within the following bands:

	2020	2019
HK$		
Nil – 1,000,000	**Nil**	Nil
1,000,001 – 1,500,000	**2**	Nil
1,500,001 – 2,000,000	**1**	1
2,000,001 – 2,500,000	**1**	3

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 RMB314,007,000 (2019: RMB266,992,000) and the weighted average number of issued ordinary shares of 1,102,187,000 (2019: 1,041,590,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2020	2019
Issued ordinary shares at 1 January	**1,052,700,000**	1,040,475,000
Effect of issuance of new shares (note 28(b)(i))	**44,290,984**	–
Effect of issue of shares under the Company's share option scheme (note 25)	**5,196,107**	1,114,644
Weighted average number of ordinary shares at 31 December	**1,102,187,091**	1,041,589,644

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 RMB314,007,000 (2019: RMB266,992,000) and the weighted average number of issued ordinary shares of 1,107,166,000 (2019: 1,058,326,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2020	2019
Weighted average number of ordinary shares at 31 December	**1,102,187,091**	1,041,589,644
Effect of deemed issue of shares under the Company's share option scheme (note 25)	**4,978,744**	16,736,619
Weighted average number of ordinary shares (diluted) at 31 December	**1,107,165,835**	1,058,326,263

12 DIVIDENDS

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

	2020 RMB'000	2019 RMB'000
Final dividend proposed after the end of the reporting period of HK$4.0 cents per ordinary share (2019: HK$7.5 cents per ordinary share)	**37,552**	74,318

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

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$7.5 cents per ordinary share (2019: HK$3.5 cents per ordinary share)	**75,382**	32,153

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Properties and buildings RMB'000	Leasehold properties and improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Land use right RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
1 January 2019	9,140	24,278	101,453	4,342	5,752	–	91,203	236,168
Additions	–	517	22,758	521	2,996	–	101,843	128,635
Transfer from construction in progress	113,651	–	44,428	–	–	21,406	(179,485)	–
Disposals	–	–	(3,392)	(345)	(367)	–	–	(4,104)
Exchange adjustments	–	165	1,516	73	108	–	–	1,862
At 31 December 2019 and 1 January 2020	122,791	24,960	166,763	4,591	8,489	21,406	13,561	362,561
Addition through acquisition of a subsidiary	–	7,941	26,950	–	613	–	63	35,567
Additions	28	27,289	36,091	104	3,233	–	29,060	95,805
Transfer from construction in progress	1,308	–	9,991	–	–	–	(11,299)	–
Disposals	–	–	(2,558)	–	(1,295)	–	–	(3,853)
Exchange adjustments	–	(258)	(927)	(45)	(71)	–	–	(1,301)
At 31 December 2020	124,127	59,932	236,310	4,650	10,969	21,406	31,385	488,779
Accumulated depreciation								
At 1 January 2019	(4,408)	(9,386)	(38,389)	(999)	(3,487)	–	–	(56,669)
Charged for the year	(510)	(6,433)	(15,007)	(1,027)	(1,413)	(214)	–	(24,604)
Written back on disposals	–	–	3,064	221	346	–	–	3,631
Exchange adjustments	–	(68)	(394)	(21)	(52)	–	–	(535)
At 31 December 2019 and 1 January 2020	(4,918)	(15,887)	(50,726)	(1,826)	(4,606)	(214)	–	(78,177)
Charged for the year	(5,804)	(14,639)	(25,958)	(975)	(2,091)	(428)	–	(49,895)
Written back on disposals	–	–	2,101	–	1,214	–	–	3,315
Exchange adjustments	–	37	228	15	37	–	–	317
At 31 December 2020	(10,722)	(30,489)	(74,355)	(2,786)	(5,446)	(642)	–	(124,440)
Net book value								
At 31 December 2020	113,405	29,443	161,955	1,864	5,523	20,764	31,385	364,339
At 31 December 2019	117,873	9,073	116,037	2,765	3,883	21,192	13,561	284,384

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 2020 RMB'000	31 December 2019 RMB'000
Land use right	(i)	**20,764**	21,192
Leasehold properties	(ii)	**29,456**	8,524
Plant and machinery		**–**	403
Motor vehicles		**240**	1,010
		50,460	31,129

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

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold properties	**12,620**	4,169
Plant and machinery	**403**	652
Motor vehicles	**770**	555
Land use right	**428**	214
	14,221	5,590
Interest on lease liabilities	**1,270**	664
Expense relating to short-term leases	**1,467**	4,148

During the year, additions to right-of-use assets were RMB33,552,000 (2019: RMB21,574,000) including leasehold properties with fair value of RMB7,369,000 through the acquisition of the Beijing Libeier Bio-engineering Institute Co., Ltd., and additions of leasehold properties under new tenancy agreements of AK Medical Beijing and Beijing XMKS Medical Co., Ltd., were RMB17,590,000 and RMB8,088,000, respectively.

Details of the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 20(c), 24 and 31, respectively.

(i) Land use rights

The Group holds the land use rights with a lease term of 50 years. Lump sum payments were made upfront to lease the land use rights from the government and there are no ongoing payments to be made under the terms of the land lease.

(ii) Leasehold properties

The Group has obtained the right to use leasehold properties as its factories and offices through tenancy agreements. The leases typically run for an initial period of 2 to 5 years. Lease payments are usually increased every year to reflect market rentals.

Some leases include an option to renew the lease when all terms are renegotiated. None of the lease includes variable lease payment terms.

14 INTANGIBLE ASSETS

	Software RMB'000	Patent and products licenses RMB'000	Technical know-how RMB'000	Brand name RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:						
At 1 January 2019	7,619	13,566	16,346	8,030	1,471	47,032
Transfer from capitalised development costs	–	1,471	–	–	(1,471)	–
Additions	2,833	826	–	–	–	3,659
Exchange adjustments	200	178	893	439	–	1,710
At 31 December 2019 and 1 January 2020	10,652	16,041	17,239	8,469	–	52,401
Addition through acquisition of a subsidiary	901	–	28,400	17,967	–	47,268
Additions	3,842	700	–	–	–	4,542
Exchange adjustments	(121)	(92)	(489)	(240)	–	(942)
At 31 December 2020	15,274	16,649	45,150	26,196	–	103,269
Accumulated amortisation						
At 1 January 2019	(3,380)	(3,675)	(1,226)	(603)	–	(8,884)
Charged for the year	(1,957)	(3,121)	(1,660)	(815)	–	(7,553)
Exchange adjustments	(107)	(86)	(131)	(64)	–	(388)
At 31 December 2019 and 1 January 2020	(5,444)	(6,882)	(3,017)	(1,482)	–	(16,825)
Charged for the year	(2,698)	(2,351)	(3,560)	(2,017)	–	(10,626)
Exchange adjustments	54	56	79	38	–	227
At 31 December 2020	(8,088)	(9,177)	(6,498)	(3,461)	–	(27,224)
Net book value						
At 31 December 2020	7,186	7,472	38,652	22,735	–	76,045
At 31 December 2019	5,208	9,159	14,222	6,987	–	35,576

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

	2020 RMB'000	2019 RMB'000
Cost:		
At 1 January	**29,346**	27,826
Addition through acquisition of a subsidiary	**113,411**	–
Exchange adjustments	**(833)**	1,520
At 31 December	**141,924**	29,346
Accumulated impairment losses:		
At 1 January	**–**	–
Impairment loss	**(8,848)**	–
At 31 December	**(8,848)**	–
Carrying amount:		
At 31 December	**133,076**	29,346

Goodwill of RMB113,411,000 arising from the acquisition of the Libeier from the Medtronic China Kanghui Holdings was recorded during year ended 31 December 2020 (see note 30).

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:

	2020 RMB'000	2019 RMB'000
JRI	**19,665**	29,346
Libeier	**113,411**	–
	133,076	29,346

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the budget period are extrapolated using an estimated weighted average growth rate.

(Expressed in RMB' 000 unless otherwise indicated)

15 GOODWILL (continued)

The key assumptions for the value-in-use calculation are as follows, which are based on either the past experience or external sources of information:

	At 31 December 2020 Libeier	At 31 December 2020 JRI	At 31 December 2019 JRI
Annualised revenue growth rate during the budget period	**7%-62%**	**-2%-10%**	6%-16%
Gross profit ratio	**63%-66%**	**37%-40%**	45%-47%
Steady growth rate used in the extrapolation after budget period	**3.0%**	**2.2%**	2.2%
Pre-tax discount rate	**19.0%**	**16.3%**	16.2%

The impairment loss of RMB8,848,000 (2019: nil) recognised in "Impairment loss on goodwill" during the year solely relates to JRI. As the CGU has been reduced to its recoverable amount of RMB158,478,000, 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 2020 by RMB40,221,000 (2019:N/A).

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	Particulars of issued and paid up capital	Percentage of equity attributable to Company: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
AK Medical Investment Limited ("**AK Medical BVI**")	British Virgin Islands 21/07/2015	United States Dollars ("US$") 50,000	100%	100%	–	Investing holding company
Bright AK Limited ("**Bright AK HK**")	Hong Kong 07/07/2015	HK$10,000	100%	–	100%	Investing holding company
AK Medical International Limited ("**AK Medical HK**")	Hong Kong 28/07/2015	HK$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京愛康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("**AK Medical XMKS**") 北京西麥克斯醫療器械有限公司	The PRC 24/07/2007	RMB500,000	100%	–	100%	Sales of orthopedic joint implants products
ITI Medical Co., Ltd. (AK Medical Changzhou) 天衍醫療器材有限公司	The PRC 28/03/2016	US$13,200,000	100%	–	100%	Produce and market orthopedic joint implants and related products
JRI Orthopaedics Limited	The United Kingdom 06/04/1970	GBP100,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing Libeier Bio-engineering Institute Co., Ltd. ("Libeier") (北京理貝爾生物工程研究所有限公司)	The PRC 15/07/1996	RMB30,000,000	100%	–	100%	Design, manufacture and supply spinal and trauma implants and related products

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	**84,957**	78,834
Work in progress	**88,062**	52,899
Finished goods	**187,692**	97,597
	360,711	229,330

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

	2020	2019
	RMB'000	RMB'000
Cost of inventories sold	**320,854**	283,454
Cost of inventories directly recognised as research and development expenses	**13,937**	9,553
	334,791	293,007

18 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2020	31 December 2019
	RMB'000	RMB'000
Bills receivable	**101,892**	84,167
Trade receivables	**472,511**	281,622
Less: allowance for credit loss	**(21,912)**	(9,880)
	450,599	271,742

18 BILLS RECEIVABLE/TRADE RECEIVABLES (continued)

Ageing analysis

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

As at 31 December 2020, 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	
	2020	2019
	RMB'000	RMB'000
Current to 3 months	**337,945**	212,972
3 to 6 months	**42,232**	18,332
6 to 12 months	**41,736**	26,382
Over 12 months	**28,686**	14,056
	450,599	271,742

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2019: 1 month to 6 months) 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 2020 RMB'000	31 December 2019 RMB'000
Prepayments to suppliers	**12,583**	7,853
Deposits	**2,815**	2,623
Refund assets (note 23(i))	**5,405**	4,908
VAT recoverable	**10,337**	14,927
Others	**2,411**	3,602
	33,551	33,913

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	
	2020	2019
	RMB'000	RMB'000
Cash at bank	**713,070**	276,467
Cash on hand	**21**	54
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**713,091**	276,521

As at 31 December 2020, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB561,445,000 (2019: RMB148,032,000). 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.

(b) Reconciliation of liabilities arising from financing activities

	Bank loans and other borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	–	15,253	15,253
Proceeds from new bank loans	1,700	–	1,700
Capital element of lease rentals paid	–	(5,186)	(5,186)
Interest element of lease rentals paid	–	(664)	(664)
Total changes from financing cash flows	1,700	(5,850)	(4,150)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	168	168
Interest expenses	–	664	664
At 31 December 2019 and 1 January 2020	1,700	10,235	11,935
Repayment of bank loans	(1,700)	–	(1,700)
Capital element of lease rentals paid	–	(22,548)	(22,548)
Interest element of lease rentals paid	–	(1,270)	(1,270)
Total changes from financing cash flows	(1,700)	(23,818)	(25,518)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	25,678	25,678
Addition through acquisition of a subsidiary	–	13,483	13,483
Interest expenses	–	1,270	1,270
At 31 December 2020	–	26,848	26,848

20 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating cash flows	**1,467**	4,148
Within investing cash flows	**–**	657
Within financing cash flows	**23,818**	5,850
	25,285	10,655

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	**25,285**	9,998
Prepayment for land use rights	**–**	657
	25,285	10,655

21 TRADE PAYABLES

As at 31 December 2020, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 3 months	**127,532**	63,493
3 to 6 months	**15,689**	12,058
6 to 12 months	**857**	1,648
1 year to 2 years	**20**	526
Over 2 years	**1,668**	1,279
	145,766	79,004

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

22 CONTRACT LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Advance and deposit from customers	**26,490**	20,387
Sales rebates	**19,910**	20,563
	46,400	40,950

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.

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.

RMB33,742,000 has been recognised as revenue in 2020 that was included in the contract liabilities at the beginning of the year (2019: RMB41,873,000). All the balances of the contract liabilities at 31 December 2020 are expected to be recognised as revenue within one year.

23 ACCRUALS AND OTHER PAYABLES

	Note	**31 December 2020 RMB'000**	31 December 2019 RMB'000
Other taxes payable		**40,723**	34,645
Salary and welfare payable		**27,234**	34,389
Accrued charges		**47,864**	51,614
Refund liabilities	(i)	**17,415**	15,813
Payables to contractors and equipment suppliers		**2,090**	17,208
Deposits		**21,194**	10,653
Others		**15,657**	6,251
		172,177	170,573

(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 2020		At 31 December 2019	
	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	11,413	11,957	3,940	4,520
After 1 year but within 2 years	6,742	7,458	2,663	2,772
After 2 years but within 5 years	8,693	9,206	3,632	3,793
	15,435	16,664	6,295	6,565
	26,848	28,621	10,235	11,085
Less: total future interest expenses		(1,773)		(850)
Present value of lease liabilities		26,848		10,235

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Share option scheme adopted on 17 November 2017

The Company has a share option scheme which was adopted on 17 November 2017 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including full-time employees, executives or officers of any company in the Group, to take up share options to subscribe for shares of the Company.

The exercise price payable by a participant upon the exercise of an option will be HK$1.34. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

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

	Number of instruments	Contractual life of options
Options granted to a director:		
– on 17 November 2017	4,000,000	10 years
Options granted to employees:		
– on 17 November 2017	32,000,000	10 years
Total share options granted	36,000,000	

Options granted will become exercisable in four equal batches upon the satisfaction of certain performance targets in a financial year. The exercisable period will begin from the first business day after 1 May of the immediately following year, until 16 November 2027. Initially, the management required any shares obtained from the exercise would be subject to claw-back if service conditions were not met. In 2019, the directors decided not to demand the grantee to return any entitlement or interest obtained from the exercise of the options granted if the grantee of share option terminates its service contract with the Company in the vesting period.

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

	2020		2019	
	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**	**18,775**	1.34	32,225
Exercised during the year	**1.34**	**9,300**	1.34	12,225
Forfeited during the year	**1.34**	**50**	1.34	1,225
Outstanding at the end of the year	**1.34**	**9,425**	1.34	18,775
Exercisable at the end of the year	**1.34**	**1,263**	1.34	10,281

The options outstanding at 31 December 2020 had a weighted average remaining contractual life of 7 years (2019: 8 years).

(Expressed in RMB' 000 unless otherwise indicated)

25 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

Share option scheme adopted on 17 November 2017 (continued)

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

Fair value at measurement date	HK$0.7182 – HK$0.7592
Share price	HK$1.48
Exercise price	HK$1.34
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	42.94%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends	1.20%
Risk-free interest rate	4.37%

The expected volatility is based on the average historic volatility of the comparable companies (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on average historical dividends of the comparable companies. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2020 RMB'000	2019 RMB'000
At 1 January	**31,710**	15,272
Provision for the year	**57,279**	50,456
Over-provision in respect of prior year	**(1,548)**	(1,195)
Provisional tax paid	**(45,359)**	(32,823)
At 31 December	**42,082**	31,710

(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 RMB'000	Unrealised profits of intra-group transaction RMB'000	Sales return RMB'000	Tax losses RMB'000	PRC Dividend withholding tax(iii) RMB'000	Fair value adjustment in respect of net assets acquired in business combinations RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	3,148	3,131	1,085	3,739	(7,403)	(4,284)	1,995	1,411
(Charged)/credited to profit or loss (note 8)	(64)	1,030	552	(1,406)	(7,381)	469	1,651	(5,149)
Exchange adjustments	–	–	–	–	–	(252)	–	(252)
At 31 December 2019 and 1 January 2020	3,084	4,161	1,637	2,333	(14,784)	(4,067)	3,646	(3,990)
Addition through acquisition of a subsidiary	–	–	–	19,671	–	(11,592)	14,227	22,306
(Charged)/credited to profit or loss (note 8)	(162)	2,581	165	5,233	(9,967)	1,244	(5,963)	(6,869)
Exchange adjustments	–	–	–	(4)	–	335	16	347
At 31 December 2020	2,922	6,742	1,802	27,233	(24,751)	(14,080)	11,926	11,794

(ii) Reconciliation to the consolidated statement of financial position

	2020 RMB'000	2019 RMB'000
Net deferred tax asset recognised	**50,625**	14,861
Net deferred tax liability recognised	**(38,831)**	(18,851)
	11,794	(3,990)

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

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

(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 RMB28,325,000 (2019: RMB24,040,000) 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. The tax losses do not expire under current tax legislation.

(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 2020, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB633,400,000 (2019: RMB443,873,000), comprised retained earnings of RMB573,374,000 (2019: RMB383,941,000) and statutory surplus reserve of RMB60,026,000 (2019: RMB59,932,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2020 will not be distributable in the foreseeable future (2019: the retained earnings before 31 December 2019 and 70% of profit for 2019 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.

27 DEFERRED INCOME

	Government subsidies for research and development projects RMB'000
At 1 January 2019	10,522
Additions	6,593
Government grant recognised as other income	(3,922)
At 31 December 2019 and 1 January 2020	13,193
Additions	1,110
Government grant recognised as other income	(2,277)
At 31 December 2020	12,026

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	Treasury shares RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2019		8,779	435,440	(3,439)	60,700	5,723	13,616	(5,044)	515,775
Total comprehensive income for the year		–	–	–	–	–	22,503	(10,701)	11,802
Dividends declared	12	–	(32,153)	–	–	–	–	–	(32,153)
Equity settled share-based transactions	25	–	–	–	–	10,692	–	–	10,692
Shares issued under share option scheme	28(b) (ii)/28(c) (iv)&(v)	109	23,093	3,439	–	(8,560)	–	–	18,081
Balance at 31 December 2019 and 1 January 2020		8,888	426,380	–	60,700	7,855	36,119	(15,745)	524,197
Total comprehensive income for the year		–	–	–	–	–	(66,154)	(4,014)	(70,168)
Issuance of new shares		479	700,876	–	–	–	–	–	701,355
Dividends declared	12	–	(76,337)	–	–	–	–	–	(76,337)
Equity settled share-based transactions	25	–	–	–	–	1,995	–	–	1,995
Shares issued under share option scheme	28(b) (ii)/28(c) (v)	84	17,274	–	–	(6,059)	–	–	11,299
Balance at 31 December 2020		9,451	1,068,193	–	60,700	3,791	(30,035)	(19,759)	1,092,341

(b) Share capital

	2020 No. of shares	**2020** Amount RMB'000	2019 No. of shares	2019 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	**1,052,700,000**	**8,888**	1,040,475,000	8,779
Issuance of new shares (i)	**53,500,000**	**479**	–	–
Shares issued under share option scheme (ii)	**9,300,000**	**84**	12,225,000	109
At 31 December	**1,115,500,000**	**9,451**	1,052,700,000	8,888

28 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

The holders of ordinary shares as at 31 December 2020 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) The Company completed the placement and the subscription on 25 February 2020 and 4 March 2020. A total of 53,500,000 placing shares have been placed at the placing price of HK$15.0 per share. The proceeds less the expenses directly attributable to the issue of shares, amounted to HK$783,873,000 (approximately RMB701,355,000), with RMB479,000 representing the par value of these ordinary shares, were credited to the Company's share capital account, and the remaining proceeds amounted to RMB700,876,000 were credited to the Company's share premium account. The shares rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment.

(ii) In 2020, options were exercised to subscribe for 9,300,000 ordinary share in the Company pursuant to the share option scheme (see note 25) at the consideration of RMB11,299,000, of which RMB84,000 was credited to share capital and RMB11,215,000 was credited to share premium. RMB6,059,000 was transferred to share premium from the share option reserve in accordance with the policy set out in note 2(o)(ii).

In 2019, options were exercised to subscribe for 12,225,000 ordinary share in the Company at the consideration of RMB14,642,000, of which RMB109,000 was credited to share capital and RMB14,533,000 was credited to share premium. RMB8,560,000 was transferred to share premium from the share option.

(c) Reserves

(i) Share premium

Share premium represented the difference between the share capital and the amount of the net proceeds received from its shareholders of the Company.

(ii) Capital reserve

Capital reserve comprises contributions by the shareholders at the respective dates and balances arising from transactions with shareholders in their capacity as the equity shareholders.

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB60,026,000 (2019: RMB59,932,000).

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) Treasury shares

According to the terms of the share option scheme, the share options, exercised ordinary shares and dividends are forfeitable if service conditions are not met. As such, shares issued as a result of exercise of share options during 2018 have been presented as treasury shares.

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. As such, shares issued as a result of exercise of share options will be no longer presented as treasury shares. The originally recorded treasury shares were debited with the corresponding amount in "Accrual and other payables".

(v) Share option reserve

The Company adopted a share option scheme to employees as described in note 25. The Group recognises the grant-date fair value of the share options ratably over the vesting period. Accordingly, an amount of RMB1,995,000 (2019: RMB10,692,000) was charged as an equity-settled share-based payment to profit or loss with a corresponding increase in share option reserve for the year. Such share option reserve will be transferred to share premium as and when such option are exercised or when they expire.

(vi) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operating. The reserve is dealt with in accordance with accounting policies set out in note 2(s).

(d) Distributability of reserves

At 31 December 2020, 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 RMB1,082,890,000 (2019: RMB515,309,000).

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

28 CAPITAL AND RESERVES (continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2020 and 2019 as follows:

	Note	31 December 2020 RMB'000	31 December 2019 RMB'000
Current liabilities:			
Bank loans		–	1,700
Lease liabilities	24	11,413	3,940
		11,413	5,640
Non-current liabilities:			
Lease liabilities	24	15,435	6,295
Total debt		26,848	11,935
Add: Proposed dividends	12(i)	37,552	74,318
Less: Cash and cash equivalents	20(a)	713,091	276,521
Adjusted net debt		**(648,691)**	(190,268)
Total equity		2,042,776	1,116,010
Less: Proposed dividends	12(i)	37,552	74,318
Adjusted capital		**2,005,224**	1,041,692
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 (2019: 1 month to 6 months) from the date of billing. Commercial customers with past due balances are requested to settle all outstanding balances before any further credit is granted. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. The Group does not obtain collateral from customers.

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

(a) Credit risk (continued)

All bills receivable as at the end of each year are bank acceptance bills with the aging of less than 12 months.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2020, 4.0% (2019: 1.2%) of the total trade receivables was due from the Group's largest customer in 2020, and 16.5% (2019: 8.4%) was due from the five largest customers in 2020.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets in the consolidated statement of financial position. The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and deposits, prepayments and other receivables are set out in notes 18 and 19.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix according to different segments.

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2020:

	2020		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current	**1%**	**346,132**	**(3,442)**
1-3 months past due	**5%**	**78,752**	**(3,938)**
4-6 months past due	**5%**	**5,634**	**(282)**
7-12 months past due	**5%**	**9,998**	**(500)**
More than 1 years past due	**91%**	**14,819**	**(13,520)**
		455,335	**(21,682)**

	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	1%	173,232	(1,831)
1-3 months past due	5%	82,351	(4,112)
4-6 months past due	5%	1,694	(85)
7-12 months past due	5%	740	(37)
More than 1 years past due	63%	5,891	(3,705)
		263,908	(9,770)

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 2020:

	2020		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
1-3 months past due	**1%**	**17,123**	**(230)**
More than 3 months past due	**–**	**53**	**–**
		17,176	**(230)**

	2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
1-3 months past due	1%	17,641	(110)
More than 3 months past due	–	73	–
		17,714	(110)

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:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	**9,880**	6,101
Reversals of impairment losses	**–**	(671)
Addition through acquisition of a subsidiary	**9,504**	–
Credit losses recognised during the year	**2,528**	4,450
Balance at 31 December	**21,912**	9,880

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by management and directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the respective end of the year of our financial liability, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	2020 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
As at 31 December 2020					
Lease liabilities	**11,957**	**7,458**	**9,206**	**28,621**	**26,848**
Trade payables	**145,766**	**–**	**–**	**145,766**	**145,766**
Accruals and other payables	**172,177**	**–**	**–**	**172,177**	**172,177**
Total	**329,900**	**7,458**	**9,206**	**346,564**	**344,791**

	2019 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
As at 31 December 2019					
Bank loans	1,774	–	–	1,774	1,700
Lease liabilities	4,520	2,772	3,793	11,085	10,235
Trade payables	79,004	–	–	79,004	79,004
Accruals and other payables	170,573	–	–	170,573	170,573
Total	255,871	2,772	3,793	262,436	261,512

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 2020		
	HK$ RMB'000	**US$ RMB'000**	**EUR RMB'000**
Cash and cash equivalents	**3,120**	**121,927**	**667**
Trade receivables	**–**	**19,381**	**222**
Trade payables	**–**	**(64)**	**(13,300)**
	3,120	**141,244**	**(12,411)**

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2019		
	HK$ RMB'000	US$ RMB'000	EUR RMB'000
Cash and cash equivalents	138	96,285	1,418
Trade receivables	–	12,223	–
	138	108,508	1,418

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.

	2020		2019	
	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%**	**7,062**	5%	4,612
	(5)%	**(7,062)**	(5)%	(4,612)
Hong Kong Dollars	**5%**	**156**	5%	6
	(5)%	**(156)**	(5)%	(6)
Euros	**5%**	**(621)**	5%	60
	(5)%	**621**	(5)%	(60)

(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.

	Fair value measurements as at 31 December 2020 categorised into			
	Fair value at 31/12/2020 RMB'000	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at FVPL	**188,402**	**–**	**188,402**	**–**

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

(d) Fair value measurement (continued)

	Fair value at 31/12/2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into 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	217,386	–	217,386	–

Other financial assets 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.

30 ACQUISITION OF A SUBSIDIARY

On 24 April 2020, the Group acquired Libeier, a private company incorporated in China and principally engaged in designing, manufacturing and supplying spinal and trauma implants and related products, at a consideration of US$40,200,000 (equivalent to RMB284,688,000). Acquisition-related costs amounted to RMB1,089,000, of which RMB660,000 and RMB429,000 were recognised in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year 2020 and 2019, respectively.

Details of the fair value of net identified assets acquired are as follows:

	Fair value of net identifiable assets acquired as at the acquisition date RMB'000
Property, plant and equipment	35,567
Intangible assets	47,268
Deferred tax assets	33,898
Inventories	61,944
Trade and bills receivables	8,151
Deposits, prepayments and other receivables	5,304
Cash and cash equivalents	23,649
Trade payables	(1,104)
Accruals and other payables	(18,325)
Lease liabilities	(13,483)
Deferred tax liabilities	(11,592)
Net identifiable assets	171,277
Goodwill	113,411
Fair value of considerations	284,688
Cash considerations paid in 2020	284,688
Net cash outflow arising from the acquisition in 2020	261,039

30 ACQUISITION OF A SUBSIDIARY (continued)

The allocation of the purchase price is determined based on the management's estimates of the fair value of the identifiable assets and liabilities of Libeier as at the acquisition date, and with reference to a valuer report dated 5 August 2020 prepared by Colliers International (Hong Kong) Ltd, an independent valuer. The independent valuer report is prepared using the income approach and with reference/benchmark to the valuer's industry knowledge and past experience of comparable cases, as well as a high-level analysis on the proportions of potential intangible assets as compared to the business enterprise value implied by the purchase consideration.

The allocation of the purchase price represents the recognition of identifiable intangible assets as identified through the valuation report arising from the acquisition at their respective fair value (namely technical knowhow and brand name approximately RMB46,367,000 in total), and the recognition of related deferred tax liabilities of RMB11,592,000, as if the acquisition had been completed on 30 April 2020.

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of Libeier at the date of acquisition. Goodwill is attributable mainly to the synergies expected to be achieved from integrating Libeier into the Group's existing operations. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

For the period from 30 April 2020 to 31 December 2020, Libeier contributed revenue of RMB54,127,000 and profit of RMB5,460,000 to the Group's results. Had the acquisition of Libeier occurred on 1 January 2020, management estimates that consolidated revenue would have been RMB1,052,409,000 and consolidated profit for the year would have been RMB289,403,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 30 April 2020.

31 COMMITMENTS

Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2020 not provided for in this financial statements were as follows:

	2020 **RMB'000**	2019 RMB'000
Contracted for	**3,900**	10,636
Authorised but not contracted for	**99,378**	84,121
	103,278	94,757

In addition, the Group was committed at 31 December 2020 to enter no new lease that is not yet commenced (2019: a lease of 3 years with lease payments amounted to RMB3,021,000 per annum).

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2020, transactions with the following parties are considered as related party transaction:

Name of Party	Relationship with the Group
Mr. Li Zhijiang	Executive director, and the ultimate controlling party
Ms. Zhang Bin	Executive director, the spouse of Mr. Li Zhijiang
Mr. Zhang Chaoyang	Executive director
Ms. Zhao Xiaohong	Executive director
Ms. Han Yu	Senior management
Ms. Liang Kun	Senior management
Ms. Wang Caimei	Senior management
Ms. Liu Aiguo	Senior management
Ms. Zhou Qunfang	Senior management
Ximalaya Limited	Controlling shareholder

(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	
	2020	2019
	RMB'000	RMB'000
Salaries and other emoluments	**5,285**	6,443
Discretionary bonuses	**863**	2,414
Retirement scheme contributions	**28**	267
Equity settled share-based transactions	**660**	5,524
	6,836	14,648

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

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 22 March 2021, the directors proposed a final dividend. Further details are disclosed in note 12.

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2020, 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.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statement of financial position

	Note	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Non-current asset			
Interests in subsidiaries		905,483	433,236
		905,483	433,236
Current asset			
Cash and cash equivalents		203,051	110,604
		203,051	110,604
Current liability			
Accruals and other payables		16,193	19,643
		16,193	19,643
Net current assets		186,858	90,961
Total assets less current liability		1,092,341	524,197
NET ASSETS		1,092,341	524,197
Capital and reserves			
Share capital	28(b)	9,451	8,888
Reserves	28(c)	1,082,890	515,309
Total equity		1,092,341	524,197

Approved and authorised for issue by the board of directors on 22 March 2021 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

(Expressed in RMB' 000 unless otherwise indicated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37, *Onerous Contracts- Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022

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.