



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)

2023 ANNUAL REPORT



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Li Zhijiang (*Chairman of the Board and Chief Executive Officer*)

Ms. Zhang Bin

Mr. Zhang Chaoyang

Ms. Zhao Xiaohong

Non-executive Director

Dr. Wang David Guowei

Independent Non-executive Directors

Mr. Kong Chi Mo

Dr. Li Shu Wing David

Mr. Eric Wang

COMPANY SECRETARY

Ms. Han Yu

AUTHORIZED REPRESENTATIVES

Ms. Zhang Bin

Ms. Han Yu

AUDIT COMMITTEE

Mr. Kong Chi Mo (*Chairman*)

Dr. Li Shu Wing David

Dr. Wang David Guowai

REMUNERATION COMMITTEE

Dr. Li Shu Wing David (*Chairman*)

Mr. Kong Chi Mo

Mr. Li Zhijiang

NOMINATION COMMITTEE

Mr. Li Zhijiang (*Chairman*)

Dr. Li Shu Wing David

Mr. Kong Chi Mo

REGISTERED OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman

KY1-1111

Cayman Islands

PRINCIPAL 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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F Manulife Place

348 Kwun Tong Road, Kowloon

Hong Kong

AUDITOR

KPMG

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

8th Floor, Prince's Building

10 Chater Road, Central, Hong Kong

HONG KONG LEGAL ADVISER

Mayer Brown

16th–19th Floors, Prince's Building

10 Chater Road, Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

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

LISTING INFORMATION AND STOCK CODE

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

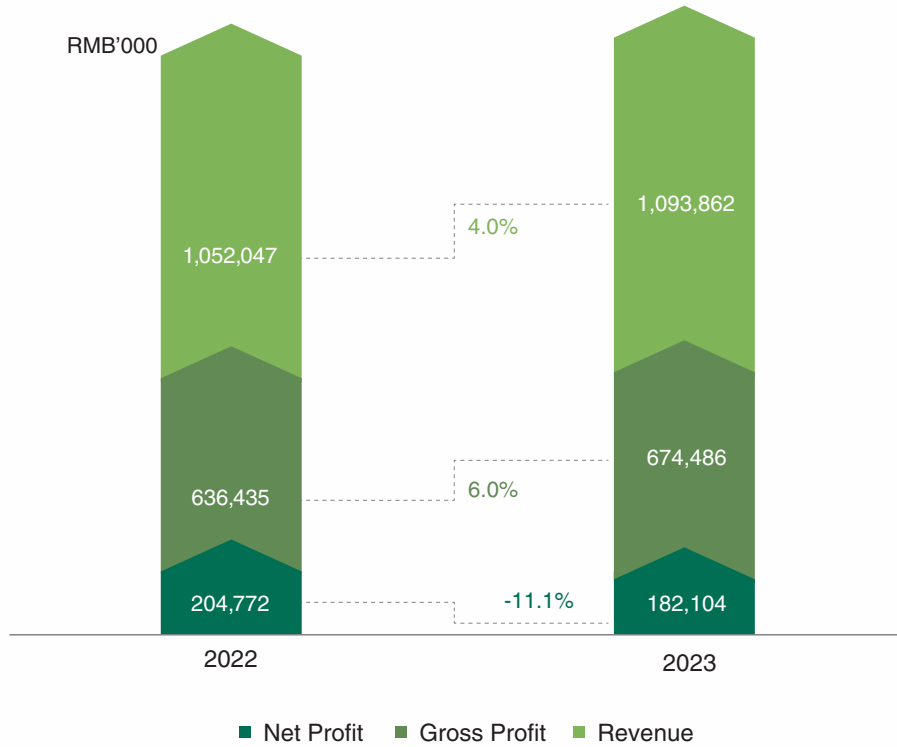
FINANCIAL HIGHLIGHTS

	Year ended 31 December		Variance %
	2023 RMB'000	2022 RMB'000	
Revenue	1,093,862	1,052,047	4.0%
Gross profit	674,486	636,435	6.0%
Profit for the year	182,104	204,772	-11.1%
Profit for the year attributable to equity shareholders of the Company	182,104	204,772	-11.1%
Earnings per share			
Basic	RMB0.16	RMB0.18	
Diluted	RMB0.16	RMB0.18	

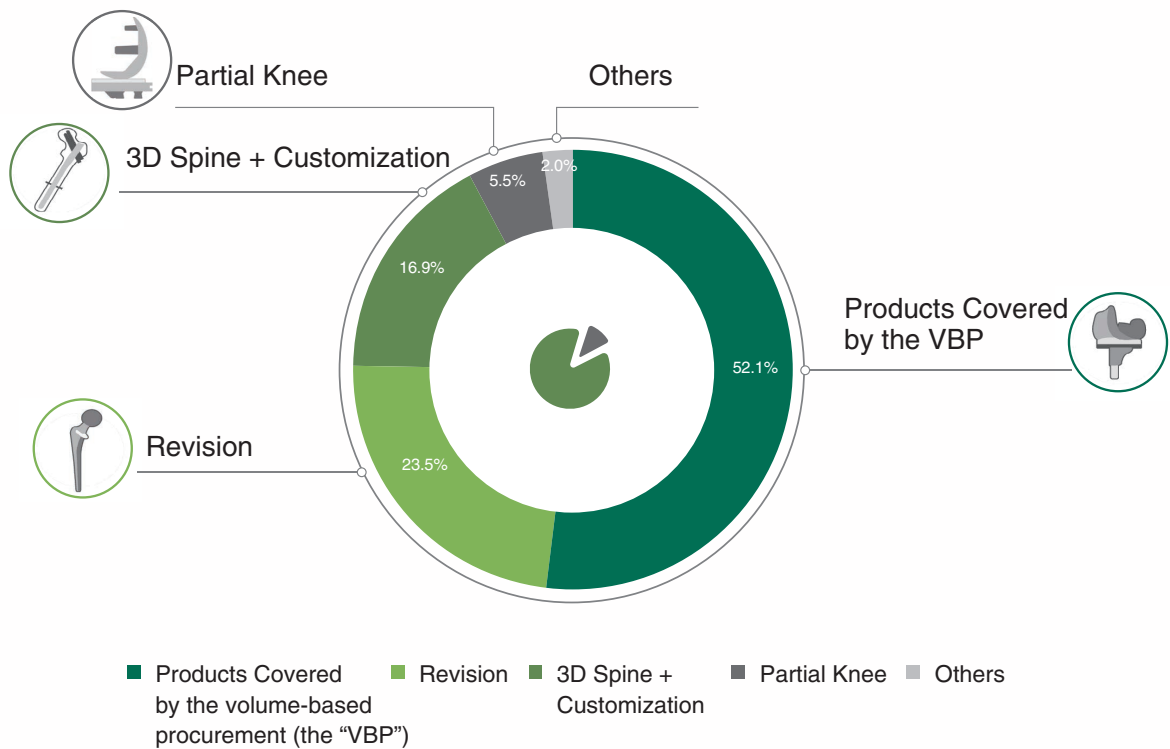
For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaign, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company's products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth. For the year ended 31 December 2023, the Group achieved a net profit of RMB182.1 million, representing a decrease of 11.1% as compared to the year of 2022, which was mainly attributable to the increase in investment related to R&D and market development.

The Directors have resolved to recommend the payment of a final dividend of HK\$4.5 cents per share for the year ended 31 December 2023.

Revenue, Gross and Net Profit



Domestic Business Revenue Breakdown



FIVE YEARS' FINANCIAL SUMMARY

	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,093,862	1,052,047	761,441	1,035,386	926,705
Profit for the year	182,104	204,772	92,619	314,007	266,992
Assets					
Non-current assets	1,028,208	709,135	670,913	624,085	364,167
Current assets	1,974,816	2,065,357	1,934,371	1,902,821	1,118,059
Total assets	3,003,024	2,774,492	2,605,284	2,526,906	1,482,226
Liabilities					
Current liabilities	498,173	436,384	489,435	417,838	327,877
Non-current liabilities	112,948	94,347	84,298	66,292	38,339
Total liabilities	611,121	530,731	573,733	484,130	366,216
Total equity	2,391,903	2,243,761	2,031,551	2,042,776	1,116,010

CHAIRMAN'S STATEMENT



The year of 2023 was the 20th anniversary of the establishment of AK Medical. Looking back, several goals set at the outset had been achieved after the joint efforts of our employees. We have become a leading enterprise in artificial joints in China, and our market share of hip and knee joints ranked among the top. On average, a prosthesis of AK Medical was implanted in a patient every two minutes, benefiting millions of patients.

After two decades of development, we have developed from the initial focus on manufacturing hip and knee implants to the current provision of total orthopedic solutions. With the scientific and technological innovation and clinical application of new technologies in orthopedics, the time for inpatient treatment of hip and knee joints replacement of patients has been shortened from originally two weeks to only 3 to 4 days now. Meanwhile, with the advancement of manufacturing technology and quality control technology, the manufacturing cycle of hip and knee joints prostheses has been reduced from originally 2 to 3 months to only 1 or 2 weeks now. By applying 3D printing technology, we can even complete the provision of customized prostheses within 24 hours. AK Medical has built a comprehensive and leading advantage in 3D printing technology, and combined with the newly developed surgical navigation and robotics technology to jointly empower orthopedics.

CHAIRMAN'S STATEMENT

In 2023, we experienced anti-corruption rectification in the healthcare industry, after the implementation of the volume-based procurement (the "VBP") healthcare policy of high-value orthopedic consumables. This made us deeply aware that the reform in the healthcare industry is inevitable. In addition to technological innovation, the Company also has to rebuild its business model and carry out stricter cost control.

The Company made fruitful achievements in R&D registration work in 2023. The Group has obtained a total of 18 new registration certificates of Class III medical device approved by the NMPA, including 3D printed knee joints, 3D printed second-generation interbody fusion cage, 3D printed customized products, and hip surgery robot, etc. This is the result of the Company's long-term focus on R&D investment.

The overseas business of the Company has achieved rapid development in 2023. The annual revenue from the Company's overseas business reached RMB227.1 million with a year-on-year increase of 37.1%, accounting for more than 20% of the overall revenue of the Company. We will further increase our efforts to expand overseas markets, and build the overseas business as the second growth engine of the Company in the future.

2024 will be a year full of challenges. The healthcare industry is still gradually recovering, and the market is likely to be subject to fluctuations. The VBP of joints has entered the second cycle, and the operation of the Company requires further adjustments. We will try our best to actively address these challenges, improve management capabilities and efficiency, and maintain the leading position in the orthopedic industry in China through the leading of innovation and the persistently steady operation. In the future, AK Medical will continue to uphold its vision of becoming a world-leading brand, continuously innovating and rewarding its shareholders, customers and society!

President of AK Medical

Li Zhijiang

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Overview

In the first half of 2023, with the end of the COVID-19 pandemic, the number of patients seeking medical care increased significantly, and the number of hospital-end orthopedic surgeries also ushered in a peak in the second quarter, representing a significant increase over the corresponding period of last year, and was reflected in the performance of the Company for the first half of the year.

In July 2023, the National Health Commission (the “NHC”) joined hands with nine departments of the PRC government to carry out a series of centralized rectification work aimed at corruption in the national healthcare sector. This series of campaigns affected the number of operations in public hospitals to a certain extent in the short term, as well as the promotion and application of innovative high value-added products in hospitals, so the performance of the Company was also affected to some degree.

In 2023, with the further recovery of overseas markets from the pandemic, the Company actively expanded overseas markets resulting in the quick growth of the foreign operations, which proportion in the overall revenue structure of the Company increased rapidly and drove the business growth of the Company.

As of 31 December 2023, the Group has realized sales revenue of RMB1,093.9 million with a year-on-year growth of 4.0% and net profits of RMB182.1 million with a year-on-year decrease of 11.1%.

Business of Hip and Knee Implants

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

In the first half of 2023, with the end of the COVID-19 pandemic, the volume of joint surgeries ushered in a small peak, resulting in the revenue growth of the joint business of the Company. In the second half of 2023, due to the introduction of a series of anti-corruption campaigns, the number of operations in hospitals was affected to a certain extent, resulting in a decline in the revenue of the Company’s domestic joint business. In 2023, the Company actively expanded its foreign operations, in particular the emerging market attained rapid business growth. The growth of the overseas revenue partially covered the decline in the domestic joint business. In 2023, the revenues from hip and knee implants of the Group amounted to RMB901.7 million, representing a year-on-year decrease of 2.1%.

Business of Spine and Trauma Implants

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

MANAGEMENT DISCUSSION AND ANALYSIS

In 2023, the Volume Based Procurement (the “**VBP**”) of spine products began to be implemented nationwide. After the implementation of the VBP policy, leverage on the leading fusion technology and good postoperative efficacy, the Company’s products were welcomed by clinicians. During this period, the Company continued to launch new 3D printed spine products, further enriching its spine product line and providing clinicians with more options.

In 2023, the Group realized revenues of RMB123.3 million from spine and trauma implants products, with a year-on-year increase of 105.4%.

Customised Products and Services

Customised products and services include customised joint, pelvis, spinal and trauma implants products as well as customised surgical value-added services. In 2023, with the advantage of 3D printing technology, the Company obtained two more new registration certificates for 3D printing customized products, further expanding the coverage of customized products and consolidating the absolute advantage of the Company in the field of 3D printing customized technology. However, in the second half of 2023, against the background of the anti-corruption campaigns, doctors became more cautious about the use of varieties that were not covered by the VBP, making an impact to the revenue of the customized products and services. In 2023, the Group’s revenue from customised products and services reached RMB49.6 million, representing a year-on-year increase of 5.6% over the revenue for the year ended 2022.

Research and Development

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

In 2023, the Group has obtained 18 new registration certificates of Class III Medical Device approved by the National Medical Products Administration (the “**NMPA**”), including 3D printed knee joint prosthesis, 3D printed second-generation interbody fusion cage, 3D printed matched long segmental bone and thoracolumbar prosthesis, and hip surgery robot, etc. As of 31 December 2023, the Group has been awarded 88 registration certificates of Class III Medical Device approved by the NMPA, 15 CE certificates approved by European regulatory organizations and 2 U.S. Food and Drug Administration certificates.

For innovative products, the registration of the iBot hip surgery robot has been approved, which has helped the Group form a digital integrated orthopedic solution from orthopedic 3D printing to surgical navigation and the robotic system. The newly approved 3D printed acetabular cup and interbody cage are ones of the second generation of 3D printed products, where active substances are added on the basis of 3D printed bone trabecula with a special micro-nano structure, realizing the upgrade from bio inertness to bioactivity. The launch of customized prostheses represented by 3D printed matched long segmental bone and thoracolumbar prostheses marked the continuous refinement and establishment of the Innovative Customised Orthopedic Solution (“**ICOS**”) orthopedic customization platform and further improvement of the 3D printing solutions of the Group.

For topics of R&D projects, the high cross-linked polyethylene material project led and submitted by the Group was successfully shortlisted for “selecting the best candidates via open competition mechanism” in the innovation task of the Ministry of Industry and Information Technology of the People’s Republic of China (the “MIIT”) and the NMPA. Beijing Libeier Bio-engineering Institute Co., Ltd.* (北京理貝爾生物工程研究所有限公司), a subsidiary of the Group, has been approved as a national new and high technology enterprise, which is the first time that the Group was granted such qualification since the acquisition of Libeier.

As of 31 December 2023, the Group has obtained 304 patents for invention, 404 patents for utility models and 31 authorized PCT patents.

Sales and Marketing

Joins Business

In 2023, the joint sales business of the Company mainly focused on two aspects: firstly, to focus on conventional markets dominated by import brands such as Beijing, Shanghai, Zhejiang and Guangdong, and be committed to achieving import substitution; and secondly, to consolidate and maintain hospitals with a larger number of surgeries using the Company’s branded products. Although the number of joint prostheses implanted was affected to a certain extent due to the impact of the anti-corruption campaigns nationwide, the Company still achieved a series of breakthroughs in the sales market:

Breakthrough in key target markets: In Zhejiang, Guangdong, Shanghai, Beijing and other markets that have been conventionally dominated by imported brands, the share of the Company’s products has increased significantly. For example, the Company has achieved and obtained over 20% of the market share of joint implants in Beijing in 2023.

Breakthrough in key target hospitals: Breakthroughs have been achieved in a number of key hospitals at provincial level or above, and the proportion of the Company’s surgical implants in the national provincial hospital market has been further increased.

The share of the mass market remained stable and continued to consolidate.

For the work of the joint marketing, the Company continued to be one of the companies holding a leading position in product innovation, launched an additional series of new products in 2023, and carried out a series of fruitful marketing activities. Innovative unicondyle products such as HAUK and the 3D printed congenital hip product system have received a good response from the market. The Company continued to promote dozens of academic activities such as an international project named Pathways, the Way to the Congenital Hip – Congenital Hip Seminar, the training session on unicondyle standard course, and the challenging case seminar of HDR hip system.

Spine Business

The Company takes the 3D printing technology as a traction and actively promotes the increase of its market share of 3D printed spine products. With unique technical advantages and clinical efficiency, its 3D printed spine products were newly introduced to 262 hospitals in 2023, including 52 provincial hospitals, achieving a rapid growth in the surgical implantation. In 2023, Apollo self-stabilising vertebral body product launched by the Group is the first 3D printed self-stabilising vertebral body product in the PRC, and its product design is well received by the market. Osteo Match, a product system developed by the Group with adaptability of elastic modulus of prosthesis to bone modulus, which includes an interbody fusion device and an artificial vertebral system, is the first spinal fusion prosthesis system with biomechanical matching of bone modulus in the world. The launch of 3D printed TC Bridge effectively solves the problem of repair and reconstruction of complex and large bone defects of limbs, and enables the exploration of 3D printing technology of the Company to reach new heights and fields.

The 3D printed fusion device and vertebrae products of the Libeier brand were launched, creating a dual-brand operation mode for 3D printed products and further consolidating the position of the Group as one of the leading companies in the field of 3D printing in the PRC.

Overseas Business

In 2023, the Company actively expanded its overseas business under the AK and JRI brands. During 2023, the joint business of the Company was further expanded to Vietnam, Uzbekistan and other countries, of which the Southeast Asian market grew by more than 50%.

With the support of the China International Cultural Exchange Center, the Company launched the “International Exchange Project of the Health Silk Road” to build an academic exchange platform for domestic and foreign experts and enhance the influence of Chinese brands in countries of the Belt and Road Initiative.

Digital Orthopedics Business

Based on the conventional joint business and leveraging the accumulation of digital processing capabilities in 3D printing technology, the Company has deepened its business exploration and layout in the field of digital orthopedics. After years of cultivation, the Company has obtained a series of registration certificates in the digital field, such as surgical intelligent planning, personalized surgical model printing, personalized surgical guide, personalized implant printing, visual intelligent assistance system for joint replacement, surgical robots, etc., and has the ability to provide comprehensive solutions for services, products and equipment.

The Company cooperated with the Capacity Building and Continuing Education Center of the NHC to continue to carry out the “Research Topic on Improving the Clinical Application Ability of Digital Orthopedic Technology”, aiming to promote the construction of a national intelligent medical system, strengthen the development of digital technologies such as artificial intelligence, surgical robot and 3D printing in the medical industry, build a national exchange platform for digital orthopedics, and promote the academic development of digital orthopedics.

To sum up, the Company has constantly provided extensive product lines and comprehensive solutions to cover diverse surgical needs and maintained customers’ loyalty. With multiple brands of AK, Libeier, ITI and JRI, the Company has responded to different market demands in a more flexible way and can meet the needs of customers at different levels. The exploration of digital orthopedics will drive the Company to enter new business areas and build a new engine for its ongoing growth.

Prospect

Under the impact of the industry policies, the orthopedic industry in the PRC has experienced relatively slow growth in the past few years. However, with the stabilization of policies, the orthopedic industry is expected to return to relatively rapid growth in the future. In addition, after the COVID-19 pandemic, new development opportunities have also emerged in overseas markets. The Group will make strategic adjustments in a timely manner to adapt to the industrial changes after the VBP, including but not limited to:

1. Increasing the market share of the middle and high-end markets led by digital orthopedic technology

The Group has vigorously developed digital orthopedic technology in recent years. In addition to the 3D printing technology with its core advantage, the Group has also explored and developed navigation systems and robotic systems to assist orthopedic surgeries. The navigation and robotic system are combined with the ICOS customized platform to form a closed loop of technology to meet the personalized demands of doctors and patients, and will enable more diversified application scenarios and more clinical possibilities. The Group will make use of its digital orthopedic technology as the entry point to establish partnership with more large-scale tertiary hospitals, seize the opportunity of import substitution brought about by the VBP, and further enhance the share of the brands in the middle and high-end markets.

2. Vigorously expanding overseas markets and building the second growth engine of the Group

After the outbreak of the COVID-19 pandemic, new opportunities have emerged in the overseas orthopedic market. On the one hand, the volume of surgeries in emerging markets resumed rapidly. On the other hand, multinational companies experienced a shortage of supply due to supply chain disruption. The Group seized opportunities and achieved sales breakthroughs in overseas markets in the past two years. In the future, we will further increase our efforts to expand overseas markets, strengthen the stickiness with end customers, gradually build the brand loyalty among end customers, and ensure the stable growth of overseas revenue. At the same time, we will integrate the market resources of AK and JRI to promote the synergistic development of the two brands. We will create the overseas business as the second growth engine of the Group.

3. Maintaining the Group's position as one of the leading companies in domestic orthopedics industry and strengthening the Group's image as an innovative practitioner of orthopedics

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

FINANCIAL REVIEW

Overview

	Year ended 31 December		Variance
	2023	2022	
	RMB'000	RMB'000	%
Revenue	1,093,862	1,052,047	4.0%
Gross profit	674,486	636,435	6.0%
Profit for the year	182,104	204,772	-11.1%
Profit for the year attributable to equity shareholders of the Company	182,104	204,772	-11.1%
Earnings per share			
Basic	RMB0.16	RMB0.18	
Diluted	RMB0.16	RMB0.18	

For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaigns, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company's products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth. For the year ended 31 December 2023, the Group achieved a net profit of RMB182.1 million, representing a decrease of 11.1% as compared to the year of 2022, which was mainly attributable to the increase in investment related to R&D and market development.

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

Revenue

	Year ended 31 December		Variance %
	2023 RMB'000	2022 RMB'000	
Hip replacement implants ⁽¹⁾	590,396	654,999	-9.9%
Knee replacement implants ⁽²⁾	311,351	266,415	16.9%
Spinal and trauma implants ⁽³⁾	123,268	60,006	105.4%
Customised products and services ⁽⁴⁾	49,593	46,952	5.6%
Others ⁽⁵⁾	19,254	23,675	-18.7%
Total	1,093,862	1,052,047	4.0%

Notes:

- (1) Including 3D-printed hip replacement implants.
- (2) Including 3D-printed knee replacement implants.
- (3) Including 3D-printed spinal and trauma implants.
- (4) Including customized joint, pelvis, spinal and trauma implants products and customised surgical value-added services.
- (5) Others primarily include surgical instruments, medical irrigators and third party orthopedic products.

For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022. In 2023, due to the anti-corruption campaigns, the number of surgeries in hospitals decreased. The decline in the number of operations in hospitals affected the sales of the Company's products to a large extent. Under such pressure, on the one hand, the Company continued to explore the domestic market and improve the coverage of its products in hospitals, which drove the revenue growth of its spine products. On the other hand, it actively explored overseas markets, and its overseas revenue also realized significant growth.

Hip and Knee Implants Products

Hip and knee replacement implants products include knee replacement implants and hip replacement implants as well as 3D-printed hip and knee replacement implants.

For the year ended 31 December 2023, hip replacement implants registered a revenue of RMB590.4 million, representing a decrease of 9.9% as compared to that of RMB655.0 million for the year ended 31 December 2022. In 2023, due to the anti-corruption campaigns, the number of operations in hospitals decreased. Under such influence, the sales volume of hip replacement implant products of the Company from the domestic market declined, and the decrease in the sales volume resulted in the decrease in the revenue from the hip replacement implant products. At the same time, through active market development, the Company's revenue from the hip replacement implant products sold overseas still maintained significant growth.

For the year ended 31 December 2023, knee replacement implants registered a revenue of RMB311.4 million, representing an increase of 16.9% as compared to that of RMB266.4 million for the year ended 31 December 2022. In 2023, the Company's revenue from knee replacement implants products sold domestically was also affected by the anti-corruption campaigns, and the revenue from the primary knee replacement implant products declined. However, driven by new products such as unicondyle, the Company's overall sales revenue from knee replacement implants still achieved growth.

Spinal and Trauma Implants Products

Our spinal and trauma implants products include conventional spinal implants and trauma implants as well as 3D-printed spinal implants. For the year ended 31 December 2023, spinal and trauma implants products registered a revenue of RMB123.3 million, representing a significant increase of 105.4% as compared to that of RMB60.0 million for the year ended 31 December 2022. The significant increase in the revenue from spinal and trauma implants products was mainly affected by the following two factors: on the one hand, in 2023, the innovation and functional excellence of the 3D printing technology of the Company and the expanding spine product line have been highly recognized by the market, which further promoted the implantation of 3D spine products, and thus the sales of 3D spine products has increased significantly. On the other hand, in 2022, the Company made provision for future sales price discounts of RMB20.0 million for certain specific spinal products of the Libeier brand, so as to further expand the revenue growth of spinal and trauma implants in 2023.

Customised products and services

Revenue from customised products and services includes revenue from customised joint, pelvis, spinal and trauma implants products and customised surgical value-added services. For the year ended 31 December 2023, customised products and services registered a revenue of RMB49.6 million, representing an increase of 5.6% as compared to that of RMB47.0 million for the year ended 31 December 2022. In 2023, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully establish cooperation in customised surgeries with a number of hospitals.

Others

Others include revenue from surgical instruments and third party orthopaedic products. In 2023 and 2022, our revenue from surgical instruments and third party orthopaedic products was RMB19.3 million and RMB23.7 million, respectively, representing 1.8% and 2.3% of our revenue, respectively.

Domestic and Overseas Sales

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

	Year ended 31 December		Variance %
	2023 RMB'000	2022 RMB'000	
China	866,730	886,318	-2.2%
Other countries	227,132	165,729	37.1%
Total	1,093,862	1,052,047	4.0%

MANAGEMENT DISCUSSION AND ANALYSIS

Our sales revenue derived from the overseas for the year ended 31 December 2023 was approximately RMB227.1 million, representing a substantial increase of 37.1% as compared with the year ended 31 December 2022. This was mainly due to an increase in the number of overseas surgeries resulted from the active exploration of overseas markets by the Company in 2023. The revenue from China for the year ended 31 December 2023 was RMB866.7 million, representing a decrease of 2.2% as compared to the year ended 31 December 2022. This was mainly affected by the decrease in sales of joint replacement implants mentioned above.

Cost of Sales

For the year ended 31 December 2023, the cost of sales was RMB419.4 million, representing an increase of 0.9% as compared with RMB415.6 million for the year ended 31 December 2022. The increase in cost of sales was primarily due to an increase in overall sales volume of the Company's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. For the year ended 31 December 2023, the gross profit amounted to RMB674.5 million, representing an increase of 6.0% as compared with RMB636.4 million for the year ended 31 December 2022. On the one hand, the increase in gross profit was due to higher revenues. On the other hand, it was due to a decrease in the cost of the major products through active cost control by the Company. At the same time, the Company made the provision for price discounts for specific spine products in 2022, resulting in a decrease in the gross profit in 2022 and further expanding the increase in the gross profit in 2023.

Gross margin is calculated as gross profit divided by revenue. Our gross margin was 61.7% for the year ended 31 December 2023, representing an increase of 1.2% as compared with 60.5% for the year ended 31 December 2022. In 2023, through active cost control, the cost of major products of the Company decreased, and the cost decline resulted in an increase in the gross margin. At the same time, the proportion of revenue from products from overseas market increased, which further promoted the improvement of the gross margin.

Other Income, Net

The other income for the year ended 31 December 2023 was RMB26.4 million, representing an increase of RMB15.2 million as compared with RMB11.2 million for the year ended 31 December 2022. Other income in 2023 was mainly an increase of the income received from government grants.

Selling and Distribution Expenses

Selling and distribution expenses were RMB218.8 million for the year ended 31 December 2023, representing an increase of 21.5% as compared with RMB180.1 million for the year ended 31 December 2022. The increase was mainly due to an increase of marketing and promotion activities, as well as the increase of labor costs and travelling expenses for sales personnel.

General and Administrative Expenses

General and administrative expenses amounted to RMB133.4 million for the year ended 31 December 2023, representing an increase of 12.8% as compared with RMB118.3 million for the year ended 31 December 2022. The increase was mainly due to an increase in labor costs of management staff in the current year and provision for credit losses based on the ageing and balance of receivables.

Research and Development Expenses

Research and development expenses for the year ended 31 December 2023 were RMB137.1 million, representing an increase of 23.7% as compared with RMB110.9 million for the year ended 31 December 2022. In 2023, the Company continued to actively make investment in research and development, strengthen the construction of its research and development team, and actively advance research and development projects and the development of new products.

Net Finance Income

Net finance income was RMB19.6 million for the year ended 31 December 2023, representing a decrease of RMB0.7 million as compared with RMB20.3 million for the year ended 31 December 2022. Although the interest income of the Group recorded a significant increase, the finance income of the Group slightly decreased due to the foreign exchange losses resulting from exchange rate movements.

Income Tax Expenses

Income tax expense was RMB49.0 million for the year ended 31 December 2023, representing an increase of 38.0% as compared with RMB35.5 million for the year ended 31 December 2022. Such increase was primarily due to the reversal of deferred income tax assets in prior period resulting from changes in the tax rates of subsidiaries of the Group.

Liquidity and Financial Resources

As at 31 December 2023, we had cash and cash equivalents of RMB331.2 million, structured deposit of RMB390.9 million, time deposits over 3 months of RMB30.0 million, and restricted deposits of RMB5.2 million, amounting to RMB757.3 million in aggregate, as compared with RMB1,083.3 million as at 31 December 2022. The Group's cash and cash equivalents were mainly denominated in RMB, US dollars and Hong Kong dollars. The bank loans were denominated in RMB. 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

We had net current assets of RMB1,476.6 million as at 31 December 2023, representing a decrease of RMB152.4 million as compared with RMB1,629.0 million as of 31 December 2022. Such decrease was mainly attributable to the Group's investment in the construction of new plants.

Foreign Exchange Exposure

Our principal business is located in China, and it is exposed to foreign currency risks, primarily including account receivables, account payables and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currency of the operations to which the transactions relate generating from overseas sales and purchases. At present, foreign exchange exposure mainly arises from USD and EUR. For the year ended 31 December 2023, the Group recorded a net exchange loss of RMB1.9 million, as compared with an exchange gain of RMB4.7 million for the year ended 31 December 2022. 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 2023, the Group's total capital expenditure amounted to approximately RMB230.8 million, which was primarily used in (i) plant construction; (ii) purchase of patents; and (iii) procurement of equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As of 31 December 2023, the Group mainly pledged a deposit of RMB184.1 million in the pledged deposits account to obtain a bank loan for new plant construction (as of 31 December 2022: nil), and bills receivable of RMB18.8 million and restricted deposits of RMB5.2 million were used to be pledged for bills payable (as of 31 December 2022: nil), amounting to RMB208.1 million in aggregate. Other than that, we did not have any charge or pledge of assets.

Borrowings and Gearing Ratio

As of 31 December 2023, the balance of our short-term bank loans of RMB21.4 million and the balance of our long-term borrowings of RMB32.3 million were invested in the construction of the new plant. Our loan term was not more than 3 years, and the borrowing rate was 2.8%-3%. Gearing ratio represents the percentage of bank borrowings to total equity. As of 31 December 2023, the gearing ratio of the Group was 2.2% (as of 31 December 2022: nil).

Contingent Liabilities

As of 31 December 2023, the Group did not have any material contingent liabilities (as of 31 December 2022: nil).

Significant Investments

As of 31 December 2023, the Group did not hold any significant investments in equity interests of any other companies.

Future Plans for Material Investments and Capital Assets

As of 31 December 2023, the Group had two projects under construction and ready for construction: a new office park in the eastern part of Changqing New City and a new plant in Changzhou West Taihu Lake Park. Subject to the actual situation at the relevant time, the Company currently expects to provide funding for the two projects through the use of internal funds and/or external funding. Other than that, we have no other plans for material investments and capital assets.

Employee and Remuneration Policy

As of 31 December 2023, the Group had 1,052 employees (31 December 2022: 1,034 employees). Total staff remuneration expenses including Directors' remuneration for the year ended 31 December 2023 amounted to RMB255.0 million (for the year ended 31 December 2022: RMB206.0 million).

Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. In addition to salary payments, other staff benefits include social insurance and housing provident contribution made by the Group, performance-based compensation and bonus and share schemes.

Subsequent Event

From 31 December 2023 to the date of this report, the Group had no material events.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 56, is the chairman of the Board, the chief executive officer of the Company and an executive Director, primarily responsible for the overall strategic planning and development of the Group. He was appointed as a Director on 17 July 2015 and was designated as the chairman of the Board, the chief executive officer of the Company and an executive Director on 6 April 2016. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Li is the spouse of Ms. Zhang Bin, an executive Director and a senior vice president of the Company, and the brother-in-law of Mr. Zhang Chaoyang, an executive Director and a senior vice president of the Company.

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

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

Ms. Zhang Bin (張斌), aged 56, is an executive Director and a senior vice president of the Company, primarily responsible for the overall management and operations including management of the capital markets, human resources and administrative matters of the Group. She was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of the Company on 6 April 2016. Ms. Zhang is the spouse of Mr. Li Zhijiang, the chairman of the Board, an executive Director and the chief executive officer of the Company, and the sister of Mr. Zhang Chaoyang, an executive Director and a senior vice president of the Company.

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

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

Mr. Zhang Chaoyang (張朝陽), aged 54, is an executive Director and a senior vice president of the Company, primarily responsible for product development, planning, construction, operation and management of the new production facilities of the Group. He was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of the Company on 6 April 2016. Mr. Zhang is brother of Ms. Zhang Bin, an executive Director and a senior vice president of the Company, and brother-in-law of Mr. Li Zhijiang, the chairman of the Board, an executive Director and the chief executive officer of the Company.

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

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

Ms. Zhao Xiaohong (趙曉紅), aged 46, is an executive Director of the Company, primarily responsible for overseeing the marketing and sales management and business operation of the Group. She was appointed as a Director on 29 February 2016 and was designated as an executive Director the Company on 6 April 2016. Ms. Zhao was appointed as a vice president of the Company on 21 December 2018.

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

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

Non-executive Director

Dr. Wang David Guowei (王國璋), aged 62, is a non-executive Director, primarily responsible for providing advice on the strategy of the Group. He was appointed as a Director on 29 February 2016 and was designated as a non-executive Director on 6 April 2016. He is a member of the Audit Committee of the Company.

Dr. Wang has over 10 years of experience in the medical industry. Dr. Wang is the senior managing director of Asia at OrbiMed Advisors LLC, an investment fund with a focus on the healthcare industry, where he has worked since August 2011. Dr. Wang is a director of Gracell Biotechnologies Inc. (a company listed in NASDAQ, stock code: GRCL), a director of Gaush Meditech Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 2407) and a director of Sichuan Biokin Pharmaceuticals Co., Ltd (a company listed on the Shanghai Stock Exchange, stock code: 688506). From April 2006 to July 2011, he served as the managing director of 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 on 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. Dr. Wang served as a non-executive director in Laekna, Inc. (a company listed on the Hong Kong Stock Exchange, stock code: 02105) on 1 July 2019. He ceased to be a director of Suzhou Medical System Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603990) on 6 May 2019 and a non-executive director of Union Medical Healthcare Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2138) on 24 April 2020 and ceased to be a director of Amoy Diagnostics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300685) on 13 August 2021.

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

Independent Non-executive Directors

Mr. Kong Chi Mo (江智武) *CESGA[®], FSA, FCCA, CPA, FCG, HKFCG, FHKIoD & MHKSI*, aged 48, is an independent non-executive Director, primarily responsible for overseeing the management of the Group independently. Mr. Kong joined the Company on 17 November 2017, when he was appointed as an independent non-executive Director. Mr. Kong is the chairman of the Audit Committee and a member of each of the Nomination Committee and Remuneration Committee of the Board.

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

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

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

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

Dr. Li Shu Wing David (李樹榮), aged 59, 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 of Stryker China Limited from July 2001 to 2006.

Dr. Li obtained a Master of Business Research degree and a Doctor of Business Administration degree from SBS Swiss Business School in March 2018 and February 2020, a Master of Business Administration degree from Chaminade University of Honolulu in December 1986 and a Bachelor of Business Administration degree from University of Hawaii at Hilo in May 1986. He attended Stryker Advanced Leadership Academy Program in Harvard University in March 2005 and INSEAD Hewlett-Packard Management Academy in April 1999. He also obtained the Registered Corporate Coach Certification from Worldwide Association of Business Coaches. Dr. Li was appointed as an Adjunct Associate Professor of The Chinese University of Hong Kong since 1 August 2022.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Eric Wang, aged 56, is an independent non-executive Director, primarily responsible for overseeing the management of the Group independently. He joined the Group on 15 June 2020, when he was appointed as an independent non-executive Director.

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

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

Senior Management

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

Ms. Liu Aiguo (劉愛國), aged 50, 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 51, is the director of the research center of AK Medical Beijing, primarily responsible for overseeing management of the research center of AK Medical Beijing. Ms. Wang has over 10 years of R&D experience in orthopedic implants. She joined the Group in October 2010 as the supervisor of the research center of AK Medical Beijing and was promoted to the director of the research center of AK Medical Beijing in December 2014.

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

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

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Han Yu (韓鈺), aged 41, is our company secretary, primarily responsible for capital markets matters and company secretarial matters of the Group. Ms. Han has over 7 years of experience in the finance industry. She joined the Group in September 2015 as the senior financial analysis manager of AK Medical Beijing until 31 December 2015. She has become the secretary to the board of directors of AK Medical Beijing since 1 January 2016. She was appointed as one of our joint company secretaries on 6 April 2016.

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

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

Ms. Liang Kun (梁堃), aged 39, has been the Chief Financial Officer of the Company since December 2020. She is primarily responsible for the financial management and accounting affairs of the Group. Ms. Liang has rich experience in accounting and auditing. She worked as an auditor in Ernst & Young Hua Ming LLP from July 2007 to July 2014. From July 2014 to December 2016, she worked as an auditing manager in United Technologies Corporation. Ms. Liang joined the Company as a senior financial manager since December 2016. She graduated from Tianjin University of Finance and Economics with a Bachelor Degree in Accounting. She is a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants.

Mr. Sun Hanzhong (孫漢忠), aged 53, has been appointed as the vice president of Human Resources of AK Medical Group since May 2021, and is fully responsible for the human resources management of AK Medical and all its subsidiaries. Prior to joining the Group, Mr. Sun had held various human resources leadership roles in Hong Kong listed companies such as Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (stock Code: 0520), Yashili International Holdings Ltd (stock code: 01230) and China Mengniu Dairy Company Limited (stock code: 02319). Before that, he also worked in human resource management in Kimberley-Clark (China) Limited* (金佰利(中國)有限公司), Microsoft (China) Co., Ltd., Alcoa Asia Ltd. (美國鋁業亞洲公司) and China National Light Industrial Products Import & Export Corporation (中國輕工業品進出口總公司).

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

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

REPORT OF THE DIRECTORS

The board (the “**Board**”) of directors (the “**Directors**”) of AK Medical Holdings Limited (the “**Company**”) is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW AND FINANCIAL KEY PERFORMANCE

The implementation of the result of the VBP on joint products speeded up the import substitution, which brought the large growth in sales volume of the Group’s products. For the year ended 31 December 2023, the Group achieved revenue of RMB1,093.9 million, representing an increase of 4.0% as compared to 2022, and a net profit of RMB182.1 million, representing a decrease of 11.1% as compared to the year of 2022.

A fair review of the business of the Group and a discussion and analysis of the Group’s performance during the year under review and the material factors underlying its results and financial position are provided in the section headed “Management Discussion and Analysis” from page 9 to page 19 of this annual report.

An analysis of the Group’s performance during the year ended 31 December 2023 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

Policy risk

In 2023, the anti-corruption campaign in the medical field led by the NHC has affected the annual results of the Company to a certain extent. We are not entirely sure that the anti-corruption campaign will continue in the future. In March 2024, the NHSA organized the renewal of the contract for the VBP of hip and knee joints, and it will be successively implemented nationwide from May 2024. There is uncertainty about the implementation of the new round of the VBP.

Human resource risk

With the implementation of the VBP, the orthopedic industry is facing more fierce competition. A highly competitive industries can lead to the lost of talent, especially for employees with rich experience and skills, and the Company is at risk of the lost talent. In order to retain key personnel, the Company may have to improve the compensation packages of employees, so it also faces the risk of rising labor costs.

KEY RELATIONSHIP

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

Employees

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

Customers

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

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

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

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

Suppliers

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

ENVIRONMENTAL POLICY

We are subject to various PRC and United Kingdom (the "UK") laws, rules and regulations with regard to environmental matters, at both the national level and local environmental protection bureaus level. We have established dust treatment and recycling systems which have improved the working environment and have passed the necessary environmental impact evaluations and environmental facilities construction completion examinations. To comply with relevant environmental laws and regulations, we have engaged professional waste management companies to manage the disposal of hazardous wastes. We have also implemented waste treatment and disposal procedures with respect to the handling of hazardous wastes, such as wastes from hazardous chemicals. During the year ended 31 December 2023, the Group complied with all relevant environmental laws and regulations.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China and UK while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong. In 2023, our businesses were in compliance with all the relevant laws and regulations in Mainland China, UK, the Cayman Islands and Hong Kong in all material aspects.

DONATIONS

The Group made charitable donations totalling approximately RMB3,078,000 during the year ended 31 December 2023.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2023 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\$4.5 cents per ordinary share for the year ended 31 December 2023 (2022: HK\$6.0 cents) to the shareholders whose names appear on the register of members of the Company on Friday, 28 June 2024. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "AGM") to be held on Tuesday, 18 June 2024, will be payable on or around Thursday, 18 July 2024.

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 Thursday, 13 June 2024 to Tuesday, 18 June 2024, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Link Market Services (Hong Kong) Pty Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Wednesday, 12 June 2024.
- (b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Wednesday, 26 June 2024 to Friday, 28 June 2024, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Link Market Services (Hong Kong) Pty Limited at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong not later than 4:30 p.m. on Tuesday, 25 June 2024.

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 2023, the balance of the Group's short-term bank loans of RMB21.4 million and the balance of its long-term borrowings of RMB32.3 million were used for the construction of the new plant.

PLEDGE OF ASSETS

As of 31 December 2023, the Group mainly pledged a deposit of RMB184.1 million in the pledged deposits account to obtain a bank loan for new plant construction, and bills receivable of RMB18.8 million and restricted deposits of RMB5.2 million were used to be pledged for bills payable, amounting to RMB208.1 million in aggregate. 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 2023, sales to the Group's five largest customers accounted for approximately 17.5% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB48.3 million, which amounts to approximately 4.4% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 56.8% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB184.5 million, which amounts to approximately 35.7% of the Group's total purchases.

None of the directors or any of their close associates or any shareholders that to the knowledge of our Directors own more than 5% of the issued share capital of the Company had any interest in any of our five largest customers and suppliers during the year ended 31 December 2023.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2023 are set out in note 30 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 2023 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

At 31 December 2023, 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 RMB984.4 million.

DIRECTORS

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

Executive Directors

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

Non-executive Director

Dr. Wang David Guowei

Independent Non-executive Directors

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

In accordance with Article 84 of the Company's Articles of Association, Mr. Eric Wang, Dr. Wang David Guowei and Mr. Kong Chi Mo shall retire by rotation at the AGM, and are eligible to offer themselves for re-election at the AGM. Save for Mr. Eric Wang, all of them will offer themselves for re-election.

SERVICE CONTRACTS OF DIRECTORS

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

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

EMOLUMENT POLICY

During the year ended 31 December 2023, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, which is determined with reference to the Group's operating results, individual performance and responsibilities and comparable market practices. The Group also adopted the Share Option Scheme and Share Award Scheme to provide incentives to directors of the Company and employees of the Group.

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules for the year ended 31 December 2023.

DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party subsisted at the end of the year or at any time during the year ended 31 December 2023.

CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries and a controlling shareholder of the Company or any of its subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2023 or at any time during the year ended 31 December 2023. No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries subsisted at the end of the year ended 31 December 2023 or at any time during the year ended 31 December 2023.

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 2023. 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 2023 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 2023, 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 C3 to the Listing Rules (“**Model Code**”), were as follows:

Interest in the Shares or underlying Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares ^(Note 1)	Approximate Percentage of Interest In the Company ^(Note 2)
Mr. Li Zhijiang ^(Note 3)	Founder of a discretionary trust	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
	Interest of spouse	10,125,000 (L)	0.90%
Ms. Zhang Bin ^(Note 4)	Interest of controlled corporation	10,125,000 (L)	0.90%
	Interest of spouse	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
Mr. Zhang Chaoyang ^(Note 5)	Founder of a discretionary trust	58,818,500 (L)	5.24%
Ms. Zhao Xiaohong ^(Note 6)	Beneficial interest	2,799,924 (L)	0.25%

Notes:

- (1) The letter "L" denotes our Directors' long position in the Company's shares and the letter "S" denotes short position in the Shares.
- (2) The percentage is calculated based on the total number of 1,121,896,437 shares in issue as at 31 December 2023.
- (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 (i) 505,157,500 long position in the shares; and (ii) 37,977,940 short positions in the Shares as a result of the agreements entered into with Goldman Sachs International on 17 January 2023 and 28 April 2023, respectively. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in the Shares held by Ms. Zhang Bin pursuant to the SFO.
- (4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares of the Company. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhang Bin is the wife of Mr. Li Zhijiang. Therefore, Ms. Zhang Bin is deemed to be interested in Mr. Li Zhijiang's interest in the Company's shares pursuant to the SFO.
- (5) Mr. Zhang Chaoyang, being the founder of Bamboo Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 58,818,500 long position in the Company's shares.
- (6) Ms. Zhao Xiaohong directly holds (i) options to subscribe for 667,864 Shares pursuant to the Share Option Scheme; and (ii) 2,132,060 Shares.

Save as disclosed above, as at 31 December 2023, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

As at 31 December 2023, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) and entities had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares/ Underlying Shares <small>(Note 1)</small>	Approximate Percentage of Shareholding <small>(Note 2)</small>
Mr. Li Zhijiang <small>(Notes 3 and 4)</small>	Founder of a discretionary trust	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
	Interest of spouse	10,125,000 (L)	0.90%
Ms. Zhang Bin <small>(Notes 3 and 4)</small>	Interest of a controlled corporation	10,125,000 (L)	0.90%
	Interest of spouse	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
Ximalaya Limited <small>(Note 3)</small>	Beneficial owner	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
Rainbow Holdings Limited <small>(Note 3)</small>	Interest in a controlled corporation	505,157,500 (L)	45.03%
		37,977,940 (S)	3.39%
Mr. Zhang Chaoyang <small>(Note 5)</small>	Founder of a discretionary trust	58,818,500 (L)	5.24%
Suntop Limited <small>(Note 5)</small>	Beneficial owner	58,818,500 (L)	5.24%
Bamboo Group Management Limited <small>(Note 5)</small>	Interest of a controlled corporation	58,818,500 (L)	5.24%
Trident Trust Company (HK) Limited <small>(Notes 3 and 5)</small>	Trustee of a discretionary trust	563,976,000 (L)	50.27%
		37,977,940 (S)	3.39%
HHLR Advisors, Ltd.	Investment manager	78,402,400 (L)	6.99%
Gaoling Fund, L.P.	Beneficial owner	71,025,000 (L)	6.33%
The Goldman Sachs Group, Inc. <small>(Note 6)</small>	Interest of controlled corporations	105,257,292 (L)	9.38%
		100,813,583 (S)	8.99%

REPORT OF THE DIRECTORS

Name of Shareholders	Capacity/Nature of Interest	Approximate	
		Number of Shares/ Underlying Shares (Note 1)	Percentage of Shareholding (Note 2)
Goldman Sachs (UK) L.L.C. ^(Note 6)	Interest of controlled corporations	105,257,292 (L)	9.38%
		100,813,583 (S)	8.99%
Goldman Sachs Group UK Limited ^(Note 6)	Interest of controlled corporations	105,257,292 (L)	9.38%
		100,813,583 (S)	8.99%
Goldman Sachs International ^(Note 6)	Beneficial owner	105,257,292 (L)	9.38%
		100,813,583 (S)	8.99%

Notes:

- (1) The letter “L” denotes a person’s long position in the Shares and the letter “S” denotes a person’s short position in the Shares.
- (2) The percentage is calculated based on the total number of 1,121,896,437 Shares in issue as at 31 December 2023.
- (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% issued share capital of Rainbow Holdings Limited, which holds 100% issued share capital of Ximalaya Limited. Therefore, each of Mr. Li Zhijiang, Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited’s interest in (i) 505,157,500 long positions in the Shares; and (ii) 37,977,940 short positions in the Shares as a result of the agreements entered into by the Company with Goldman Sachs on 17 January 2023 and 28 April 2023, respectively, 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 these 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 the Shares held by Mr. Li Zhijiang pursuant to the SFO.
- (5) 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% issued share capital of Bamboo Group Management Limited, which holds 100% issued share capital of Suntop Limited. Therefore, each of Mr. Zhang Chaoyang, Trident Trust Company (HK) Limited and Bamboo Group Management Limited is deemed to be interested in Suntop Limited’s interest in the Shares pursuant to the SFO.
- (6) Goldman Sachs International is wholly-owned by Goldman Sachs Group UK Limited, a wholly-owned subsidiary of Goldman Sachs (UK) LLC and the shares of which are wholly-owned by The Goldman Sachs Group, Inc. Therefore, each of Goldman Sachs Group UK Limited, Goldman Sachs (UK) LLC and The Goldman Sachs Group, Inc. is deemed to be interested in the Shares held by Goldman Sachs International pursuant to the SFO.

Save as disclosed above, as at 31 December 2023, so far as the Directors were aware, no other persons (other than the Directors or chief executive of the Company) or entities had any interests or short positions in the Shares or underlying Shares of the Company, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

DIRECTOR'S RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year ended 31 December 2023 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 2023.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

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

Except for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so has been terminated upon the listing of the Company. As at 31 December 2023, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 2,800,000, representing approximately 0.25% of the shares of the Company in issue.

There is no maximum entitlement of each participant under this scheme. All options under the Pre-IPO Share Option Scheme were granted on 17 November 2017. The exercise price of the option granted under the Pre-IPO Share Option Scheme is HK\$1.34 per share. The exercise price was determined after taking into account (i) the exercise price per Share shall not be less than the par value of such Share; and (ii) subject to paragraph (i), the Board shall determine the exercise price at its sole discretion.

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

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

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

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

(aa) For the purpose of this paragraph:

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

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

- (I) 25% of the total number of options granted when the Vesting Conditions are met for the first time during the Option Period;
- (II) 25% of the total number of options granted when the Vesting Conditions are met for the second time during the Option Period;
- (III) 25% of the total number of options granted when the Vesting Conditions are met for the third time during the Option Period; and
- (IV) 25% of the total number of options granted when the Vesting Conditions are met for the fourth time during the Option Period.

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

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

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

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

During the period from 1 January 2023 to 31 December 2023 (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 2023	Granted during the Reporting Period	Exercised during the Reporting Period	Weighted average closing price of the shares immediately before the date the options were exercised	Vesting period and performance targets	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Outstanding as at 31 December 2023	Exercise period of the share options	Exercise price of the share options	Closing price of the shares immediately before the date on which the options were granted
Director												
Zhao Xiaohong	17/11/2017	1,000,000	0	1,000,000	HK\$8.55	See paragraph (bb) above	0	0	0	10 YEARS	HK\$1.34	N/A (Note 1)
Senior Management and Other Employees of the Group												
Senior Management and Other Employees	17/11/2017	7,425,000	0	4,625,000	HK\$8.57	See paragraph (bb) above	0	0	2,800,000	10 YEARS	HK\$1.34	N/A (Note 1)
Total		8,425,000	0	5,625,000	HK\$8.57		0	0	2,800,000			

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 27 to the consolidated financial statements.

(b) Share Option Scheme (Note 2)

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

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

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

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

1. Purpose

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

 - (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and
 - (ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.
2. Participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new shares as the Board may determine at an exercise price determined in accordance with the terms set out in the Share Option Scheme to the following persons (the “**Eligible Participants**”):

 - (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
 - (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries;
 - (iii) any advisors, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and
 - (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:
 - (aa) contribution to the development and performance of the Group;
 - (bb) quality of work performed for the Group;
 - (cc) initiative and commitment in performing his/her duties; and
 - (dd) length of service or contribution to the Group.
3. Total number of securities available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of the annual report

91,620,253 ordinary shares and 8.21% of the existing issued share capital.

4. Maximum entitlement of each participant
- The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and shares which were the subject of options which have been granted and accepted under the Share Option Scheme and any other share option schemes of the Company but subsequently canceled) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:
- (i) the issue of a circular by the Company to the shareholders containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.03(D) of the Listing Rules; and
 - (ii) the approval of the shareholders in general meeting and/ or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of the shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
 - (aa) the Eligible Participant's name, address and occupation/ position;
 - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Hong Kong Stock Exchange is open for the business of dealing in securities;
 - (cc) the date upon which an offer for an option must be accepted;
 - (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
 - (ee) the number of shares in respect of which the option is offered;
 - (ff) the exercise price and the manner of payment of such price for the shares on and in consequence of the exercise of the option;
 - (gg) the date of the expiry of the option;

- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in item 7 below; and
 - (ii) such other terms and conditions (including, without limitation, any minimum period for which an option shall be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

- 5. Period within which the securities must be taken up under an option
An option may be taken up in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and may be exercised thereupon and prior to the expiry of the period as notified by the Board to each Grantee provided that such period of time shall not exceed a period of ten years from that date. No further share options may be granted after 10 years from the date of listing.

- 6. Minimum/vesting period, if any, for which an option must be held before it can be exercised
There is no minimum period for which an option granted must be held before it can be vested and exercised except otherwise imposed by the Directors.

- 7. Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid
An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for shares may be accepted in respect of less than the number of shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably lapsed.

- | | | |
|----|---|--|
| 8. | Basis of determining the exercise price | <p>The exercise price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, except that such price will not be less than the highest of:</p> <ul style="list-style-type: none"> (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities; (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share. |
| 9. | The remaining life of the Share Option Scheme | The Share Option Scheme remains in force until 19 December 2027. |

On 31 March 2022, the Company granted 8,582,362 share options (representing approximately 0.76% of the issued share capital of the Company as at the date of this annual report and approximately 0.76% of the enlarged issued share capital of the Company upon exercise in full of the aforesaid share options, respectively) (the “**2022 Share Options**”) at an exercise price of HK\$4.66 per share to 112 employees of the Group (the “**2022 Grantees**”) pursuant to the Share Option Scheme. The validity period of the 2022 Share Options granted were from 31 March 2022 to 30 March 2032 (both dates inclusive). The closing price of the Shares on the date of grant was HK\$4.66 per share.

The vesting period and conditions of the 2022 Share Options granted were as follows:

- (i) 1,716,472 share options, representing 20% of the total 2022 Share Options granted, will be vested on 31 March 2023 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2022 Grantee, among which, all such 1,716,472 share options were vested;
- (ii) 1,716,472 share options, representing 20% of the total 2022 Share Options granted, will be vested on 31 March 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2022 Grantee, among which, all such 1,716,472 share options were lapsed on the relevant vesting date;
- (iii) 2,574,709 share options, representing 30% of the total 2022 Share Options granted, will be vested on 31 March 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2022 Grantee; and
- (iv) 2,574,709 share options, representing 30% of the total 2022 Share Options granted, will be vested on 31 March 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2022 Grantee.

Among the 2022 Share Options granted, 660,304 share options were granted to Ms. Zhao Xiaohong (“**Ms. Zhao**”), an executive Director. The grant of the 660,304 share options to Ms. Zhao was approved by all the independent non-executive Directors pursuant to Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme. Save as disclosed above, none of the 2022 Grantees is a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) as at the date of this annual report. For details, please refer to the announcement of the Company dated 31 March 2022.

On 11 April 2023, the Company granted 1,699,036 share options (representing approximately 0.15% of the issued share capital of the Company as at the date of this annual report and approximately 0.15% of the enlarged issued share capital of the Company upon exercise in full of the aforesaid share options, respectively) (the “**2023 Share Options**”) to 86 selected eligible persons (the “**2023 Grantees**”) pursuant to the Share Option Scheme. The validity period of the 2023 Share Options granted were from 11 April 2023 to 10 April 2033 (both dates inclusive). The closing price of the Shares on the date of grant was HK\$10.18 per Share.

The vesting period and conditions of the 2023 Options granted were as follows:

- (i) 339,807 share options, representing 20% of the total 2023 Share Options granted, will be vested on 11 April 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2023 Grantee, among which all such 339,807 share options were lapsed on the relevant vesting date;
- (ii) 339,807 share options, representing 20% of the total 2023 Share Options granted, will be vested on 11 April 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2023 Grantee;
- (iii) 509,711 share options, representing 30% of the total 2023 Share Options granted, will be vested on 11 April 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2023 Grantee; and
- (iv) 509,711 share options, representing 30% of the total 2023 Share Options granted, will be vested on 11 April 2027 conditional upon the achievement or attainment of certain performance targets by the Company and the respective 2023 Grantee.

Among the 2023 Share Options granted, 139,620 share options were granted to Ms. Zhao, an executive Director. The grant of the 139,620 share options to Ms. Zhao was approved by all the independent non-executive Directors pursuant to Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme. Save as disclosed above, none of the 2023 Grantees is a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) as at the date of this annual report. For details, please refer to the announcement of the Company dated 11 April 2023.

The details of movement in the share options granted under the Share Option Scheme during the year ended 31 December 2023 by category of grantees are set out below:

Category and name of grantee (Note 1)	Date of grant of share options	Share options		Exercised during the year ending 31 December 2023	Weighted average closing price of the Shares immediately before the date on which the share options were exercised	Cancelled/ lapsed during the year ending 31 December 2023	Share options outstanding as at 31 December 2023	Vesting period (Note 2)	Exercise period of share options	Exercise price of share options	Closing price immediately before the date of grant
		Share options outstanding as at 1 January 2023	Share options granted during the year ending 31 December 2023								
Directors											
Zhao Xiaohong	31/3/2022	660,304	-	132,060	HK\$8.62	-	528,244	(i) 132,061 on 31/3/2024; (ii) 198,091 on 31/3/2025; (iii) 198,091 on 31/3/2026;	10 years from the date upon which the share options were granted and accepted by the relevant grantee	HK\$4.66	HK\$4.66
	11/4/2023	-	139,620	-	-	-	139,620	(i) 27,924 on 11/4/2024; (ii) 27,924 on 11/4/2025; (iii) 41,886 on 11/4/2026; (iv) 41,886 on 11/4/2027.	10 years from the date upon which the share options were granted and accepted by the relevant grantee	HK\$10.18	HK\$10.18
Senior management and other employees of the Group											
Senior management and other employees of the Group	31/3/2022	7,719,443	-	389,377	HK\$8.11	319,588	7,010,478	(i) 1,584,412 on 31/3/2024; (ii) 2,376,617 on 31/3/2025; (iii) 2,376,617 on 31/3/2026	10 years from the date upon which the share options were granted and accepted by the relevant grantee	HK\$4.66	HK\$4.66
	11/4/2023	-	1,559,416	-	-	68,279	1,491,137	(i) 311,883 on 11/4/2024; (ii) 311,883 on 11/4/2025; (iii) 467,825 on 11/4/2026; (iv) 467,825 on 11/4/2027	10 years from the date upon which the share options were granted and accepted by the relevant grantee	HK\$10.18	HK\$10.18
Total		8,379,747	1,699,036	521,437	HK\$8.60	387,867	9,169,479				

Notes:

- (1) Save as disclosed above, there is no other category of persons that is granted with share options and is required to be disclosed pursuant to Rule 17.07 of the Listing Rules.
- (2) The vesting is conditional upon the achievement or attainment of certain performance targets by the Company and the respective grantee.
- (3) Please refer to Note 27 to the consolidated financial statements of this annual report for details of the fair value of the share options granted on 11 April 2013 and the accounting standard and policy adopted.
- (4) The total number of share options available for grant under the Share Option Scheme as at 1 January 2023 and 31 December 2023 were 91,620,253 Shares and 90,309,084 Shares, respectively, representing approximately 8.17% and 8.05% of the Company's issued share capital as at the respective dates.
- (5) The number of the Shares that may be issued in respect of the options and awards granted under Pre-IPO Share Option Scheme, Share Option Scheme and the Share Award Scheme during the year ended 31 December 2023 were 11,969,479 Shares. The dilutive effect of such is 1.07%, being the number of Shares may be issued divided by the weighted average number of Shares for the same period.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year ended 31 December 2023.

SHARE AWARD SCHEME (Note)

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

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

The Share Award Scheme shall be subject to the administration of the Board whose decisions on all matters arising in relation to the Share Award Scheme or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby, provided that such administration shall not prejudice (i) the powers of the trustee (the “**Trustee**”) as provided under the trust deed entered into between the Company and the Trustee (the “**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 (the “**Selected Participants**”), the number of awarded Shares (the “**Awarded Shares**”) to be awarded to the respective Selected Participants and other related matters as expressly provided under the Share Award Scheme.

2. Participants Under the rules constituting the Share Award Scheme, the following classes of participants (excluding the excluded participants) (the “**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 (the “**Subsidiary**”) or any of its invested entity (the “**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,

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

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.

3. Total number of Shares available for issue under the Share Award Scheme together with the percentage of the issued shares that it represents as at the date of this annual report

The total number of Shares available to be subscribed for and/or purchased by the Trustee by applying the Group contribution for the purpose of the Share Award Scheme are 6,524,000 Shares, representing 0.58% of the total number of issued Shares as at the date of this annual report. The Board shall not instruct the Trustee to subscribe for and/or purchase any Shares for the purpose of the Share Award Scheme when such subscription and/or purchase will result in such threshold being exceeded.
4. Maximum entitlement of each participants

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

The Board shall notify the Selected Participant in writing after an award has been provisionally made to such Selected Participant and the notice shall contain substantially the same information as that set out in the award notice provided that nothing contained in such notice shall be construed as conferring any rights, interests, benefits and title to and in the awarded Shares on such Selected Participant before the vesting of the legal and beneficial ownership of such awarded Shares in the Selected Participant in accordance with these rules of the Scheme. An award shall be deemed to be irrevocably accepted by a Selected Participant unless the Selected Participant shall within five (5) Business Days after receipt of such notice from the Board notify the Company in writing that he would decline to accept such award.
6. Vesting period of awards granted under the Share Award Scheme

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

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

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

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

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

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

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

The Board shall, subject to and in accordance with the rules of the Share Award Scheme, be entitled to, at any time during the continuation of the Share Award Scheme, make an award out of the Shares Pool to any of the Eligible Participants such number of Shares as it shall determine pursuant to the Share Award Scheme. The Board shall notify the Trustee in writing upon the making of an award under the Share Award Scheme by giving the Trustee an award notice. The making of an award to any connected person of the Company shall be subject to compliance with the applicable requirements under the Listing Rules.

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

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

9. Remaining life of the Share Award Scheme

The Share Award Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but may be terminated earlier as determined by the Board. If, at the date of the termination of the Share Award Scheme, the Trustee holds any Share which has not been set aside in favour of any Selected Participant or retains any unutilised funds received as the Group contribution or otherwise, then the Trustee shall, within twenty-one (21) Business Days after receiving actual notice of such termination, sell such Shares at the prevailing market price and remit the proceeds of sale (after making appropriate deductions in respect of stamp duty and other costs, liabilities and expenses in accordance with the Trust Deed) together with such unutilised funds to the Company. Upon termination of the Share Award Scheme, subject to the decision of the Board and to the terms of the Share Award Scheme, the relevant Vesting Date of the awarded Shares shall be unaffected and the awarded Shares shall remain transferable to and to be vested in such Selected Participant in accordance with the terms set out in the award notice, save in respect of any lapse of the award.

During the year ended 31 December 2023, there were 6,374,602 Shares held in trust by the trustee under the Share Award Scheme.

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

REPORT OF THE DIRECTORS

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

Details of the movement of the Awarded Shares during the year ended 31 December 2023 are set out in the table below:

Category and name of grantee (Note 1)	Date of grant of the Awarded Shares	Purchase price of the Awarded Shares	Closing price of Shares immediately before the date of grant	Fair value of the Awarded Shares at the date of grant (Note 2)	Vesting period of the Awarded Shares (Note 3)	Number of unvested Awarded Shares as at 1 January 2023	Number of	Number of	Number of	Number of	Number of unvested Awarded Shares as at 31 December 2023	Weighted average closing price of the Shares immediately before the date on which the Awarded Shares were vested
							Shares granted during the year ended 31 December 2023	Shares vested during the year ended 31 December 2023	Shares cancelled during the year ended 31 December 2023	Shares lapsed during the year ended 31 December 2023		
Directors												
Nil												
Senior management and other employees of the Group												
5 highest paid individuals (in aggregate)	31/3/2022	-	HK\$4.66	HK\$4.52- HK\$4.64	31/3/2023- 31/03/2026	85,961	-	17,192	-	-	68,769	HK\$9.17
Senior management and other employees of the Group	31/3/2022	-	HK\$4.66	HK\$4.52- HK\$4.64	31/3/2023- 31/3/2026	666,862	-	132,206	-	46,992	487,664	HK\$9.17
Total		-				752,823	-	149,398	-	46,992	556,433	HK\$9.17

Notes:

- (1) Save as disclosed above, there is no other category of persons that is granted with share awards and is required to be disclosed pursuant to Rule 17.07 of the Listing Rules.
- (2) Please refer to Note 27 to the consolidated financial statements of this annual report for details of the fair value of the awards and the accounting standard and policy adopted.
- (3) The Trustee shall hold the Awarded Shares in trust for the Selected Participants, and shall transfer such Awarded Shares to the Selected Participants at nil consideration until and upon satisfaction of the following vesting period and conditions:
 - (i) 167,757 Awarded Shares, representing 20% of the total Awarded Shares granted, were be vested on 31 March 2023 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant, among which all such Awarded Shares were lapsed on the relevant vesting date;
 - (ii) 167,757 Awarded Shares, representing 20% of the total Awarded Shares granted, will be vested on 31 March 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant, among which all such Awarded Shares were lapsed on the relevant vesting date;
 - (iii) 251,635 Awarded Shares, representing 30% of the total Awarded Shares granted, will be vested on 31 March 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant; and
 - (iv) 251,635 Awarded Shares, representing 30% of the total Awarded Shares granted, will be vested on 31 March 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Selected Participant.

REPORT OF THE DIRECTORS

Saved as disclosed above, no Awarded Share was granted, vested, lapsed or cancelled during the year ended 31 December 2023.

As of 1 January 2023 and 31 December 2023, the number of awards available for grant under the Share Award Scheme were 110,797,177 and 110,844,169, respectively.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2023, there were no non-exempt connected transactions or continuing connected transactions of the Company. All such related party transactions as disclosed in note 33 to the consolidated financial statements are either (i) not regarded as connected transaction within the meaning of the Listing Rules; or (ii) regarded as connected transaction within the meaning of the Listing Rules but are fully exempted. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or their respective associates has any interest in a business which competes or may compete with the business of the Group during the year ended 31 December 2023.

DIVERSITY OF DIRECTORS

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will consider a number of factors, including but not limited to gender, age, educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board. Details on the biographies and experience of the Directors are set out on pages 20-24 of this annual report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Tuesday, 18 June 2024. The notice of AGM will be sent to shareholders in the manner required by the Listing Rules, the Company's Articles of Association and the laws of Cayman Islands.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 51-68 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 2023 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 2023.

SUBSEQUENT EVENTS

No material events have occurred since 31 December 2023.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2023. 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, 26 March 2024

CORPORATE GOVERNANCE REPORT

The board of directors (the “**Directors**”) of the Company (the “**Board**”) is pleased to present this Corporate Governance Report for the year ended 31 December 2023 in the Company’s annual report for the year ended 31 December 2023.

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

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

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

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Company and its subsidiaries (the “**Group**”) to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company’s corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the “**CG Code**”) as contained in Appendix C1 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 2023, the Company has complied with the code provisions as set out in the CG Code, except for code provision C.2.1.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 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 31 December 2023.

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

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. Directors take decisions objectively in the best interests of the Company.

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

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

Ms. Zhang Bin

Mr. Zhang Chaoyang

Ms. Zhao Xiaohong

Non-executive Director

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

Independent Non-executive Directors

Mr. Kong Chi Mo *(Chairman of Audit Committee and Member of each of Remuneration Committee and Nomination Committee)*

Dr. Li Shu Wing David *(Chairman of Remuneration Committee and Member of each of Audit Committee and Nomination Committee)*

Mr. Eric Wang

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 20-25 of this Annual Report.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Board of Directors and Senior Management" on pages 20-25.

Board Meetings and Directors' Attendance Records

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

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

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

Chairman and Chief Executive Officer

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

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

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

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

Independent Non-executive Directors

During the year ended 2023, 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 and paragraph 12B of Appendix D2 of the Listing Rules for the year ended 31 December 2023. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

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

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

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. During the year ended 31 December 2023, the Board has reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

Appointment and Re-election of Non-executive Directors

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

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

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

Responsibilities of the Board and Management

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

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

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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

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

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

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

Continuous Professional Development of Directors

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

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

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

The record of CPD relating to director’s duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2023 are summarized as follows:

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

BOARD COMMITTEES

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

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

Audit Committee

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

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

1. Relationship with the Company's external auditors;
2. Review of the Company's financial information;
3. Oversight of the Company's financial reporting system, risk management and internal control systems; and
4. Performing the Company's corporate governance functions.

The Audit Committee held two meetings to review, in respect of the year ended 31 December 2023, the planned audit scope and timing, significant issues on financial reporting, the interim and annual financial results and reports, the effectiveness of the risk management and internal control systems, appointment of external auditors, and discussed with the Board, management and external auditors about the tasks they performed.

The Audit Committee also met the external auditors twice during the year ended 31 December 2023.

The attendance record of each Director at the said Audit Committee meetings of the Company held in 2023 is set out in the table below:

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

Remuneration Committee

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

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The duties and powers of the Remuneration Committee include:

1. To make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing the remuneration policy;
2. To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
3. To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
4. To make recommendations to the Board on the remuneration of non-executive Directors;
5. To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
6. To review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
7. To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
8. To ensure that no Director or any of his associates (as defined in the Listing Rules) is involved in deciding his own remuneration;
9. To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules;
10. In respect of any service agreement to be entered into between any members of the Group and its director or proposed director, to review and provide recommendation to the shareholders of the Company (other than shareholder(s) who is/are director(s) with a material interest in the relevant service agreements and their respective associates) as to whether the terms of the service agreements are fair and reasonable and whether such service agreements are in the interests of the Company and the shareholders as whole, and to advise shareholders on how to vote; and
11. To consider other matters, as defined or assigned by the Board from time to time.

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

The attendance record of each Director at the said Remuneration Committee meeting of the Company held in 2023 is set out in the table below:

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

The remuneration of the Directors and the senior management by band for the year ended 31 December 2023 is set out below:

Annual Income	Number of Persons
Below RMB500,000	5
RMB500,000 to RMB999,999	4
Over RMB1,000,000	4

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

During the year, the remuneration committee reviewed and approved matters relating to the share schemes of the Company, which mainly comprises of the grant of the share options on 11 April 2023.

Nomination Committee

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

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

1. To review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
3. To assess the independence of independent non-executive Directors;

4. To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;
5. To review the policy on Board diversity (the “**Board Diversity Policy**”) and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives, and to make disclosure or its review results in the annual report of the Company annually; and
6. To consider other matters, as defined or assigned by the Board from time to time.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company’s Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

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

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

The attendance record of each Director at the said Nomination Committee meeting of the Company held in 2023 is set out in the table below:

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

Board Diversity Policy

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

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

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

At present, the Nomination Committee is of the view that the current composition of the Board has achieved the objectives set out in the Board Diversity Policy and considered that the Board is sufficiently diverse.

The Nomination Committee has reviewed the implementation and effectiveness of the Board Diversity Policy and considers it to be effective during the year.

Gender Diversity

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

	Female	Male	Other Gender
Board	25% (2)	75% (6)	0% (0)
Senior management	80% (4)	20% (1)	0% (0)
Other employees	35% (363)	65% (675)	0% (1)

The Board had targeted to achieve and had achieved at least 25% (2 persons) of female Directors, 80% (4 persons) of female senior management and 35% (363 persons) of female employees of the Group and considers that the above current gender diversity is satisfactory.

Director Nomination Policy

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

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

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

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

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

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

Appointment of New Director

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

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

Re-election of Director at General Meeting

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

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

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the CG Code. During the year ended 31 December 2023, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2023.

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

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems from time to time during the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

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

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The statement of the independent auditors of the Company, KPMG, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 134 to 141 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 2023 is set out below:

Service Category	Fees Paid/Payable
	RMB
Audit Services	3,047
Non-audit Services	1,300
Total	4,347

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

COMPANY SECRETARY

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

For the year ended 31 December 2023, Ms. Han Yu has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: 2nd Floor, Xingye Building, No.10 Baifuquan Road, Changping District, 102200 Beijing, China (for the attention of the Company Secretary)
Fax: (86) 10 8010-9583
Email: ir@ak-medical.net

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

During the year under review, the Company has 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. During the year ended 31 December 2023, the Company has reviewed the Shareholders' Communication Policy and considered that the policy was effectively implemented with the measures under the paragraphs headed "Communications with Shareholders and Investors" and "Shareholders' Rights".

The Company has established a number of channels for maintaining an on-going dialogue with its shareholders as follows:

(a) Enquiries about Shareholdings

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

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

(b) Corporate Communication

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

(c) Corporate Website

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

(d) Shareholders' Meetings

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

(e) Shareholder Privacy

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT OF AK MEDICAL

1. ABOUT AK MEDICAL

1.1 Statement of the Board

AK Medical adheres to the corporate mission of “Make you move for a better life” and the vision of “Excel to be a world-class business organization through innovation” and has continuously promoted the sustainable development of the Group’s business. The Company has established a comprehensive ESG (Environmental, Social, and Corporate Governance) governance system, proactively assumes environmental and social responsibilities such as green healthcare and innovation leadership, and integrates ESG with the Company’s major businesses.

As the highest decision-making body for the Company’s ESG matters, the Board of AK Medical is responsible for formulating the overall ESG strategies, and is fully responsible for the annual ESG reporting. In order to effectively manage and supervise the environmental, social and corporate governance issues, the Company’s executive director and senior vice president is responsible for the specific implementation of various ESG resolutions of the Board, reviewing ESG risks and monitoring the development of specific ESG matters. In 2023, we continued to standardize the ESG governance and management work process, optimise the working mechanism of the ESG Working Group, extend the ESG work functions, actively organize ESG-related training, and regularly report the work progress to the Board in order to ensure that all ESG work was effectively performed.

AK Medical regards ESG as an important part of the Company’s strategy establishment, and is committed to optimizing the ESG governance system. The Company attaches great importance to ESG risk identification and assessment, and continuously optimizes the ways in which stakeholders participate in communication, so as to comprehensively identify, evaluate and manage important ESG issues. On this basis, AK Medical summarized the analysis results of AK Medical’s materiality issues in 2023, and compared them with the analysis results of previous years.

In terms of ESG information disclosure, the Company actively promotes relevant work, and the ESG Working Group is responsible for preparation of the annual ESG report, which will ultimately be reviewed by the Board to ensure the authenticity and effectiveness of information disclosure. This process enables the sufficient reflection of importance of ESG in the Company’s decision-making and demonstration of transparency and sense of responsibility of the Company.

In 2023, the Company continued to optimize the identification and assessment of the risks of climate change. Climate scenario analysis was used to identify and develop response measures to climate risks that have a potential impact on the Company, and environmental targets covering carbon emissions and energy consumption and safety production target were set for actively carrying out of energy saving, emission reduction and safety production actions. The Company will regularly monitor and review the progress of achieving the targets, and the ESG Working Group will report the achievement of the targets to the management and the Board on a regular basis, in an effort to constantly adjust and promote the Company’s sustainable development by monitoring and drawing reference from the domestic and international sustainability trends and those of its peers.

This report fully discloses the progress and effectiveness of AK Medical’s ESG work in 2023, and was reviewed and approved by the Board on 26 March 2024. The Board of AK Medical and all directors guarantee that there is no false or misleading information or major omission in the contents of this report, and take several and joint responsibilities for the truth, accuracy and completeness of the content.

1.2 About AK Medical

1.2.1 Enterprise Profile

AK Medical was established in 2003 and listed on the Main Board of the Hong Kong Stock Exchange in 2017 (01789.HK). With headquarters based in Beijing, China, the Company is a multinational new and high-tech enterprise integrating cutting-edge orthopedic technology research, innovative product development, large-scale manufacturing and professional marketing. As a leading enterprise in the field of artificial joints in China, the Company's business has served more than 6,000 medical institutions in all provinces, municipalities and autonomous regions across the country and more than 30 countries and regions around the world.

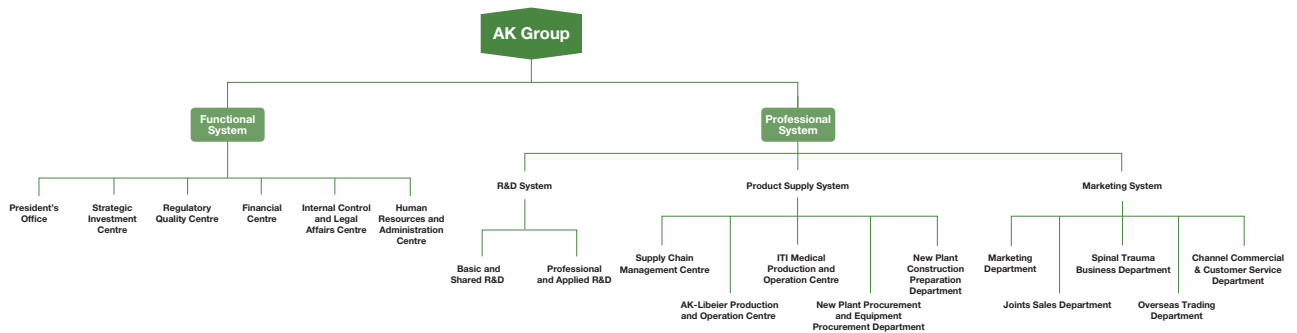
Led by innovative technology and focusing on the integration of expertise, AK Medical has become one of the first leading companies in the world to commercialize additive manufacturing technology (3D printing technology) and applies it to implants such as joint replacement, spine, and trauma repair. Currently, the Company has established R&D centers in Beijing, China and the United Kingdom, and established the largest additive manufacturing base for orthopedic implants in the Asia Pacific region to provide excellent services to customers worldwide.

The four subsidiaries of AK Medical include: Beijing AK Medical Co., Ltd. (focusing on orthopedic implants and 3D printing technology, referred to as "AK Medical Beijing"), ITI Medical Co., Ltd. (dedicated to artificial joints and ancillary products, referred to as "ITI Medical"), JRI Orthopaedics Ltd (a UK-based orthopedic implants company, referred to as "JRI"), and Beijing Libeier Bio-engineering Institute Co., Ltd (specialized in spinal and trauma implants products and assistive devices, referred to as "Libeier"). These four subsidiaries have demonstrated significant R&D and manufacturing capabilities in the field of orthopedics, and jointly constitute the comprehensive and strong business layout of AK Medical in this field.

Corporate Mission	Make you move for a better life
Corporate Vision	Excel to be a world-class business organization through innovation
Core Value	Integrity: Customer first, honesty, seeking truth from facts Innovation: Bravely embracing change and making a difference Sharing: Willing to share experiences and success Passion: Pursuing progress with passion and applauding progress every day

1.2.2 Organizational Structure

The day-to-day operation and production management of AK Medical is divided into two major systems: functional and professional. The functional system consists of six functional departments, including the President’s Office, the Strategy and Investment Centre, the Regulatory and Quality Centre, the Finance Centre, the Internal Control and Legal Affairs Centre and the Human Resources and Administration Centre, which provide efficient back-office support for the daily operations of the entire Group. The professional system mainly consists of R&D, product supply and marketing, which are the core processes of AK Medical from product R&D, production to final delivery to customers. Such system is committed to providing comprehensive medical treatment services for the majority of patients with orthopedic diseases and building a complete treatment chain.



1.2.3 Business Overview

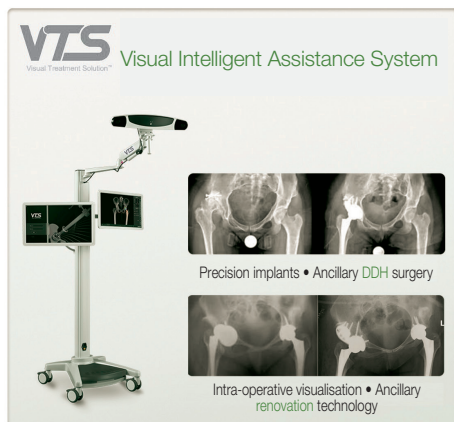
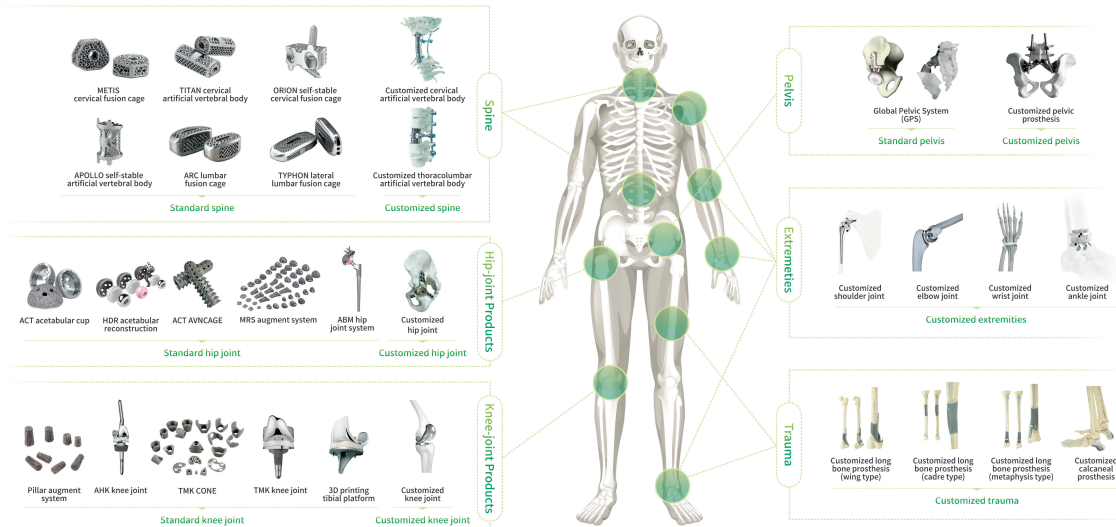
AK Medical is one of the leading orthopedic companies in the PRC. The products of the Company are widely used in more than 6,000 medical institutions in more than 30 countries and regions such as China, the UK, South Korea, Spain, Mexico and Vietnam.

Benefiting from the orderly implementation of the VBP policy of joints nationwide, the uncertainties faced by the orthopedic industry in China have been gradually alleviated. By the introduction of advanced technologies and diversification of product lines, AK Medical has successfully met the needs of market differentiation. In 2023, AK Medical successfully established partnership with more national and provincial hospitals, actively promoted the trend of local product substitution, and provided domestic medical institutions with more economical, efficient and sustainable options.

Meanwhile, AK Medical actively expanded overseas markets and further consolidated its share in the international market. The trust of overseas customers in our products has enabled the surgical implants business to maintain stable growth. As at 31 December 2023, the Company’s overseas revenue increased by 37.1% as compared to the corresponding period of last year. This not only shows the continuous growth of AK Medical in the international market, but also lays a solid foundation for future global business development.

Major products

Hip joint	Including hip-conserving products, primary hip joint replacement, complex hip joint revision and customised hip joints
Knee joint	Including knee-conserving solutions, total knee joints, knee revision and tumor and customised knee joints
Pelvic	Including standard pelvic reconstruction systems as well as customised pelvic prosthesis
Spine	Including conventional spine products and 3D printed spine products
Trauma	Including standard trauma products and customised trauma products
Small joint	Including shoulder joints, elbow joints, wrist joints and ankle joints
Visual Intelligent Assistance System	Including the host, optical navigation equipment and trolley



Upstream Procurement

AK Medical has achieved industry leadership with excellent supply chain management. In the production of orthopedic implants, AK Medical pays attention to the selection of high-quality raw materials, mainly including titanium alloy, cobalt-chrome-molybdenum alloy, ultra-high molecular weight polyethylene and other materials, as well as several product components such as ceramic head. The Company's supply chain strategy takes into account several key factors, including the business size of suppliers, market reputation, equipment capabilities, employee skills, technical level, and abilities to deliver raw materials of quality standards on time. The Company provides a solid quality foundation for products through the establishment of strong cooperative relationships with major suppliers.

Downstream Sales

AK Medical adheres to the common practice in the Chinese market and brings its products to market mainly through cooperation with third-party distributors. With authorization of the Company, these distributors supply products directly to hospitals or secondary distributors in their designated areas, and eventually successfully sell the products to medical institutions. In addition, the Company sells some of its products directly to hospitals through wholly-owned subsidiaries with medical device business certificates in order to maintain a direct sale model and establish and maintain close relationships with key end hospital customers and surgeons.

Horizontal Cooperation

AK Medical actively promotes the development of cooperation projects, and has in-depth cooperation with many institutions such as the National Clinical Research Center for Orthopedics, Sports Medicine and Rehabilitation and National Trauma Center. Through specific cooperation projects, AK Medical has continuously consolidated its strategic cooperative relationship with national-level core hospitals, providing strong support for the Company to participate more deeply in medical research and clinical practice, and improve product innovation.

In February 2023, AK Medical reached a strategic cooperation with Beijing Jishuitan Hospital to jointly establish a joint 3D printing laboratory, which is committed to technological innovation in medical-industrial interaction for clinical diagnosis and treatment and R&D of orthopedic implant products. Such strategic cooperation has strongly promoted the construction of the National Science and Technology Innovation Center in Beijing and provided innovative solutions for the consolidation of AK Medical in the national and provincial hospital markets.

In addition, AK Medical has also achieved remarkable results in international cooperation. Through INIXIO International R&D Center, AK Medical has cooperated with a number of internationally renowned universities and medical institutions, such as Imperial College London, the University of Cambridge, and Kings College London Hospital, to conduct cutting-edge research on orthopedic implant surface modification, drug delivery and slow release, osteoblast-forming factors, and other technologies related to orthopedic implants. It provides theoretical and technical support for the development of a new generation of orthopedic implants, effectively improving the international exchange level in the field of orthopaedic diagnosis and treatment in China.

1.3 ESG Highlights in 2023

Metric Dimension			Key Performance
Governance	ESG Governance	Sustainable Development Governance	<ul style="list-style-type: none"> The number of operating sites where bribery and corruption occurred was 0.
Environmental	Green Medical	Intensive Utilization of Resources	<ul style="list-style-type: none"> The energy supply of photovoltaic and ground source projects was expanded, and the use of renewable energy reached 904,507 kWh.
Social	Leading with Innovation	Overcoming Industry Difficulties	<ul style="list-style-type: none"> The proportion of R&D investment reached 12.5% with 103 patents added. A visual assistance system was launched to solve clinical medical problems and promote domestic substitution. We supported the national "Research on Enhancing the Capacity of Clinical Application of Digital Orthopedic Technology" to promote the coordinated upstream and downstream development of the industrial chain.
		Improvement of Products and Services	<ul style="list-style-type: none"> The whole cycle management of products and services was strengthened, won customer recognition, and customer satisfaction was maintained at an average of above 90% for the year.
		Employee First	<ul style="list-style-type: none"> Rights Protection <ul style="list-style-type: none"> The employee turnover rate was 20.1%, down 24.7% from last year. Occupational Health <ul style="list-style-type: none"> The investment in occupational health and safe production reached RMB2.769 million. Employee Empowerment <ul style="list-style-type: none"> The promotion system was improved, vocational training was carried out, and 1,033 employees were empowered. Happiness Programme <ul style="list-style-type: none"> An employee satisfaction survey was conducted and the "Happiness Programme" was launched, which aimed at improving employee happiness through improvement in welfare leave and the work environment.
	Sustainable Supply Chain	Supplier Audit	<ul style="list-style-type: none"> The audit of the occupational health dimension of suppliers was strengthened, and a total of 174 suppliers were audited.
	Benefiting the Public	Medical Education	<ul style="list-style-type: none"> AK Institute has conducted 300+ external medical education and training sessions.
		Healthcare Accessibility	<ul style="list-style-type: none"> We offered products at more affordable prices to promote healthcare accessibility, accumulatively cooperating with a total of 37 medical institutions.

2. CORPORATE GOVERNANCE

AK Medical understands the importance of ESG governance to the sustainable development of enterprises. In 2023, the Company effectively operated the governance mechanism, strictly implemented the governance strategy, strengthened the communication and interaction with stakeholders, updated the assessment and analysis of substantive issues according to the industry dynamics and regulatory requirements, formulated internal improvement suggestions and strengthened the implementation, aiming at better guiding ESG governance and practice, and promoting the closed-loop management of sustainable development.

<p>Responses in this section</p>	<p>Sustainable Development Goals of the United Nations Goal 16: Peace, justice and strong institutions</p> <p>Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) GRI 2: General disclosures GRI 205: Anti-corruption GRI 3: Material topics</p> <p>Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange Governance structure Aspect 7: Anti-corruption</p>
<p>Key performance</p>	<p>The number of operating sites where bribery and corruption occurred was 0.</p>

2.1 ESG Governance

AK Medical firmly implements sustainable development governance and aims to achieve long-term and comprehensive development goals. AK Medical has embedded sustainability in the Company’s core strategies, promoted effective environmental management, social responsibility practices and transparent monitoring and reporting mechanisms. A strict anti-corruption policy has been established to ensure the healthy and sustainable development of the Company through regular risk assessments, employee training, enhanced internal controls and ethical business practices.

2.1.1 Governance Structure

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

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

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

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



2.1.2 Business Ethics

In today’s increasingly complex business environment, AK Medical understands the importance of anti-corruption efforts for the healthy development of enterprises. The Company firmly believes that compliance and integrity are the cornerstones of sustainable business operation, strictly abide by all applicable anti-bribery and anti-corruption laws and regulations, and has formulated a series of rules and regulations, organized relevant training and publicity work, and committed to creating a fair and transparent business environment to ensure steady development of the Company and win the trust of stakeholders.

AK Medical arranges special personnel to supervise business ethics issues of the Company, ensures that all business activities comply with business ethics and laws and regulations, ensures the legality, fairness and integrity of the Company’s business practices, and creates a fair and transparent working environment.

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

In order to promote employees' understanding and comply with the Company's ethical standards, AK Medical conducts regular business ethics training for all employees and members of the Board via online and offline means, strengthens anti-corruption rules and regulations, encourages employees to have a deep understanding of the importance of anti-corruption and relevant laws and regulations, and requires employees to pass relevant examinations after training. In addition, for new employees, the Company focuses on the integrity management system for anti-corruption of employees in the induction training and ensures that employees deeply understand and comply with it. All employees are required to complete the "Relationship and Rights and Interests Survey" and sign the "Integrity and Self-Discipline Commitment Letter". During the Reporting Period, AK Medical conducted a total of 602 hours of anti-corruption training to improve the awareness and implementation capacity of employees.

In order to improve the standard of supplier management and to eliminate any form of bribery, the Company's procurement department has formulated the AK Medical Supplier ESG Statement (《愛康醫療供應商 ESG 聲明》), which requires all suppliers who signed the agreement to comply with anti-bribery and anti-corruption rules and regulations. The Statement emphasizes that suppliers must comply with applicable anti-corruption laws in all countries/regions in which they operate, act in a transparent and honest manner, and shall not directly or indirectly offer, promise, pay, solicit (in the form of bribes and/or facilitation) monetary or other benefits, and not obtain improper benefits, either directly or through intermediaries. In addition, we require suppliers to report any significant, actual or potential conflicts of interest during the conduct of their business, and strongly oppose all forms of money laundering. In 2023, AK Medical Beijing, Libeier and ITI medical achieved 100%, 90% and 100% of our Category A suppliers¹ signed the AK Medical Supplier ESG Statement, respectively.

AK Medical evaluates corruption risks annually and optimizes measures to reduce corruption risks based on the evaluation results. All operating sites are strictly monitored to ensure that there is no corruption related to the employees or suppliers of the Company, and to maintain the integrity of the corporate image and business reputation. During the Reporting Period, there were no legal incidents related to bribery, monopoly, blackmail, extortion, fraud and money laundering that had a significant impact on the Company, nor were there any legal cases related to corruption by the Company or its employees.

In order to strengthen the standardized management and clean governance of the Company, AK Medical encourages its employees, suppliers, agents and other stakeholders to report any violations of the Company's business ethics system publicly or anonymously, and ensures that the reporting channels are transparent and smooth. According to the Staff Integrity Management and Reporting Protection Incentives (《員工廉潔管理及舉報保護獎勵辦法》), the Company resolutely protects the legitimate rights and interests of whistleblowers, and awards whistleblowers according to the final investigation results, recovered direct losses and other factors. The act of leaking the information of the whistleblowers will be subject to criticism, demotion, administrative sanctions, and the termination of the labor contract depending on the severity of the case. Those involved in violation of the law will be transferred to the judicial authority for handling according to law.

Channels for reporting corruption

Email for reporting: jianju@ak-medical.net

¹ AK Medical classifies the purchased materials, commissioned production or provided services into two categories, A and B, according to the importance of the impact on the subsequent product realization or final product quality. Among them, suppliers who provide important raw materials, commission production or special service process are classified as Category A suppliers.

2.2 Stakeholders Communication

ESG work has always been a key focus of communication between AK Medical and its stakeholders. The stakeholders of AK Medical mainly include government and regulatory authorities, shareholders and investors, directors, supervisors and senior management (directors, supervisors and senior management of the Company), employees, pipeline distributors, customers, partners, suppliers, the community and the public, the media, and non-profit organizations. Through regular communication with various stakeholders, the Company gains insight into the demands, opinions and suggestions of all parties to promote the implementation of corporate sustainable development management.

Stakeholders	Expectations	Communication methods
Government and regulatory authorities	Implement national policies and laws and regulations Promote local economic development Create local employment Promote health protection for people's livelihood	Roadshow Report submission Advice and suggestions Special reports
Shareholders/investors	Increase the level of ESG information disclosure Guarantee product quality Achieve sustainable development Increase brand marketing	Company announcement Special report Field trip
Directors, supervisors and senior management	Promote leadership with innovation ESG standardization and system construction Focus on employee development	Special reports
Employees	Strengthen the promotion of ESG concept Ensure product quality and customer rights Promote green healthcare and leadership with innovation Improve the working environment Guarantee staff rights	WeChat public account (for employees/corporate purposes) Staff communication meeting Employee engagement survey questionnaire – Q12 Collective negotiation Democratic communication platform Remuneration committee

Stakeholders	Expectations	Communication methods
Distributors	<ul style="list-style-type: none"> Product promotions Quality assurance Stable supply Leadership with innovation and technology 	<ul style="list-style-type: none"> Product training Customer needs survey and patient's follow-up Regular customer visit Distributor meeting Business communication Customer feedback Communication and discussion Negotiation and cooperation
Customers	<ul style="list-style-type: none"> Quality assurance Customer service and support 	<ul style="list-style-type: none"> Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities Database construction
Partners (e.g. scientific research and academic institutions/industry experts)	<ul style="list-style-type: none"> Cost reduction and efficiency improvement Achieve universal healthcare Win-win cooperation 	<ul style="list-style-type: none"> Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities Database construction Signing of cooperation agreement
Suppliers	<ul style="list-style-type: none"> Win-win cooperation Ensure product quality and safety Product update Promote sustainable development Strengthen the promotion and implementation of ESG concept 	<ul style="list-style-type: none"> Email Telephone Online meeting Offline visiting Negotiation and cooperation Bidding platform

Stakeholders	Expectations	Communication methods
Communities and the public	Product quality improvement Price concession Fulfill social responsibility	Company website Company announcement Interview and communication
Media organizations	R&D and innovation Accessibility to medical services	Roadshow activities
Non-profit organizations	R&D and innovation People-oriented Compliance and ethical standards	Collaborative academic and scientific research projects Academic exchange event Technology training Roadshow activities

2.3 Materiality Assessment

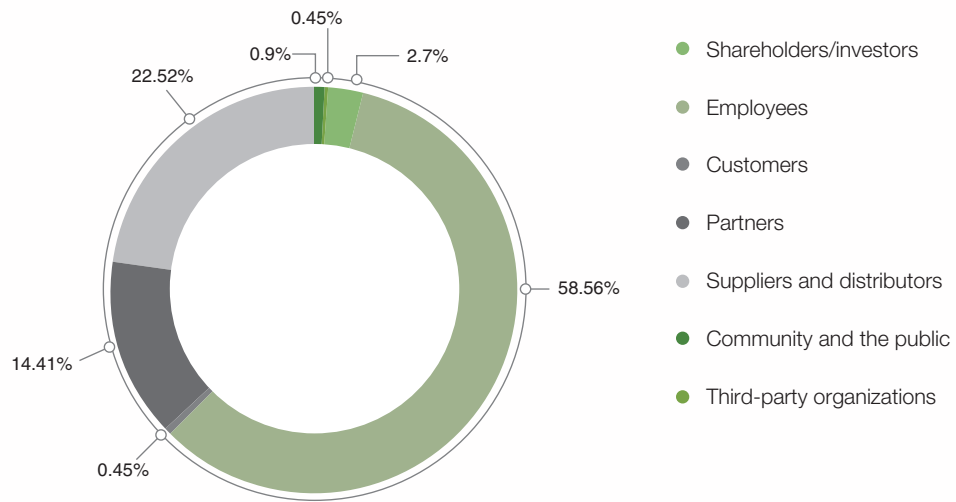
Identification of material issues enables an in-depth assessment of the key environmental, social and governance issues of the Company, and thus determination of the scope of the sustainable impact assessment, and ultimately the focus of ESG disclosure to respond to the expectations of stakeholders. In 2023, AK Medical identified key issues based on the three dimensions of peers of the industry, policy changes and standard requirements, upon which it conducted departmental interviews, sorted out the means of communication and focus of stakeholders, and compiled a list of materiality issues of AK Medical.

The Company has identified the basic list of material issues based on the following three dimensions:

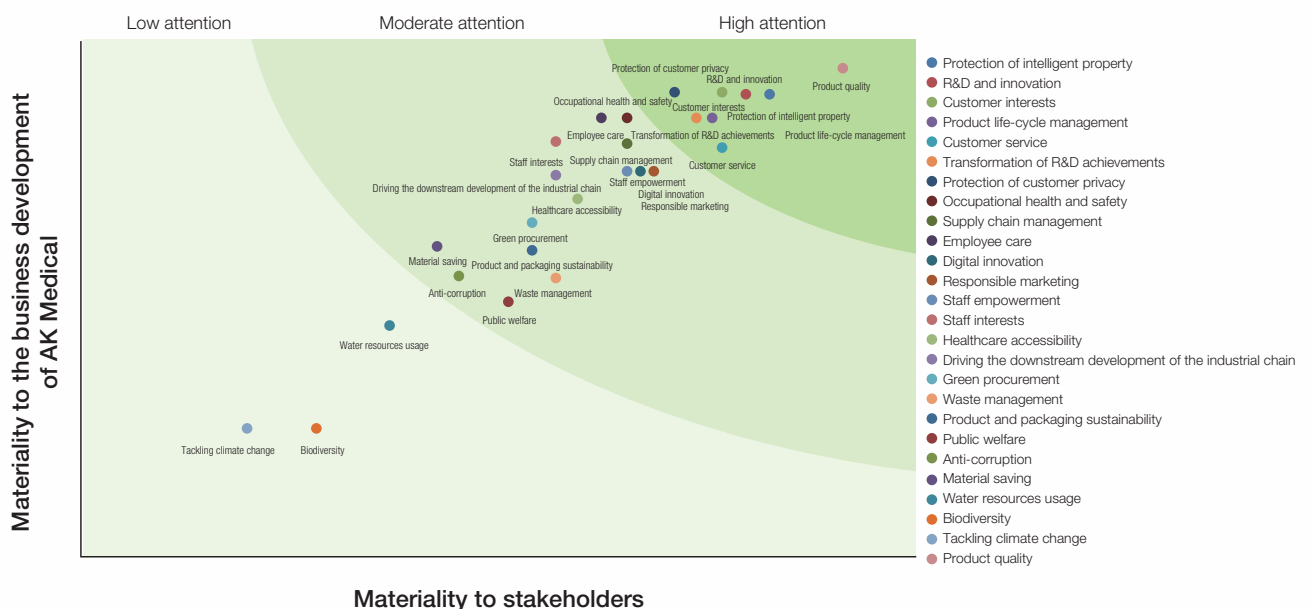
Standard requirements	Integrate domestic and foreign ESG related information disclosure standards such as GRI and SASB, conduct comparison on the same dimensions and stakeholders, and carry out semantic integration on this basis, laying the foundation for the list of material issues of AK Medical.
Policy changes	Collect and sort out information about the development policies of the domestic medical industry as well as the general environmental protection and social responsibility policies, and supplement the policy perspective for the sorting out of material issues, so as to learn the main points of concern of regulation and the overall orientation of the society.
Peers of the industry	Sort out the ESG key issues of competing enterprises, and conduct comparison and contrast with those disclosed in the previous year. At the same time, the concerns of the peers and the focus of policy changes are combined to complete the basic list of material issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT OF AK MEDICAL

Based on the identification of material issues, AK Medical conducted interviews with various functional departments to learn the points of concern of stakeholders as perceived by AK Medical. On this basis, a questionnaire was conducted to screen the issues of significance to stakeholders, and these issues were analyzed to determine the priority of material issues. In respect of the questionnaire on the analysis of material issues conducted during the year, 222 questionnaires were received from stakeholders, including customers, investors, employees and suppliers, which was an important input for the Company's assessment of substantive issues. The sample structure of the questionnaire was as follows:



Through senior management input and an extensive stakeholder survey, AK Medical has determined the level of significance of the material ESG issues identified, which will be used as the basis for a more efficient allocation of resources to drive the development of ESG priorities for sustainable business growth. After thorough discussion by the Company's management and review and approval by the Board, the ESG materiality topics of AK Medical for this year are as follows:



3. GREEN HEALTHCARE

AK Medical deeply practices the green healthcare development strategy, implements energy-saving and emission reduction initiatives, builds clean energy facilities, improves resource utilization efficiency, strengthens environmental impact control, practices green office and operation, and actively promotes the balance between human health development and ecological environmental protection. AK Medical fully understands that only by taking the road of green development relentlessly can we provide better products and services for patients and medical staff and make positive contributions to the global response to climate change.

<p>Responses in this section</p>	<p>Sustainable Development Goals of the United Nations</p> <ul style="list-style-type: none"> Goal 6: Clean water and sanitation Goal 7: Affordable and clean energy Goal 12: Responsible consumption and production Goal 13: Climate action Goal 15: Life on land <p>Global Reporting Initiative Sustainability Reporting Standards</p> <ul style="list-style-type: none"> GRI 2: General disclosures GRI 301: Materials GRI 302: Energy GRI 303: Water and effluents GRI 304: Biodiversity GRI 305: Emissions GRI 306: Waste <p>Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange</p> <ul style="list-style-type: none"> Aspect A1: Emissions Aspect A2: Use of resources Aspect A3: The Environment and natural resources Aspect A4: Climate change
<p>Key performance</p>	<p>The energy supply of photovoltaic and ground source projects was expanded, and the use of renewable energy reached 904,507 kWh.</p>

3.1 Tackling Climate Change

Based on the "Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework" released by the Hong Kong Stock Exchange in 2023, AK Medical has conducted internal analysis and discussion on corporate climate-related information in order to better adapt to the new disclosure requirements in the future. During the year, the Company continued to publish information in four categories: "governance", "strategy", "risk management" and "metrics and targets", based on the prevailing requirements.

3.1.1 Governance

AK Medical has clarified the Company's structure under the overall ESG governance approach. The Board of the Company plays the role of the highest level of responsibility and decision-making body, and is overseen and managed by a three-tier management structure of "Board of Directors of the Company – ESG Working Group – Functional Departments and Subsidiaries".

The Board of the Company is the highest level of responsibility and decision-making body on climate change related matters and has full responsibility for overseeing the approval of the Company's climate change issues, including the development of strategies, management policies and setting of performance targets. The Board discusses the risks and opportunities of climate changes and assesses its potential financial impact on the Company on an annual basis. In order to ensure that the Board is able to effectively oversee strategies to address climate-related risks and opportunities, the relevant responsible persons of the Company participated in a training session organized by the Hong Kong Chartered Governance Institute entitled "Corporate ESG and Climate-related Information Disclosure – Corporate Competitiveness through Information Disclosure", and reported to the Board and disseminated the latest climate-related information.

The ESG Working Group is led by Ms. Zhang Bin, an executive Director and senior vice president of the Company, and its members include responsible persons of various business units. They are jointly committed to identifying and evaluating climate related risks and opportunities, and formulating corresponding management policies. Such Group is also responsible for setting the Company's environmental objectives, and regularly reporting to the Board on the Company's climate change related situation.

The Board and its committees considered climate-related risks and opportunities when overseeing the Company's strategies, key transaction decisions and risk management policies. The Company has incorporated climate-related risks into its compensation policy, and has introduced climate and environmental factors into the performance appraisal of its production and operations, and imposed penalties for violations.

In addition, when considering climate-related risks and opportunities, the Company paid special attention to the integration of new infrastructure. In this process, the Company focused on energy-saving and emission reduction factors to ensure that new facilities apply clean energy or low energy consumption. Besides, the Company has strengthened its mechanisms and measures to respond to emergencies, such as how to supply power on its own in the event of a power outage, to ensure uninterrupted production. This comprehensive consideration ensures the fulfilment of the Company's sustainability commitments and the balance between short-term interests and long-term development goals. The Company has demonstrated its comprehensive management and concern for climate change by taking practical actions to address climate-related risks.

3.1.2 Strategy

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

Scenario analysis helps AK Medical to understand the potentially significant impacts of climate change on the Company's business, which in turn forms references for our strategy and planning. AK Medical continued the basic logic of the scenario analysis of the previous year, and comprehensively referred to the climate scenarios publicly released by the United Nations Intergovernmental Panel on Climate Change (IPCC), the International Energy Agency (IEA) and Network for Greening the Financial System (NGFS) for an annual update. At the same time, it is necessary to follow the principle that there should be strong contrasts between different scenarios, and that physical and socio-economic impacts should be fully considered in the climate scenarios, as well as science-based principles. The scope of this scenario analysis includes the core businesses under the operational control of AK Medical.

Trend of Global Warming Leading to Increased Physical Risks

The trend of global warming will be driven by future emissions and will affect components of all major climate systems. Each region will experience multiple and simultaneous changes. According to the IPCC's assessment, AK Medical's business and its upstream and downstream activities will face increased physical risks in the process of climate changes. Whether it is to achieve net-zero emissions by 2050 (SSP1-1.9), to control the temperature rise within 2°C (SSP1-2.6), to maintain current emission levels and to limit the temperature rise to 3°C (SSP2-4.5), or to let the uncontrolled temperature rise to (SSP3-7.0) or even exceed 4°C (SSP5-8.5), AK Medical will face varying degrees of ecosystem damage, which will endanger infrastructure and resource usage.

Socio-economic Impacts Leading to Increased Transition Risks

In response to climate change, governments around the world have introduced policies such as Nationally Determined Contributions to slow down and limit the rate of temperature rise. In scenario analyses of the IPCC, IEA and NGFS, they have set a promising expectation of achieving net-zero emissions by 2050 and limiting the temperature rise to 2°C. The key assumption is that the policies currently committed will be implemented, and that climate policies will be more stringent in the future.

The pace, design and option of policies and regulatory mechanisms that drive energy system change will have broader impacts on the economies of various countries and regions, including both positive and negative impacts. Meanwhile, the consequent changes in the energy structure will also bring about new challenges. As a result, AK Medical responds to the national energy transition policy, applies modern renewable energy, promotes green R&D and innovation, actively responds to green competition and green preference under policy guidance, and responds to the expectations of stakeholders.

	Global warming of 1.5-2°C	Global warming of 2-3°C	Global warming of 3-4°C/>4°C
IPCC	<ul style="list-style-type: none"> SSP1-1.9: The temperature rise is controlled to 1.5°C. SSP1-2.6: The temperature rise is controlled to 2°C (RCP2.6). 	<ul style="list-style-type: none"> SSP2-4.5: The temperature rise is limited to 3°C (RCP4.5). 	<ul style="list-style-type: none"> SSP3-7.0: The temperature rise is limited to 4°C. SSP5-8.5: temperature rise >4°C (RCP8.5).
IEA	<ul style="list-style-type: none"> NZE: The temperature rise is controlled within the range of 1.5°C. APS: The temperature rises by 1.7°C. 	<ul style="list-style-type: none"> STEPS: It is related to the temperature rise of 2.4°C. 	/
NGFS	<ul style="list-style-type: none"> Orderly: Low demand; net-zero emissions by 2050; warming of less than 2°C 	<ul style="list-style-type: none"> Greenhouse world: warming of 2.4°C in Nationally Determined Contributions; temperature rise by 2.9°C under the current policies 	/
Policy Assumptions	<ul style="list-style-type: none"> Stringent climate mitigation policies are adopted. By 2050, developed economies will increase to an average of US\$250/ton of CO₂, and China will increase to US\$200/ton of CO₂. 	<ul style="list-style-type: none"> The current publicized policy is effectively implemented. Existing and predetermined carbon price initiatives are implemented. 	<ul style="list-style-type: none"> No active climate mitigation policies are adopted.
Energy Assumptions	<ul style="list-style-type: none"> From 2022 to 2030, the direct use of renewable energy in total final energy consumption increases by 7%-9% per year. 	<ul style="list-style-type: none"> From 2022 to 2030, the direct use of renewable energy in total final energy consumption increases by 3% per year. 	<ul style="list-style-type: none"> Fossil fuels remain the main raw material.
Emissions Assumptions	<ul style="list-style-type: none"> CO₂ emissions will fall to net zero around 2050 and 2070, respectively. 	<ul style="list-style-type: none"> CO₂ emissions will remain around the current levels by the middle of this century. 	<ul style="list-style-type: none"> CO₂ emissions will roughly double from current levels by 2050.

3.1.3 Risk Management

The climate scenario analysis balanced different scientifically based scenarios, comparing best and worst case scenarios, and allowed AK Medical to think deeply about the climate change risks and opportunities that could affect the Company’s business operations and value chain. With the help of external experts, AK Medical’s ESG Working Group conducted an industry-level risk review, identified a number of climate-related risks that could affect the Company’s business under these scenarios, developed a list of risks and took proactive action to address potential climate change impacts (short-term impact: 3-5 years; medium-term impact: 5-10 years; and long-term impact: 10-50 years).

Physical risks			
Name and description of risk	Value chain	Specific impacts	Countermeasures
<p>Acute risks</p> <p>Extreme weather has brought urban infrastructure to a halt</p> <p><i>Short-term risk/high level</i></p>	<p>Material supply</p> <p>Production and operation</p> <p>Storage, transportation and sales</p>	<p>Supply disruptions, production disruptions, disruptions in storage, transportation, product and service support</p>	<ul style="list-style-type: none"> Establish an early warning and response mechanism for natural disasters, fully taking into consideration the operating conditions in extreme weather Strengthen the resilience of the supply chain, regularly identify supply chain risks arising from climate change, select multiple suppliers for procurement, and require suppliers to develop plans to address climate change
<p>Chronic risks</p> <p>The average temperatures and sea level rise lead to frequent floods and waterlogging</p> <p><i>Medium to long term risks/high level</i></p>	<p>Production and operation</p> <p>Storage, transportation and sales</p>	<p>Persistent high temperatures and frequent waterlogging lead to aging equipment, increased hidden hazards and increased fire risks</p>	<ul style="list-style-type: none"> Strengthen equipment risk management and control, improve the resilience of production and operation, and establish a disaster emergency response mechanism after fully taking into consideration the operating conditions in extreme weather Insure critical and key equipment

Transition risks

Name and description of risk	Value chain	Specific impacts	Countermeasures
<p>Policies and laws</p> <p>Stricter carbon emission reduction policies</p> <p>Carbon prices have been confirmed and adjusted upwards</p> <p><i>Short-term risks/high level</i></p>	<p>Material supply</p> <p>Production and operation</p>	<p>Investment in equipment increased</p> <p>Energy costs increased</p> <p>Cost of raw material procurement increased</p>	<ul style="list-style-type: none"> Formulate the phase-out and renewal programmes of high-energy-consuming equipment to improve energy efficiency and reduce carbon emissions Apply modern renewable energy and optimize the energy structure Conduct an environmental impact assessment of the supply chain to reduce overall carbon emissions to get prepared
<p>Technology application</p> <p>Environmental protection technologies are widely adopted in the industry</p> <p><i>Medium to long term risks/low level</i></p>	<p>R&D</p>	<p>Increased competition from peers, and the market share is being squeezed</p>	<ul style="list-style-type: none"> Pay attention to the field of green R&D innovation, and strengthen the application of environmental protection technologies in product R&D in a targeted manner
<p>Market preference</p> <p>Preference for eco-friendly products is on the rise</p> <p><i>Medium to long term risks/low level</i></p>	<p>R&D</p> <p>Market</p>	<p>The medical industry has increased its attention to green healthcare and put forward new requirements for products</p>	<ul style="list-style-type: none"> Pay attention to the field of green R&D innovation, and strengthen the application of environmental protection technology in product R&D in a targeted manner Focus on the needs of medical institution to respond in a timely manner
<p>Regulation and reputation</p> <p>Climate information disclosure requirements have increased</p> <p><i>Short-term risks/high level</i></p> <p>Increased interest in environmental initiatives among stakeholders</p> <p><i>Medium-term risk/medium level</i></p>	<p>Compliance</p> <p>Market</p>	<p>Increased pressure on compliance management</p> <p>If effective action is not taken, the reputation of enterprises will be damaged</p>	<ul style="list-style-type: none"> Pay attention to regulatory requirements and disclose information in a timely manner Examine R&D, production, operation, and sales to promote green renewal Respond to stakeholders' concerns about environmental initiatives in a timely manner and communicate well

3.1.4 Metrics and Targets

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

Emissions reduction target: committing to a 32% reduction in carbon intensity by 2030, using 2020 as the base year. This commitment is made in response to the determined contributions goal of China in to peak carbon dioxide emissions by 2030.

Target range	Type of target	Base year (2020)	Target year (2030)	Actions taken
This commitment covers Scope 1 and Scope 2 greenhouse gas emissions of all subsidiaries.	Intensity	0.042 tons CO ₂ e/RMB10,000	0.030 tons CO ₂ e/RMB10,000	Increase electrification (e.g., replacing electric vehicles) and apply clean energy (e.g., paving photovoltaic equipment).

Greenhouse gas emissions reduction progress²

Type	2023	2022	2021
Scope 1 (direct emissions) (tons of CO ₂ equivalent) ³	43.0	68.6	71.6
Scope 1 (direct emissions) emission intensity (tons of CO ₂ equivalent per RMB10,000)	0.0004	0.0007	0.0009
Scope 2 (indirect emissions) (tons of CO ₂ equivalent) ⁴	5,824.3	4,291.7	3,911.7
Scope 2 (indirect emissions) emission intensity (tons of CO ₂ equivalent per RMB10,000)	0.05	0.04	0.05
Total (tons of CO ₂ equivalent)	5,867.3	4,360.3	3,983.3
Total emission intensity (tons of CO ₂ equivalent per RMB10,000)	0.05	0.04	0.05

² The scope of greenhouse gas emissions for AK Medical in 2023 covers the manufacturing plants and office buildings of AK Medical Beijing, ITI Medical, Libeier and JRI. Scope 1 greenhouse gas emissions covers petrol; Scope 2 greenhouse gas emissions covers purchased electricity and heating; The Scope 2 greenhouse gas emissions of the subsidiary increased due to the increase in production during the year, this is explained by the increase in Scope 2 carbon emissions of the subsidiary due to the increase in production during the year.

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

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

3.2 Intensive Utilization of Resources

AK Medical was committed to reducing its dependence on traditional energy sources and improving energy efficiency to achieve the goal of sustainable development in this year. Meanwhile, the Company continued to improve the water management system, promote the secondary use and recycling of materials, and integrate green concepts into production and operation.

3.2.1 Application of Clean Energy

In the context of increasingly prominent global environmental issues, clean energy transition has become an important part of corporate development. AK Medical recognizes the importance of clean energy, comprehensively reviews the application of energy, and actively takes measures to reduce the dependence on traditional energy sources, so as to reduce the adverse impact on the environment, improve energy efficiency and promote the realization of sustainable development goals.

In respect of energy use, the main types of energy used by AK Medical in the production and operation process include electricity and petrol consumed by its own vehicles. Through the analysis of historical environmental data and future development forecasts, the Company has formulated related energy use goals for 2030 according to its own business development plan and operating characteristics. AK Medical has pledged to reduce the intensity of electricity consumption by 31% by 2023 based on 2020. During the Reporting Period, the Company's renewable energy consumption reached 904,507 kWh.

AK Medical Energy Use Targets by 2030

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

AK Medical Energy Usage Progress

Type of Indicator	2023	2022	2021
Total energy consumption (kWh)	12,379,777.7	10,331,902.6	5,429,767.9
Energy consumption intensity (kWh/RMB10,000)	113.2	98.2	71.3
Renewable energy use (kWh)	904,507.0	1,020,285.0	595,036.0

In terms of energy management, AK Medical has formulated a series of energy consumption targets, and established sound energy statistics system and consumption records system. These measures enable the Company to regularly analyze energy use and supervise the rational use of electricity of each department to ensure the economical and efficient use of energy and to achieve balanced, stable and coordinated production and operations. Meanwhile, the Company focuses on the management of major energy consuming equipment to ensure the full and effective use of energy resources and reduce production costs. In addition, the Company is constantly improving its production processes and adopting new technologies, materials and equipment to further reduce the set target for energy consumption and improve energy usage efficiency.

In terms of the construction of corporate systems and standards related to energy management, AK Medical has strictly complied with the laws and regulations in the places where it operates and has formulated the Resources and Energy Management System (《資源能源管理制度》). The system aims to standardize the energy management behavior within the Company, clarify the division of responsibilities and management procedures and ensure the smooth progress of energy management. Through this system, AK Medical can monitor and manage use of energy more effectively, adjust and optimize the energy utilization strategy in a timely manner, and achieve the goal of energy saving and emission reduction. Besides, it also provides a solid institutional guarantee for the Company's sustainable development.

As a typical case of clean energy application, AK Medical has achieved remarkable results in photovoltaic projects and transportation electrification.

ITI Medical photovoltaic project case

ITI Medical has installed a decentralised photovoltaic plant on the roof and structures of the company. The actual installed capacity of the photovoltaic plant is 0.72 MWp. The total amount of electricity generated by the photovoltaic system was 980,820 kWh, and the total photovoltaic electricity consumption was 904,507 kWh, accounting for 18% of the total electricity consumption. The sales revenue from the photovoltaic transmission grid was RMB29,838.

AK Medical Beijing photovoltaic generation and ground source project case

The installed photovoltaic capacity of AK Medical Beijing is expected to be 1.3 MW, accounting for 43.5% of the Company's total energy. Currently, the project is at the stage of program confirmation and is expected to be launched in the near future.

In addition, the total energy supply service area of AK Medical Beijing's ground source project is 39,057.9 square meters, with a total installed capacity of 12,638 kWh. The project adopts a combined system of ground source heat pump and water chiller unit, including 2 ground source heat pump units, 1 water chiller unit and 3 air source heat pump units. As of January 2024, the construction of the project has been basically completed, and it is planned that the remaining construction and acceptance will be completed in the middle of 2024 to ensure the smooth operation of the project.

Transportation electrification case

The Company has implemented electrification transformation projects in the field of production and transportation, and gradually replaced traditional fuel vehicles with new energy vehicles. As of 2023, a total of more than 460 drives had been made, of which more than 245 drives were made by new energy vehicles, accounting for 53%. The use of these electric vehicles not only reduces operating costs, but also reduces dependence on conventional energy sources, making a positive contribution to the Company's sustainable development.

3.2.2 Water Resources Saving

The population growth, urbanization development and the increase in extreme weather events are exacerbating the shortage and pressure of global water resources, AK Medical is deeply aware of the importance of water saving, and has taken a series of major measures to effectively manage and utilize water resources to reduce water costs, reduce environmental pollution, and contribute to the sustainable development of society and itself.

In order to standardize the management of water resources, the Company continuously enhanced relevant systems and standards. AK Medical is committed to the effective management and use of water resources to achieve the goal of water saving. The Company commissions a professional organization every month to check, count and assess the total water consumption to ensure the transparency and effective management of water consumption. In addition, AK Medical also actively promotes the secondary use and recycling of water resources to reduce the consumption of fresh water resources. For violations of water saving regulations and waste of water, the Company will impose criticism and punishment according to the severity of the case, so as to promote the attention and implementation of water saving work by employees.

During the past Reporting Period, AK Medical's total water consumption was 41,533.7 tons, with a total water consumption intensity of 0.4 tons/RMB10,000.

Water Resource Indicators	2023	2022	2021
Total water consumption (tons)	41,533.7	35,261.0	24,192.0
Total water consumption intensity (tons/RMB10,000)	0.4	0.3	0.3

3.2.3 Recycling of Materials

Saving raw materials and packaging materials is conducive to reducing resource waste, reducing the over-exploitation of natural resources, doing well the ecological protection at source, controlling environmental impact, and achieving the purpose of reducing costs and increasing efficiency. AK Medical is deeply aware of the importance of materials recycling for sustainable development, and has taken a series of measures to actively respond to relevant requirements from policy to action and from self-discipline to cooperation.

In terms of policy, AK Medical is committed to aiming at low consumption, low emission and high efficiency in its operation in order to reduce the consumption of environmental resources. Each workshop shall strictly implement the processes and operation procedures and strive to reduce the consumption of raw materials for its production. Meanwhile, AK Medical has established a comprehensive monitoring and control mechanism. The production department conducts on-site inspections from time to time to monitor the use of raw materials to avoid the adverse impact of waste on the environment and the Company's costs.

In addition, the relevant regulations under the Resource and Energy Management System further regulate the use of major raw and auxiliary materials by AK Medical. These regulations require the Company to pay attention to consumption control during procurement, strictly follow the principle of "first-in and first-out", strengthen onsite management, avoid waste, improve employees' operational skills and awareness of conservation, so as to reduce production management costs and achieve effective use of resources.

The main raw materials consumed by AK Medical in the production and processing of its products include titanium-alloy, cobalt chromium and molybdenum, polyethylene, stainless steel, etc. In the area of product packaging, AK Medical's main raw materials include cartons, boxes and plastic sealing films. There was an increase in the consumption of packaging materials due to the expansion of production capacity. In this regard, the Company actively tried to incorporate green packaging concepts into its corporate practice, and is working with suppliers to implement recyclable packaging instead of disposable packaging, so as to achieve the recycling of packaging materials, reduce resource consumption and improve efficiency of use.

Raw material for production indicators	2023	2022	2021
Polyethylene (tons)	22.0	21.9	10.4
Stainless steel (tons)	58.6	46.7	46.2
Titanium alloy (tons)	96.7	104.1	37.9
Cobalt-chromium-molybdenum (tons)	81.4	53.9	53.7

Packaging material indicators	2023	2022	2021
Total volume of packaging materials used in finished goods (tons)	35.5	32.7	14.6
Packaging material used in finished goods per unit of production (tons/RMB10,000)	0.0003	0.0003	0.0002

3.2.4 Green Office

During the year, AK Medical has consistently integrated the green concept into the daily operation work, and strengthened the publicity of green office to enhance the green environmental protection awareness of all staff. According to the requirements of the Resources and Energy Management System, AK Medical practices green office from the following three perspectives: In terms of water conservation, the Company encourages employees to develop good habits of water conservation, strengthens the daily inspection and maintenance of water equipment, and seriously deals with waste of water resources. In terms of saving electricity, the Company advocates to put an end to the use of permanent lights and daytime lights, encourage staffs to try not to turn on the lights on sunny days, turn off the lights when off-duty, and gradually replace them with energy-efficient lights. For electronic office equipment, the Company requires rational use, timely turn off the power to reduce standby energy consumption, and prohibit the use of electric furnaces and electric heaters in the office. In terms of office supplies, the Company promotes office automation and networking, reduces paper consumption, strictly controls the number of document printing, extends the service life of office supplies, and saves communication costs to achieve effective use of resources and cost savings.

3.3 Reduced Impact on the Environment

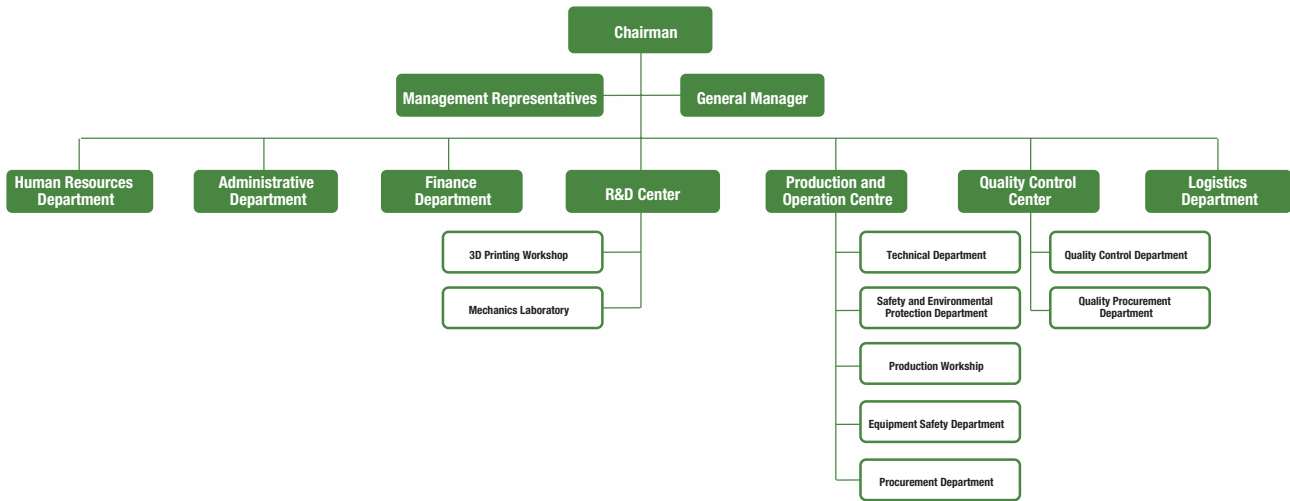
It is required to combine the efficient use of resources and pollution prevention and control for practising sustainable development. AK Medical controls pollutant emissions and reduces impacts on the environment by improving the environmental impact management system and strictly fulfilling its commitments. Implementation of effective management of waste gases, wastewater, waste and noise can also help strengthen the protection of ecosystems, and make positive contributions to air quality, drinking water safety, soil conservation and biodiversity.

3.3.1 Environmental Management

Based on the deep understanding of social responsibility, AK Medical firmly implements and complies with international and national environmental protection regulations and standards. The Company has formulated the Occupational Health, Safety and Environmental Management Manual in accordance with the ISO 14001:2015 Environmental Management System and the ISO 45001:2018 Occupational Health and Safety Management System, which significantly expresses AK Medical's firm commitment to reducing resource waste, preventing pollution, and providing a safe workplace without occupational hazard.

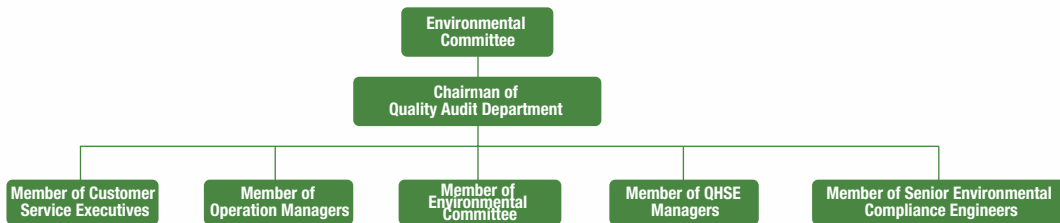
The Occupational Health, Safety and Environmental Management Manual establishes a sound environmental management system that covers all of operations and business activities of the Company, including production and operation, products and services, distribution and logistics, waste management, and relationship management with suppliers, service providers, contractors and other key business partners. In addition, AK Medical also strictly abides by the principles and standards of environmental protection when conducting due diligence, mergers and acquisitions, to ensure that the business expansion of the Company will not have a negative impact on the environment.

During the Reporting Period, the environmental management system of AK Medical obtained ISO 14001:2015 Environmental Management System and ISO 45001:2018 Occupational Health and Safety Management System certification, which not only proves the effectiveness of the Company's environmental management, but also demonstrates AK Medical's commitment to continuous improvement of environmental performance. The Company regularly conducted internal and external audits and examinations to ensure the effective operation of the environmental management system, and took necessary improvement measures based on the audit results. The coverage and implementation of these activities are well documented and reported to ensure the transparency and traceability.



EHS Organizational Structure of AK Medical

In accordance with the Environmental Permitting (England and Wales) Regulations 2010, the Environment Protection Act and relevant industry regulations such as the EC Regulation 1907/2006 on Registration, Evaluation, Authorisation and Restriction of Chemicals, JRI strictly complied with the environmental laws and regulations during the Reporting Period. The Company has established internal environmental control procedures and regularly reviews the regulatory requirements for emissions management and resource management to ensure the normal operation of the Company. JRI has established an Environmental Committee to coordinate environment-related activities of the Company, including external compliance and internal operational management. The Environmental Committee communicates with employees on a regular basis, listens to their suggestions on environmental improvement, and works with all employees to promote environmental governance.



Environmental Committee Structure of JRI

During the Reporting Period, AK Medical strictly complied with all relevant environmental laws and regulations related to air and greenhouse gas emissions, discharges of wastes into water and land, and hazardous and non-hazardous waste management, and no violations have occurred.

3.3.2 Waste Management

In the daily operation of AK Medical, the waste generated by raw material procurement, production and processing, and product manufacturing mainly involves waste gas, waste water, dust, noise and solid waste, etc. In order to fulfill its corporate social responsibility, AK Medical strictly abides by the national and local waste management regulations of the People's Republic of China, and effectively controls and manages the discharge of waste through the formulation and implementation of the "Waste Gas, Wastewater, Dust and Noise Management System", so as to achieve compliant pollutant discharge and pollutant reduction.

At the same time, the Company continuously strengthens the construction of the environmental management system and strictly follows the relevant certification standards to ensure that its environmental management meets the highest environmental protection standards. During the Reporting Period, AK Medical did not have any negative events related to environmental management.

Waste Gas Management

Waste gas management is critical to the sustainable operation of AK Medical. The Company regularly delegates a local environmental monitoring station to carry out monitoring every year to ensure that the emissions meet the regulatory standards. For the high-emission equipment, the Company uses negative pressure dust collectors and bag dust collectors to remove dust. Meanwhile, all vehicles are regularly audited annually to ensure waste gas emission compliance. In addition, AK Medical also regularly monitors the waste gas emitted from production to take into account the production, operation and environmental protection.

Wastewater Management

For wastewater discharge, AK Medical delegates a qualified third-party organisation to monitor wastewater discharge indicators on a quarterly basis, ensuring compliance with standards. The wastewater after treatment is subject to regular laboratory tests to ensure that the level of water quality is met before discharge. In addition, AK Medical has established a series of strict management measures, including the separation management of wastewater pipelines, the prohibition of dumping hazardous chemicals and waste residues, and the strict implementation of processes and operating procedures. These measures are aimed at minimizing the impact of wastewater on the environment and ensuring the sustainability of the Company's production and operations.

For its domestic plants, the Company regularly commissions a third party to test the pH value, chemical oxygen demand, five-day biochemical oxygen demand, suspended solids and ammonia nitrogen discharge concentration of wastewater in accordance with the Integrated Sewage Discharge Standard and the Water Quality Standard for Sewage Discharged into Urban Sewers, and other standards. The test results all met the requirements. During the Reporting Period, the results of the wastewater discharge test were as follows:

Wastewater Discharge Indicators	2023
Total water discharge volume (tons)	13,941.6
Biochemical oxygen demand (BOD) (tons)	0.9
Chemical oxygen demand (COD) (tons)	2.2
Suspended solids (SS) (tons)	33.3
Ammonia nitrogen (NH ₃) (tons)	0.4

Waste Management

In terms of waste management, AK Medical has implemented strict measures to reduce the pollution caused by waste to the environment. For solid waste, AK Medical has formulated Regulations on the Administration of Solid Waste (《固體廢棄物管理規定》), which regulates the collection, classification, storage and treatment process of waste. Regarding hazardous chemicals or hazardous wastes with greater environmental impact and toxicity, AK Medical implements the Safety Management System for Hazardous Chemicals (《危險化學品安全管理制度》), and strictly manages the storage, usage and disposal of waste gas. For the hazardous waste incurred, the Company will entrust qualified third parties to properly dispose of it in accordance with the Regulations on the Administration of Hazardous Waste Transfer (《危險廢棄物轉移聯單管理辦法》).

The Company's waste is mainly divided into hazardous waste (such as wastewater, waste liquid and dust) and non-hazardous waste (such as recyclable solid waste and non-recyclable solid waste). For different types of wastes, AK Medical has formulated different management strategies and methods, and clarified the duties and responsibilities of each department.

Hazardous waste	According to the requirements, it will be transferred to the designated area of the hazardous waste warehouse, sorted and put into designated garbage bags or containers in the designated area, and will be handed over to a qualified third-party organization for harmless treatment on a regular basis.
Non-hazardous waste	Each department and workshop shall set up different collection boxes according to the classification of waste for unified storage and disposal, and indiscriminate dumping and piling is strictly prohibited. Clear labels are placed to ensure that the recyclable and non-recyclable wastes are properly sorted and disposed of.

During the Reporting Period, the hazardous waste generated by AK Medical's production segment amounted to 202.1 tons, while the non-hazardous waste generated mainly consisted of titanium scrap, cobalt chromium and molybdenum scrap and other waste, with a total disposal volume of 19,556.4kg. The treatment rate of waste was 100%, the particulars is as follows:

Waste type	Name of Waste		2023	2022	2021
Hazardous waste	Waste Liquid	Total waste liquid production (tons)	177.1	148.0	83.0
		Waste liquid handling volume (tons)	177.1	144.0	83.0
	Dust	Total dust production (kg)	24,949.0	10,405.0	6,726.0
		Dust handling volume (kg)	24,949.0	10,405.0	6,726.0
Non-hazardous waste		Titanium waste handling volume (kg)	7,404.0	8,335.0	5,195.0
	Solid Waste	Cobalt-chromium-molybdenum waste handling volume (kg)	1,575.0	2,007.0	1,462.0
		Other waste handling volume (kg)	10,577.4	10,140.0	8,895.0

Noise Management

In the daily operation of AK Medical, the noise management is very important. The Company is aware of the impact of noise on the health of its employees and the production environment, and thus it has taken a series of measures to effectively manage and control the noise. First, AK Medical entrusts the local environmental monitoring department to monitor the noise at least once a year to ensure that the noise level in the production environment meets the relevant standards and regulations. In the construction of the factory, the Company focuses on noise control measures, such as sound insulation and shockproof treatment for the equipment that emits noise, and the installation of acoustic foam and silencers, so as to reduce the noise level inside the factory and improve the comfort of the working environment of employees.

For different noise sources, the Company has also formulated corresponding management strategies and measures. For example, for the noise generated by the operation of the equipment, the Company pays special attention to prevention in production, operates and maintains facilities in strict accordance with the requirements of equipment use, and requires the newly purchased equipment to meet the requirements of environmental protection regulations. In response to the noise generated by the use of various tools and vehicle operation, the Company has taken necessary measures, such as selecting tools with less noise, reducing the frequency of operations, requiring drivers to control the number of sounding the horn and reducing vehicle speed, etc., so as to reduce noise interference and protect the working and living environment of employees.

4. LEADING WITH INNOVATION

As a high-tech enterprise integrating cutting-edge orthopedic technology research, innovative product development, large-scale manufacturing and professional marketing, leading the market trends with its innovative technologies is the key driver for AK Medical to gain trust and achieve success. In 2023, the Company continued to give full play to its technological innovation, digital innovation and collaborative innovation capabilities in overcoming problems of the industry, aiming to lead and promote the industry development; and continued to improve product quality and service system, aiming to enable more medical institutions and patients to enjoy the health and well-being brought by cutting-edge technological innovation.

<p>Responses in this section</p>	<p>United Nations Sustainable Development Goals Goal 9: Industry, innovation and infrastructure Goal 12: Responsible consumption and production Goal 17: Partnerships for the achievement of goals</p> <p>Global Reporting Initiative Sustainability Reporting Standards GRI 416: Customer health and safety GRI 417: Marketing & Identity GRI 418: Customer privacy</p> <p>Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange Aspect B6: Product responsibility</p>
<p>Key performance</p>	<p>The proportion of R&D investment reached 12.5% with 103 patents added. A visual assistance system was launched to solve clinical medical problems and promote domestic substitution. We supported the national "Research on Enhancing the Capacity of Clinical Application of Digital Orthopedic Technology" to promote the coordinated upstream and downstream development of the industrial chain. The whole cycle management of products and services was strengthened, won customer recognition, and customer satisfaction was maintained at an average of above 90% for the year.</p>

4.1 Overcoming Industry Challenges

As a leading enterprise in the orthopedic implant industry in China, AK Medical has been committed to solving the challenges in the field of orthopedic implants through technological innovation and accumulation of intellectual property rights. The Company acknowledges that in the highly competitive medical device market, continuous innovation is the inexhaustible driving force for corporate development. Therefore, AK Medical has continuously strengthened layouts of intellectual property rights around the market demand and product lines, and formed a development model in which principle exploration, technological innovation, product development and protection of intellectual property layout supportive to each other.

4.1.1 Technology Innovation System

In terms of innovation system, AK Medical has established a sound system construction and management system to ensure that the promotion of technological innovation can be continued. In order to strengthen employees' awareness of intellectual property protection, the Company particularly emphasized the internal importance of the Patents and Articles Award Management Measures (《專利及文章的獎勵管理辦法》) and the Projects Award Management Measures of AK Medical Group (《愛康醫療集團項目獎勵管理辦法》). Through the detailed provisions on the ownership of patent rights, management processes and award standards, these measures not only stimulate the innovation motivation of scientific researchers, but also effectively promote the long-term innovation development of the Company, and significantly enhance employees' awareness and attention to intellectual property protection. In addition, the Company carried out regular intellectual property rights training and publicity, and combined with the Projects Award Management Measures of AK Medical Group, to promote employees to fundamentally understand and practice the importance of intellectual property rights protection. The measures fall into six categories: qualifications, intellectual property rights, corporate honors and awards, government special projects or support, talent projects and major/special internal projects of the Company, aiming to encourage employees to conduct in-depth research and master projects and policies that are beneficial to the Company's development, and create a good environment for the Company to promote technological innovation and intellectual property rights protection.

Regarding R&D investment, AK Medical continued to increase the investment in R&D funds and strengthen intellectual property rights protection policies to ensure technological innovation and continuous growth of intellectual property rights of the Company. The R&D strength of the Company is not only reflected in the number of patents, but more importantly, in the quality of patents and industry influence. AK Medical has applied for and obtained a number of patented technologies involving the 3D printing, which have a significant leading position in the industry.

R&D Investment and Achievements for 2023

During the Reporting Period, the R&D investment of AK Medical accounted for 12.5%. As of 31 December 2023, the Company has obtained a total of 304 invention patents, 404 utility model patents, and 31 granted PCT patents.

Several Surface Modification Patented Technologies (3DACT Bio™)

The 3DACT Bio™ is a patented technology for surface modification of 3D printed porous titanium alloy orthopedic implants developed by AK Medical. By forming a TiO₂ film layer containing bioactive substances on the surface of the implant, this technology realizes the rapid biological bonding of new bone tissue and prosthesis, induces the growth of surrounding bone tissue, and promotes the proliferation of tissue bone, thereby realizing osseointegration, fusing the prosthesis and bone tissue, and ensuring the long-term safe and effective survival of the implant.

Through the 3DACT Bio™ technology, AK Medical has developed the second-generation 3D printed porous interbody fusion cage after surface modification, metal acetabular outer cup, acetabular reinforcing block and other products, realized the upgrade of 3D printed porous titanium alloy implants from biological inertness to bioactive functionalization, and provided an innovative breakthrough for the leapfrog upgrade of orthopedic implants.

Antimicrobial Coating

With the aging population, the number of surgeries performed for arthroplasty continued to rise. The antimicrobial coating being researched and developed by JRI is designed to address the high risk of intraoperative and postoperative infection, uncontrolled antibiotic release and poor durability of coatings, providing an innovative solution for arthroplasty.

Compared to traditional cement-based arthroplasty, the antimicrobial coating improves the prevention mechanism of surgical infection and effectively reduces the risk of toxicity and allergic reactions caused by antibiotics by controlling the release of antimicrobial agents. In addition, the coating is abrasion-resistant and enhanced for durability to maintain integrity and antimicrobial function over an extended period of time, while allowing for a continuous release of bioactive compounds to facilitate bio-fixation and rehabilitation of implants. By optimizing the sol formulation and curing conditions, the antimicrobial coating ensures good adhesion and flexibility, while controlling the thickness and porosity of the coating. The long-term effects of the antimicrobial coating make it a reliable option for reducing the risk of infection in arthroplasty and improving the patient's surgical success rate and recovery speed.

4.1.2 Digital Innovation Achievements

In the context of today's Internet technology becoming increasingly integrated into the physical industry, the medical industry is facing unprecedented opportunities for digital innovation. Especially in the field of orthopedic medicine, by closely integrating advanced digital technology with clinical practice, AK Medical has been able to significantly optimize the surgical process while making great progress in improving the safety and accuracy of surgery.

The digital platform of AK Medical successfully integrates image processing, image enhancement, virtual reality, 3D printing, real-time tracking and intelligent AI technologies to significantly enhance its capabilities in digital diagnosis, robotic-assisted surgery and prosthetic reconstruction solutions. These technological advancements enable physicians to better understand patients' cases, develop more personalized treatment schemes, improve surgical accuracy and stability, accelerate patients' recovery processes, and achieve predictable treatment outcomes.

The digital technology has become an indispensable force in leading innovation in the field of orthopedic surgery, especially in the precise implementation of total hip replacement surgery. In 2023, through close cooperation with the orthopedic team of Peking University Third Hospital, AK Medical successfully developed the Visual Treatment Solution (the "VTS") – Visual Intelligent Assistance System. As the first domestic system of this kind, the VTS can accurately display the angle and depth of implanted prostheses in real time during the operation, ensuring high-precision execution of the operation. The launch of the VTS not only solves the clinical needs, but also promotes the localization of high-end medical equipment, and has become an outstanding representative of the combination of medical and engineering and innovative transformation results. This model accelerates the pace of technological innovation while ensuring that the practical application of the technology can truly meet the clinical needs and thus benefit the wider patient population.

Visual Intelligent Assistance System – Visual Treatment Solution™

The artificial total hip arthroplasty has proven to be an extremely successful and reliable method for relieving the pain caused by end-stage hip diseases and rebuilding the hip function. Despite this, there is still considerable uncertainty and reliance on experience during the operation. In response to this challenge and the urgent need for clinical application of digital technology in joint surgery, AK Medical and the team led by Professor Tian Hua from the Department of Orthopedics of Peking University Third Hospital jointly developed the Visual Treatment Solution™ (the “VTS”) – Visual Intelligent Assistance System, aiming to break through the limitations of traditional surgeries.

The VTS system realizes preoperative planning and visualized real-time monitoring relying on surgeon – engineer interaction to optimize the performance and clinical effect of total hip arthroplasty. For experienced surgeons, the VTS system is smooth to operate and has a short learning curve; while for young doctors, the VTS system effectively reduces the preoperative uncertainty and dependence on personal experience, and increases the intraoperative safety zone rate by 42.2% compared with traditional surgical methods, which helps doctors obtain high-quality, reproducible and standardized postoperative results.

4.1.3 Driving by Collaborative Innovation

In response to the national policies and further strengthen the in-depth integration and transformation of digital technologies and the field of medical and healthcare, AK Medical actively participated in the orthopedic industry research organized by the National Health Commission during the Reporting Period, and promoted the further development of the leading orthopedic hospitals nationwide by continuously supporting the construction of the national digital orthopedic innovation platform.

The participation of AK Medical not only drives the innovation and application of orthopedic technology, but also helps the innovation of the training mode of interdisciplinary medical talents, and significantly improves the innovative application of medical technology and the efficiency of achievement transformation. In addition, by promoting the practical transformation of scientific research results and the introduction of innovative technology projects, AK Medical’s efforts have established a virtuous cycle among industry, academia, research and application, and accelerated the technological innovation and collaborative development in the field of orthopedics. AK Medical regards collaborative innovation as a key driving force for technological innovation, and has carried out extensive cooperation with medical institutions at all levels to gain an in-depth understanding of medical needs and jointly solve clinical problems, improve the level of diagnosis and treatment technology of medical devices, and help the high-quality development of medical and health undertakings. Through cooperation with various parties to improve product R&D and innovation, AK Medical has promoted the exchange and cooperation between the upstream and downstream of the industry, and promoted the development and progress of the industry.

By actively participating in relevant exhibitions in the medical industry, assisting in the construction of industry platforms, and jointly cultivating industry talents, etc., AK Medical has built and maintained a win-win cooperation relationship between the national government, medical device companies and hospitals, and jointly promoted the vigorous development of the orthopedic industry and the application of cutting-edge technologies. During the Reporting Period, AK Medical actively participated in the exchange activities of the orthopedic industry, including participating in more than 10 large-scale orthopedic conferences, such as COA, CKS, CHS, CAOS, etc., as well as other industry exchange activities. In addition, the Company has also established close cooperative relations with 37 member units of expert groups, promoted cooperation and exchanges in the industry, and continuously promoted the industry development and technological innovation.

Industry Exchange Activities Participated in by the Company in 2023

March 2023	The Company participated in the joint forum of Peking University Third Hospital
April 2023	The Company participated in national orthopedic academic conferences such as the 2023 National Academic Conference on Joint Surgery of the Chinese Medical Association, the National Academic Conference on Orthopedic Infection and the Second Wisdom Orthopedic Academic Conference
May 2023	The Company participated in the 18th Bone and Joint Surgery Technology Development Conference of Peking Union Medical College Hospital and the Third Academic Forum on Early Onset Scoliosis
June 2023	The Company participated in the 14th Annual Meeting of Orthopedic Surgeons of the Chinese Medical Doctor Association (CAOS2023) and the Third Orthopedic Forum of Peking University Third Hospital
July 2023	The Company participated in the Ninth National Conference on Hip Surgery of the Chinese Medical Association (CHS) and the Annual Meeting of the Beijing Orthopaedic Association (BOA)
August 2023	The Company participated in the 10th National Conference on Knee Surgery (CKS) of the Chinese Medical Association and the 15th Chinese Spine and Spinal Cord Conference
November 2023	The Company participated in the 22nd Orthopaedic Academic Conference and the 15th COA Academic Conference of the Chinese Medical Association
December 2023	The Company participated in several academic seminars such as the 2023 Knee Protection Academic Exchange

Promotion of the Application and Transformation of Digital Orthopedic Technology: AK Medical Supports the National “Research on Building Capacity of Application of Digital Orthopedic Technology”

In response to the national policies, the "Research on Building the Clinical Application Capacity of Digital Orthopedic Technology" was initiated by the Capacity Building and Continuing Education Center under the National Health Commission in 2023. This topic is one of the responses to the Opinions on Promoting the High-quality Development of Public Hospitals, the Development Plan of the Robot Industry in the "14th Five-Year Plan" and the Development Plan of the Medical Equipment Industry in the "14th Five-Year Plan".

The topic was supported by the following three parties:



- Establishing relevant working mechanisms and supporting policies.
- Formulating relevant development plans and educational plans.
- Guiding and assisting relevant units to implement plans.
- Conducting regular inspections and supervision to ensure the implementation and effectiveness of plans.



- Providing technical support and student recruitment services for topics.
- Establishing a standardized training and assessment system for topics.
- Organizing and carrying out relevant standards seminars to promote establishment and improvement of standards in the industry.
- Organizing a nationwide conference on digital orthopedics academic exchanges.
- Organizing selection and exchange activities of outstanding demonstration units, and promoting excellent practices and experiences.



- Establishing expert groups and working groups of special subjects to implement research.
- Selecting undertaking units of topics.
- Each undertaking unit of topics is responsible for 100+ hospitals in the surrounding area.
- More than 10 practical trainings are carried out and 5,000+ orthopedic surgeons receive training every year.

Since the establishment of topics, AK Medical has assisted in organizing a number of online and offline activities, including a kick-off meeting aimed at establishing an expert group to build a national core orthopedic circle; an expert meeting aimed at jointly formulating a consensus on PSI, standardizing the clinical application of PSI in TKA and popularizing 3D printed surgical tools; a seminar aimed at formulating the selection criteria for regional innovation bases, and a working meeting aimed at establishing a working group, building a core circle of young and middle-aged customers, and an awarding ceremony for innovation demonstration bases. In the future, AK Medical will continue to provide support and technical support for such topic, and jointly promote greater breakthroughs in the clinical application and transformation of digital orthopedic technology.

AK Medical and Beijing Jishuitan Hospital Jointly Established a 3D Printing Joint Laboratory

In order to promote the transformation and application of scientific research achievements, introduce innovative technology projects, and promote the R&D and technical supports of clinical demand projects, AK Medical established a joint 3D printing laboratory with Beijing Jishuitan Hospital in February 2023. This cooperation model provides a one-stop efficient medical-engineering cooperation method for clinically incurable orthopedic diseases, integrating and optimizing the whole process from imaging to prosthesis production.

The establishment of the joint 3D printing laboratory enables R&D engineers to carry out tissue reconstruction, preoperative planning, tool design and prosthesis optimization of patients' imaging data in real time, which provides key technical support for clinicians in preoperative risk assessment, intraoperative osteotomy procedures, intraoperative prosthesis positioning and postoperative effect evaluation. Meanwhile, through the remote interaction system, doctors can communicate with the 3D metal printing center at the Company's headquarters for real-time prosthesis design and data optimization, and dynamically understand the progress of prosthesis manufacturing. Such interactive system not only provides information support for surgical scheduling, but also provides an important guarantee for patients' personalized diagnosis and treatment schemes.

AK Medical demonstrated its position as a pioneer in digital intelligent orthopedics at the COA conference

On 22-26 November 2023, the 22nd Orthopaedic Academic Conference of the Chinese Medical Association and the 15th Chinese Orthopaedic Association (COA) Academic Conference were successfully held at Xi'an International Convention and Exhibition Center. This event provides an international academic platform for the field of orthopedics, covering traditional topics such as joints, spine, trauma and bone tumors as well as innovative topics such as digital orthopedic technologies and minimally invasive image navigation.

As the leader in 3D printing orthopedic technologies in China, AK Medical actively responded to the theme of "innovation and transformation" at the conference, showcased products such as hip and knee joints, spine, customized solutions, etc., and held an expert meeting on the research topic of improving the clinical application ability of digital orthopedic technologies. In addition, AK Medical also demonstrated a brand new generation of products based on surface modification patented technology, marking an important breakthrough in bioactive functionalization technology. During the exhibition, AK Medical demonstrated the intelligent handheld navigation system Naviswiss, VTS – Visual Intelligent Assistance System, robot iBot and other intelligent equipment to the participating experts, bringing precise and efficient solutions for clinical surgeries and winning high praise from experts.

4.2 Improvement of Products and Services

In the medical device industry, superior product quality and services are core elements to earn customer trust, ensure patient safety, and continue to succeed in a rapidly evolving market environment. AK Medical has always regarded product safety, quality control and service as the core of the Company's operations. The Company recognizes that the provision of high-quality and harmless products and services is not only the basis for meeting customer needs and gaining market share, but also the embodiment of corporate social responsibility.

4.2.1 Product Quality Control

In the face of the challenges brought about by the development of the industry, AK Medical continuously optimizes the quality control system to ensure the high standards and safety of products. The Company strictly follows the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法), Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例), Medical Device Production Quality Administration Regulations (醫療器械生產質量管理規範), Provisions for Administration of Medical Device Recall (醫療器械召回管理辦法) and other relevant laws and regulations, and has established a comprehensive quality management system, including 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), etc. Through the implementation of these systems, the Company has achieved strict quality control from raw material procurement to product design, production and sales.

AK Medical integrates quality control throughout the whole process of product design and development, procurement, production, sales, service and product scrapping, especially through the use of advanced PLM systems (such as WINDCHILL and DocuWare) to achieve all-round quality control such as product structure management, life cycle management and engineering change management. In addition, the Company collects and analyzes internal and external information related to customers based on customer feedback, and continuously measures and optimizes the suitability, adequacy and effectiveness of the quality control system.

During the Reporting Period, there was no recall due to quality problems such as safety and health, and the Company strictly implemented the Provisions for Administration of Medical Device Recall and established a sound product recall and stop-loss mechanism to ensure that once a product is found to have quality problems, it can take prompt and effective measures to minimize the impact on customers and the market.

In 2023, the four subsidiaries of AK Medical had successfully obtained the ISO 13485:2016 Medical Device Quality Management Systems certification, which not only reflects the Company's high standards in medical device quality management, but also demonstrates AK Medical's competitiveness in the international market.

4.2.2 Product Service System

AK Medical is committed to providing high standards of customer service and understands that in the medical and orthopedic industries, quality customer experience and satisfaction is the key to credibility buildup and continuous growth of the Company. Through a comprehensive service system from front-end intervention, product description, service support to after-sales guarantee, AK Medical ensures that every customer can feel our professional and considerate care.

The service system of AK Medical covers every aspect of customer relationship. In the pre-sales process, through online communication and customer visits, we actively connect with customer needs and provide product training to help customers gain an in-depth understanding of product advantages. After sales, the Company conducts comprehensive management of products through the Service Feedback Control Procedures, regularly collects and analyzes customer feedback, and continuously optimizes products and services. Regarding customer complaints, AK Medical has established a Customer/Stakeholder Opinion and Complaint Handling Form (《顧客／相關方意見及投訴處理記錄表》) to ensure that complaints are quickly collected, responded to and effectively resolved, and the rights and interests of customers are protected. Taking JRI's service system as an example, JRI's customer complaint handling process is strictly managed in the quality control system. From receiving, classifying and prioritizing complaints to processing timelines and developing solutions, JRI operates in accordance with procedures such as PM-02 Customer Complaints and PM-05 Post-Market Surveillance to ensure timely and effective responses to customer needs and complaints.



With the excellent service concept, AK Medical has won wide acclaim among its customers. Through tools such as a Customer Satisfaction Form (《客戶滿意度調查表》, etc.), the Company conducts regular quantitative review of service effectiveness to ensure continuous optimization of service quality. During the Reporting Period, AK Medical's annual customer satisfaction remained above 90% on average, and each of its subsidiaries, AK Medical Beijing, ITI Medical and Libeier, achieved a 100% completion rate in customer complaint handling, which was in a leading position in the industry. In the future, AK Medical will continue to implement the concept of continuous improvement and keep on improving customer satisfaction.

In addition, in order to ensure that AK Medical complies with ethical standards and laws and regulations in its marketing activities, AK Medical has implemented strict audit and control procedures, and conducted a comprehensive review of marketing activities to ensure that all promotional materials, advertisements and marketing activities comply with relevant laws, regulations and industry standards. During the review process, close cooperation with the internal legal team and external legal counsel has been emphasized to ensure the comprehensiveness and accuracy of the review. This not only helps protect consumer rights, but also aligns with our mission to provide compliant and reliable care to our customers.

4.2.3 Protection of Customer Privacy

In the medical industry, it is very important to protect the privacy of institutions and patients. With the advancement of global digitalization, enterprises must fulfill their responsibilities for customer privacy while ensuring information security, which is a basic requirement for business operations.

AK Medical strictly complies with the laws and regulations of the People's Republic of China and places where the Company conducts business, such as the Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) and the Data Security Law of the People's Republics of China (《中華人民共和國數據安全法》). Employees must strictly adhere to the principle of information confidentiality, especially for non-public information from third parties such as customers and distributors. The subsidiaries also adhere to a philosophy of protecting customer privacy and data security. For example, JRI has developed a Marketing Guideline Manual (《營銷工作指導手冊》) specifying that the use of personal data and information in the promotion, marketing and sale of products requires authorized consent from customers or patients.

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

5. EMPLOYEE FIRST

AK Medical has always regarded its employees as a key force in the healthy development of the Company. The Company takes the health, development and happiness of employees as its core values, protects the rights and interests of employees, empowers development of employees, increases happiness of employees, fully implements the "employee first" strategy, and creates a harmonious working atmosphere.

<p>Responses in this section</p>	<p>United Nations Sustainable Development Goals</p> <p>Goal 3: Good health and well-being Goal 4: High quality education Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 10: Reduced inequalities</p> <p>Global Reporting Initiative Sustainability Reporting Standards</p> <p>GRI 401: Employment GRI 402: Labor relations GRI 403: Occupational health and safety GRI 404: Training and education GRI 405: Diversity and equal opportunities GRI 406: Non-discrimination GRI 407: Freedom of association and collective bargaining GRI 408: Child labor GRI 409: Forced or compulsory labor</p> <p>Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange</p> <p>Aspect B1: Employment Aspect B2: Health and safety Aspect B3: Development and training Aspect B4: Labor standards</p>
<p>Key performance</p>	<p>The employee turnover rate was 20.1%, down 24.7% from last year.</p> <p>The investment in occupational health and safety production reached RMB2.769 million.</p> <p>We have improved the promotion system, carried out vocational training and 1,033 employees were empowered.</p> <p>An employee satisfaction survey was conducted and the "Happiness Programme" was launched, which aims to increase happiness of employees by improving welfare leave and the working environment.</p>

5.1 Rights Protection

AK Medical strictly abides by national laws and regulations, and ensures the legality and standardization of employment through a series of internal management systems. In terms of recruitment, compensation and benefits, employee management, etc., the Company takes management measures to enhance loyalty and satisfaction of employees. In addition, the Company has achieved remarkable results in promoting gender equality through diversified development strategies, especially in the protection of the rights and interests of female employees, and has created a healthy and harmonious working environment.

5.1.1 Compliant Employment

AK Medical is in compliance with the relevant laws and regulations, including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》) and Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), has formulated and implemented a series of internal systems to ensure the legality and standardization of employment management.

In terms of **recruitment management**, AK Medical has formulated the detailed Recruitment Management Regulations (《招聘管理辦法》) which clearly states recruitment principles and standards, responsible departments, recruitment plans, recruitment pipeline, process and assessment and file management, etc., to ensure the fairness and transparency of the recruitment process. Through this series of meticulous management measures, AK Medical has optimized the human resources allocation, and has provided a solid human resources protection for the Company's sustainable and stable development.

In terms of **remuneration and welfare management**, AK Medical has formulated internal policies such as the Remuneration Management System and the Welfare Management Measures, providing employees with five insurances and one housing fund and social insurance in accordance with the law, protecting employees' normal leave rights and providing holiday benefits. During the Reporting Period, the Company continued to promote fair remuneration and strived to unify the remuneration structure and welfare system of its different subsidiaries to ensure equal remuneration and benefits among employees, so as to improve satisfaction and loyalty of employees.

In terms of **staff management**, AK Medical has formulated the Staff Attendance Management System (《員工考勤管理制度》) and the Exit Management System (《離職管理制度》) to strengthen attendance and resignation management, improve work order and enhance management efficiency. The Company has also established a minimum notice period policy for operational changes, ensuring that employees are notified one month in advance of actions that may have a significant impact on employees, thereby protecting the rights and interests of employees and maintaining a harmonious relationship between the Company and its employees.

In the process of ensuring legal and compliant staff management, AK Medical unswervingly follows the Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor (《關於禁止僱傭童工強制勞工的管理規定》), prohibits any form of child labor and forced labor, actively practices the principle of equal employment to ensure that employees are not discriminated on factors such as by race, gender and religion other factors during the recruitment and employment process. The Company will take appropriate measures to deal with any child labor or forced labor cases found.

In terms of **trade union establishment**, AK Medical strictly complies with the Trade Union Law of the People's Republic of China (《中華人民共和國工會法》), establishes and maintains policies or procedures for freedom of association and collective bargaining, respects the rights of employees to freely associate, participate in trade unions and collective bargaining. The Company has established and maintained effective grievance and complaint procedures, and ensures that employees are able to express their opinions and needs within the organization. In the subsidiary, i.e. AK Medical Beijing, all employees who paid social security in Beijing have participated in trade unions; ITI Medical and Libeier have also confirmed that the trade unions have basically covered all employees, indicating the Company's positive attitude towards the rights and interests protection of employees.

The employee structure data of AK Medical further proves the effectiveness of its human resource management. As of 2023, the Company has a total of 1,052 employees, including 1,049 full-time employees and 3 part-time employees, with an employee turnover rate of 20.1%, down 24.7% from last year. This achievement not only demonstrates AK Medical's efforts in maintaining staff stability, but also reflects its remarkable progress and achievements in compliant employment practices.

Name of Indicator	Basis of Classification	Specific Category	2023	2022	2021
Number of employees ⁵	Type of employment	Full-time employee (person)	1,049	1,023	903
		Part-time employee (person)	3	11	5
	Gender	Male (person)	679	669	583
		Female (person)	369	354	320
		Other gender (person)	1	0	0
		Percentage of female employees	35.2%	34.6%	35.4%
	Age	Under 30 (person)	288	288	246
		30-39 (person)	449	455	414
		40-49 (person)	233	204	182
		50 and above (person)	79	76	61
	Region	Mainland China (person)	928	921	816
		Hong Kong, Macau and Taiwan (person)	0	0	0
		Overseas (person)	121	102	87

⁵ The number of employees by gender, age, and region is counted as the number of full-time employees.

5.1.2 Diversity and Inclusive Culture

AK Medical continued to promote a culture of diversity and inclusion in the workplace, integrates this value into all aspects of the Company's operations, provides diversified benefits and care for employees, and strives to create a happy, healthy and harmonious working atmosphere, so as to enhance employees' sense of belonging and happiness.

The Company places great emphasis on diversity at the Board, management and staff levels. In 2023, the male-to-female ratio of AK Medical changed from 1.89:1 in 2022 to 1.84:1. At the same time, the Company paid more attention to the influence of women in the workplace with 25% of female directors on the Board and 80% of female senior managers of the Company, showing that the Company attaches great importance to gender diversity.

In order to protect the rights of female employees, the Company has formulated the Management System for Protection of Female Employees (《女工保護管理制度》), which strictly prohibits any form of gender discrimination, clearly stipulates that all departments shall not refuse, dismiss or reduce the wages of female employees on the grounds of marriage, pregnancy, childbirth, breastfeeding, etc., and prohibits women from engaging in particularly heavy physical labor or toxic and harmful work.

In addition, the Company offers a variety of benefits to female employees, and create a safe, warm, and inclusive working environment. In addition to maternity leave and parental leave stipulated by national laws, an additional 15 days of paid leave for pregnancy check-ups will be granted for female employees and paternity leave will also be granted for male employees. In 2023, a total of 32 employees of the Company took parental leave, 31 of whom have returned to work. The Company organises regular annual medical check-ups for female employees to enhance maternal and child health care, and has setup baby-sitting rooms to cater for the needs of female employees in nursing their young children. For departments or workshops with a high number of female employees, the Company actively organizes weekly meetings on a regular basis to deeply understand the needs and concerns of employees, and then improves working conditions in a targeted manner to provide a more comfortable and inclusive working environment.

In promoting gender equality, AK Medical is committed to achieving equal pay for men and women for equal work. In 2023, the Company achieved basic parity in the basic salary and remuneration ratio of male and female employees, and meanwhile, the gap between men and women in the ratio of the starting salary level to the local minimum wage by gender was further narrowed, demonstrating the Company's unremitting efforts and effectiveness in promoting gender equality.

5.2 Occupational Health

AK Medical attaches great importance to the occupational health of its employees and has established a comprehensive safety production management system. The Company not only conducts regular occupational health examinations for employees to prevent the occurrence of occupational diseases, but also pays special attention to the maintenance of employees' mental health, and ensures that employees of the Company work in a safe and healthy environment through a number of comprehensive measures, which significantly improves the safety management level of AK Medical and the occupational health level of employees.

5.2.1 Production Safety Management

AK Medical adheres to the principle of “safety first, prevention first”, and regards the health and safety of employees as the core of the Company’s operations. The Company strictly complies with the Labor Law of the People’s Republic of China, the Safe Production Law of the People’s Republic of China (《中華人民共和國安全生產法》), the Law of the People’s Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and other relevant laws and regulations. The Company has established a comprehensive production safety management system to ensure that every employee can work in a safe and healthy environment.

AK Medical has formulated a series of key safety production management systems for internal use, including the Safe Production Responsibility Management System (《安全生產責任制管理制度》), Safe Production Inspection Management System (《安全生產檢查管理制度》), Safe Management System for Dangerous Operation (《危險作業安全管理制度》) and Safety Incidents Reporting and Handling Management System (《安全事故報告和處理管理制度》). These systems clarify the goals, responsibilities, implementation measures and incident handling processes of the Company in safety production, and lay the foundation for comprehensively improving the safety management level of the Company.

On this basis, the Company has further consolidated the safety production management system, and AK Medical’s environmental, occupational health and safety (EHS) management system has received dual certification with GB/T24001-2016/ISO14001:2015 Environmental Management System and GB/T45001-2020/ISO45001:2018 Occupational Health and Safety Management System. This not only proves AK Medical’s commitment and strength in environmental protection and occupational health and safety management, but also signifies the Company’s significant progress in enhancement in the awareness, ability and management standard of managers.

AK Medical has implemented a series of measures to prevent and reduce the risk of incidents to the maximum extent. By continuously optimizing its top-level management system and institutional framework, the Company has strengthened the identification, assessment and control of security risks. Regular safety production inspections effectively help the Company identify and correct potential safety hazards in a timely manner, and ensure the safety of the production process. In addition, AK Medical has established a comprehensive emergency management system, covering the preparation of emergency plans, regular emergency drills, and adequate preparation of emergency resources to ensure that it can respond quickly and effectively in the event of a safety incident.

In addition to continuously strengthening the safety production system, AK Medical has significantly increased its investment in safety production management. During the Reporting Period, the Company invested a total of RMB2.769 million, with an annual growth rate of 34.7%. Thanks to these efforts, AK Medical has successfully achieved a record of zero work-related death in the past three years.

In order to improve the occupational health and safety level of employees, AK Medical has established the comprehensive Environment and Production Safety Education and Training Management System (《環境、安全生產教育和培訓管理制度》), and designed specific training programmes for different types of employees. These programmes include safety education for management, environmental and safety training for current employees, safety education for special operators, and occupational health education, etc. In 2023, a total of 382 employees participated in occupational health and safety training, with a cumulative total of 2,549 hours of training. The average number of safety training hours for frontline operators of the Company was 39 hours, and for safety management staff was 72 hours. This significantly strengthens the safety awareness and professional skills of employees, and provides a solid foundation for achieving the zero incident and zero injury goal of the Company.

5.2.2 Occupational Health Protection

The occupational health management is regarded as an important part of operations of AK Medical, aiming to ensure the health and safety of employees through a series of comprehensive measures. To this end, the Company has established a comprehensive occupational health management system, which includes regular occupational health examinations for employees to prevent health problems caused by the working environment.

AK Medical has adopted strict health monitoring measures for specific risk positions, and stipulates that all employees engaged in toxic and hazardous operations must undergo regular occupational health examinations. These examinations aim to identify any possible risk of occupational diseases at an early stage and to take timely corrective measures against identified health problems, such as transferring affected employees away from their original positions and offering proper placement. During the Reporting Period, in accordance with the relevant provisions of the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, the Administrative Measures for Occupational Health Examinations and the technical requirements of the Technical Specifications for Occupational Health Guardianship (《職業健康監護技術規範》) for GBZ188-2014, the Company has commissioned the Beijing Prevention and Treatment Hospital of Occupational Disease for Chemical Industry to conduct occupational health examinations for employees, including external personal doses of X, β and γ -radiation, which effectively prevented and controlled the occurrence of occupational diseases.

AK Medical emphasizes the importance of staff health education, and on this basis, it has increased the care for employees' mental health. Through the development of mental health manuals and occupational health and safety training, the Company has significantly improved employees' awareness of occupational health risks, with a special focus on enhancing employees' mental health awareness and self-regulation ability. This comprehensive health management strategy helps employees maintain a good psychological state in the face of work pressure and career challenges, and further improves the self-protection abilities of employees.

5.3 Employee Empowerment

AK Medical focuses on employee empowerment and has established a sound training system and training scheme based on the principle of "employee development first". Meanwhile, AK Medical has established a comprehensive performance appraisal and promotion management system, implemented a diversified incentive mechanism and a fair and transparent promotion process, provided employees with a clear career development path, stimulated work motivation and innovation ability, and supported the common growth of individuals and enterprises.

5.3.1 Training and Development

AK Medical acknowledges that employee self-motivation is the key to promoting corporate development. The Company adheres to the principle of "employee development first", is committed to cultivating high-level professionals, and provides solid support for employees to improve their professional knowledge, education and vocational skills. The Company has formulated a talent development scheme for all employees and high-potential employees, and implements the 3E principles, namely Education, Exposure, and Experience.

Talent development programmes

Education	On the basis of talent inventory, we match targeted learning support for the professional improvement of employees.
Exposure	We appropriately expose high-potential talents, give play to the spotlight effect and strengthen internally driven-learning and motivation.
Experience	Experience summary and experience inheritance are carried out through mentoring.

At the same time, the Company has established the AK Medical Training System (《愛康醫療培訓制度》), aiming to develop and implement annual and quarterly training programmes for staff at different levels and positions, and covering a wide range of internal and external training courses. The external training courses are divided into professional skills and management courses. Employees can apply for external training by filling out the Training Requirement Survey (《培訓需求調查表》). In terms of internal training, courses are divided into general skills, professional skills and leadership development. In 2023, the Company organized more than 200 internal and external trainings, covering 1,033 employees.

AK Medical attaches great importance to the cultivation of technological innovation talents. Especially for the fresh graduates of the R&D department, the Company has implemented a series of targeted training measures: firstly, new employees will receive professional induction training under the guidance of the person in charge of the professional company and the internal system to help them quickly adapt to the working environment; secondly, AK Medical implements a semi-annual mentoring plan, assigning a mentor to each newly recruited R&D personnel to guide them to gradually adapt to the position; finally, according to the characteristics of each new member, the Company arranges them to participate in the rotation of departments closely related to R&D to promote their all-round development.

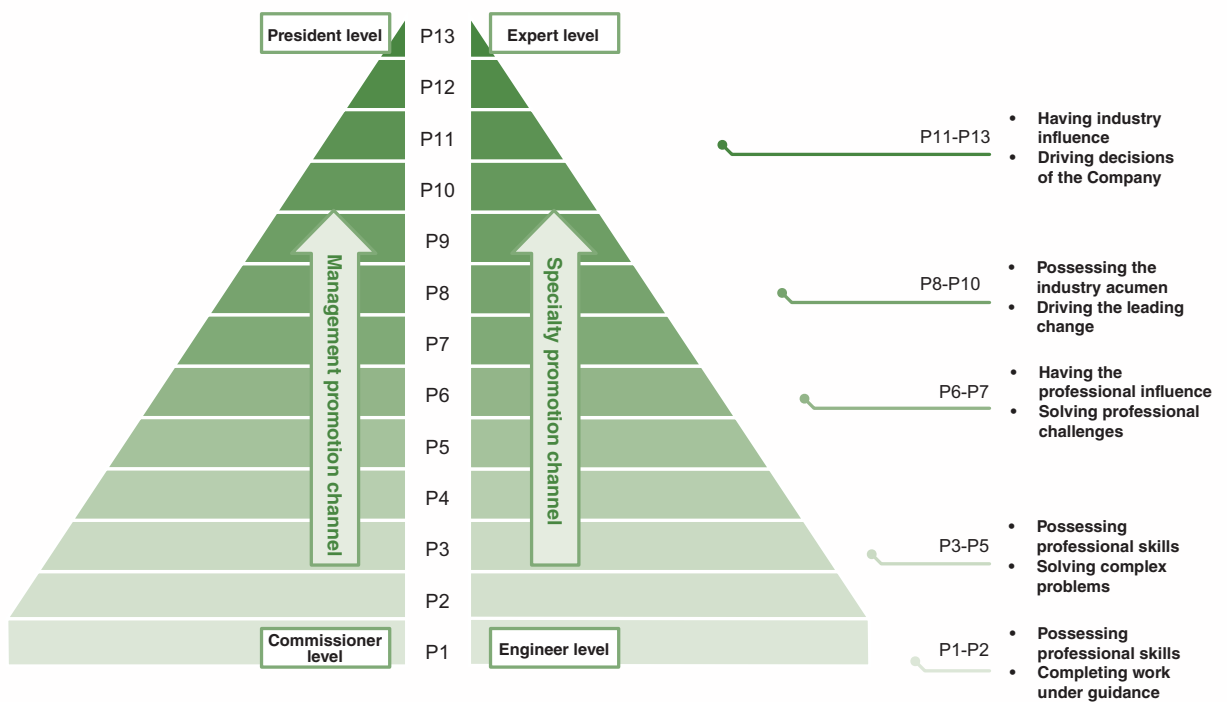
5.3.2 Promotion Channels

AK Medical acknowledges the importance of employee development to the corporate growth, and has formulated a comprehensive performance appraisal and promotion management system, aiming to provide employees with a fair and transparent career development path. Through the AK Medical Performance Appraisal Management Regulations (《愛康績效考核管理辦法》), the Company not only has strengthened process management and behavior evaluation, but also has implemented culture-oriented performance management. The differentiated management of performance levels ensures that the performance of middle-level and above management staff is directly related to important human resource management decisions such as bonus payments, salary adjustments, and long-term incentive awards, so as to stimulate employees' work motivation and innovation ability.

In terms of incentive mechanism, AK Medical has adopted a diversified strategy. For the R&D department, the Company implements project incentives, especially for employees who undertake innovative projects or projects with major breakthrough after completion of certain key points of the projects to improve work efficiency. In addition, the Company also implements immediate incentives, competent person selection and long-term incentive plans, and commends them at the end of the year, so as to form a comprehensive incentive system to stimulate the maximum potential of employees.

In order to standardize the employee promotion process, AK Medical has implemented the Employee Promotion Management System of AK Medical Group (《愛康醫療集團員工晉升管理制度》). Based on the results of performance appraisal, the system conducts promotion management openly and fairly, which not only standardizes the talent management process, but also promotes the common growth of employees and the Company. Regarding the training and promotion of R&D personnel, the Company adopts a grade and rank system, which is divided into management channels and professional channels, providing a clear promotion path for a total of 13 ranks from P1 to P13. Such system not only provides employees with room for growth, but also clarifies the direction and goal of promotion.

Through this set of comprehensive performance appraisal and promotion management system, AK Medical has built a fair, just and challenging working environment for employees. While promoting the improvement of employees' personal ability and career development, it has laid a solid talent foundation for the long-term development and competitiveness of the Company.



5.4 Happiness Programme

AK Medical is familiar with the importance of employee engagement to the corporate culture and fosters the interaction between employees and the Company through open communication channels. In order to improve employee satisfaction and happiness, AK Medical regularly conducts employee questionnaire surveys, launches the "Employee Happiness Programme" to continuously optimize the welfare structure according to the needs of employees, build a happy and harmonious working environment, and reflect the people-oriented management philosophy of the Company.

5.4.1 Employee Engagement

AK Medical acknowledges the importance of employee participation in the construction of corporate culture, and has taken a series of measures to promote the interaction and exchange between employees and the Company through open and friendly communication channels. The Company and its employees have jointly forged the OneAK culture, emphasizing the core values of truth-seeking, innovation, sharing and passion, and guiding all employees to move towards a common goal.

In order to achieve effective communication, AK Medical has built online and offline communication platforms. Regarding the online initiatives, the Company has developed the "AK Persons' Platform (愛康人平台)", which is not only used to disseminate the Company's culture and share its latest activities, but also provides online learning opportunities, so that employees can access useful resources and information anytime and anywhere. In terms of offline activities, the Company regularly organizes senior management condolences, employee birthday parties and other activities to enhance exchanges and understanding among employees, promoting more efficient and diversified means of communication.

AK Medical provides comprehensive grievance handling procedures to ensure that every employee can fully express their opinions and complaints, and receive timely and effective responses. Employees first have a verbal discussion with the direct supervisor and, if necessary, can give feedback through the following procedures: Step 1: Employees submit written submissions to the direct supervisor in which specify the time, place and specific content; Step 2: If employees are not satisfied with the responses from the direct supervisor, they can refer the matter to the next supervisor; Step 3: If he/she is still not satisfied, the employee can submit the problem to the Company's management through the human resources department. In addition, AK Medical also encourages employees to put forward reasonable suggestions to the Company, and if there are any opinions and suggestions that will help improve services, strengthen safety, increase revenue, reduce costs, etc., they can be sent to feedback@ak-medical.net by email, and the administrative department will collect and report to the Company's leaders for further improvement and innovation.

In order to further improve employee satisfaction and happiness, AK Medical regularly conducts employee questionnaire surveys to collect employees' real feelings and opinions on work to gain an in-depth understanding of their needs and expectations. During the Reporting Period, the Company launched the "Employee Happiness Programme" based on the results of the survey, combined with the Company's actual affordability and market situation. The plan aims to provide feedback and adjustments to employee satisfaction in terms of compensation and benefits, and gradually optimizes them based on the opinions and suggestions collected to ensure continuous improvement of employee satisfaction.

5.4.2 Happiness Enhancement

AK Medical has always put the welfare and work happiness of employees at the core of corporate development. Over the past 20 years, the Company has been committed to continuously improving and perfecting the employee welfare system, and through the issuance of the Benefits Management Regulations of AK Medical Group (《愛康醫療集團福利管理辦法》) and the continuously upgrading of “Employee Happiness Programme”, AK Medical has shown utmost care and support for employees. Such care is not only about meeting the basic needs of employees, but also about improving the quality of life and job satisfaction of employees through innovative welfare measures.

In 2023, coinciding with the Company’s 20th anniversary, AK Medical has launched a series of new welfare measures based on internal and external research information to further enrich the welfare structure and enhance the happiness of employees. Among them, the Company adjusted the Spring Festival holiday to cope with the difficulties of family reunion caused by the Spring Festival travel rush, and added a half-day welfare leave to allow employees to go home earlier to reunite with their families. AK Medical also increases the Company’s annual leave according to the length of service of employees to reward their loyalty and hard work. In response to the needs of employees’ families, the Company has specially set up leave for children admission, so that employees can be involved in the important moments of their children’s school life.

In addition, AK Medical also attaches great importance to the mental health of employees, and regularly organizes mental health lectures and counseling activities to help them effectively cope with workplace stress. In order to enhance communication and understanding among employees, the Company also regularly organizes social activities for single employees to create a more harmonious working atmosphere. While paying attention to the family life of employees, the new factory has set up facilities such as mothercare rooms and workers’ homes to provide a more comprehensive environmental protection for employees who are raising children. The Company also encourages employees to develop personal interests, and enriches employees’ spare time and enhances team cohesion by providing funds and venues to support hobby clubs and sports activities.

Through these meticulous and comprehensive welfare measures, AK Medical not only builds a happier and more harmonious working environment, but also fully reflects the Company’s culture and values of all-round care for employees. This people-oriented management philosophy enables employees to enjoy a rich and happy life experience while pursuing personal career development.

6. SUSTAINABLE SUPPLY CHAIN

A sustainable supply chain ensures a reliable supply of medical products and services, and contributes to the balance between environmental protection, social responsibility and economic benefits. As a result, AK Medical can reduce the environmental impact, improve resource efficiency, ensure the quality and safety of medical products, promote the enhancement of public trust and brand reputation, so as to achieve the win-win situation of long-term commercial success and social value. In 2023, the Company has promoted the construction of a sustainable supply chain by strengthening supplier audits.

<p>Responses in this section</p>	<p>United Nations Sustainable Development Goals Goal 12: Responsible consumption and production</p> <p>Global Reporting Initiative Sustainability Reporting Standards GRI 204: Procurement practices GRI 308: Supplier environmental assessment GRI 414: Supplier social assessment</p> <p>Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange Aspect B5: Supply chain management</p>
<p>Key performance</p>	<p>The audit of the occupational health dimension of suppliers was strengthened, and a total of 174 suppliers were audited.</p>

6.1 Supplier Audit

The supplier network of AK Medical is extensive, includes import connection product providers as well as sample testing and waste disposal service providers. As of the end of 2023, AK Medical has a total of 409 suppliers mainly in Asia, Europe and North America, demonstrating the Company’s extensive connections and influence in the global medical industry.

AK Medical has established a set of comprehensive supplier management system, which aims to ensure that the quality and service of suppliers meet the Company’s standards through a comprehensive identification, access, audit and evaluation process. Relevant systems include the Qualified Supplier Selection, Evaluation and Re-evaluation System (《合格供方選擇、評價和再評價制度》) and the Procurement Control Procedure (《採購控制程序》) to ensure a comprehensive assessment of suppliers from multiple dimensions.

<p>Identification and access stage</p>	<p>By the examination of product quality, product delivery capabilities, environmental impact, and employee health and safety of potential suppliers, AK Medical gives priority to suppliers who have obtained ISO 9001 Quality Management System and ISO 13485 Quality Management System – Medical Devices certifications. Among them, 95% and 80% of suppliers of ITI Medical, its subsidiary, have obtained ISO 90001 and ISO 13485 certifications, respectively. There are total of 18 suppliers which have been screened using the environmental criteria by the Company.</p>
<p>Audit and evaluation stage</p>	<p>AK Medical conducts file audits and on-site audits of different suppliers depending on the type of products and services provided by them. The file audit focuses on evaluating various licenses, management documents and cooperation agreements of suppliers, with the aim of understanding the quality control system and operational efficiency of suppliers. The on-site audit ensures that the production process meets industry standards and regulatory requirements through on-site inspections of production equipment and environmental conditions, quality verification and quality assurance capabilities of suppliers, as well as production processes of suppliers of animal-derived materials. The Company conducts annual audits and unscheduled inspections of suppliers through the Supplier On-site Audit Evaluation Form (《供應商現場審核評審表》) and the Qualified Supplier Evaluation Form (《合格供方評價表》), focusing on product quality, service attitude, technical capabilities and environmental and social risk management.</p>

In aspect of the audit dimension, according to the Qualified Supplier Selection, Evaluation and Re-evaluation System, the Company conducts a comprehensive evaluation of suppliers from eight key aspects: quality system/process control, supply quality, technology/equipment, quality control of raw materials, capacity/delivery capacity, services, costs and the environment. In 2023, AK Medical conducted audits on a total of 174 suppliers, of which 68 involved on-site audits. For suppliers who do not meet the requirements, the Company will put forward rectification requirements and conduct a re-assessment. For suppliers with poor performance in meeting the requirements, the Company will terminate cooperation to ensure the quality and stability of the entire supply chain, while implementing the concept of sustainable development.

Quality system/ process control	Evaluating whether the quality system and process control of suppliers can ensure product quality, and whether the licenses provided are legal and valid.
Supply quality	Evaluating whether the quality of products provided by suppliers meets the specified requirements, and is not lower than the relevant provisions of laws and regulations and the relevant requirements of national mandatory standards.
Technology/ equipment	Evaluating whether the technical levels of suppliers meet production demands, whether the metrics of production processes/feeding and slaughtering methods are stable, and whether the equipment is effectively controlled.
Quality control of raw materials	Evaluating whether suppliers have effective control over the quality of their raw materials.
Capacity/delivery capacity	Evaluating whether the production capacities of suppliers meet the Company's needs and whether their delivery capacities are guaranteed.
Services	Evaluating whether suppliers' services are in place and timely.
Costs	Evaluating whether the procurement cost of the Company is reasonable to suppliers.
Environment	Evaluating whether the production environment of suppliers meet the requirements, and whether the special environmental requirements are met and effectively controlled.

In order to further promote the sustainable development of the supply chain, AK Medical is committed to maintaining close and efficient communication and cooperation with suppliers. By issuing the Notice to Related Parties (《相關方告知書》) to suppliers, the Company emphasizes the environmental policy of jointly building a safe, healthy, harmonious and green working environment, reducing environmental pollution and improving energy efficiency. This notice clearly requires partners to take effective measures in production, transportation, on-site services and other areas to ensure environmental protection and pollution prevention, so as to work together to achieve the goal of becoming a respected world-class medical company.

In addition, AK Medical has strengthened direct communication with suppliers through questionnaires and targeted training. These interactions have deepened the understanding of important prevailing issues such as climate change between both parties, and facilitated the common promotion of the concept of sustainability.

7. BENEFIT THE PUBLIC

Benefiting the public and creating the health and well-being are the social responsibilities of AK Medical. During the Reporting Period, the active practices of the Company mainly focused on the field of medical public welfare and education, the accessibility improvement of medical products, investment in public welfare funds of RMB1,940,000 and 234 hours of volunteer services. It aims to make leading medical technology well-known and applied to the society, so that more people can enjoy inclusive medical and health services. We contributed to the promotion of health and well-being through charitable donations in support of various charitable causes and the total amount of charitable donations for the year was approximately RMB3,078,000.

<p>Responses in this section</p>	<p>United Nations Sustainable Development Goals Goal 3: Good health and well-being Goal 11: Sustainable cities and communities</p> <p>Global Reporting Initiative Sustainability Reporting Standards GRI 413: Local communities</p> <p>Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange Aspect B8: Community investment</p>
<p>Key performance</p>	<p>AK Institute has carried out 300+ external medical education and training sessions.</p> <p>We offered products at more affordable prices to promote healthcare accessibility, accumulatively cooperating with a total of 37 medical institutions.</p>

7.1 Healthcare Education

AK Medical has made positive contributions in the field of medical education, mainly focusing on education and training, public welfare investment and volunteer services. Through platforms such as AK Institute, the Company actively promotes the exchange of orthopedic medical information and technology promotion, and provides professional education services for medical workers, practitioners and patients.

AK Institute was established in 2012 with the aim of providing a wide range of educational courses and training programmes. Through cooperation with a number of key hospitals in Beijing, an effective academic exchange platform has been established, providing learning opportunities for doctors in local hospitals to help them improve their surgical replacement techniques and diagnosis and treatment capabilities. Up to now, AK Institute has organized more than 300 training activities and trained thousands of doctors, covering all parts of the country, and has achieved significant social benefits and medical results.

Academic education project	The main target is artificial joint doctors, and workshops, symposiums and summits are regularly organized to promote the exchange and sharing of medical technologies.
International academic exchange programmes	Focusing on the course design made in phases and series, we cooperated with well-known medical schools and hospitals at home and abroad to provide real-time surgical observation and short-term professional training in hospitals to help improve the technical level of doctors.
Medical technical support programmes	We provide strong support for the follow-up and training of specific surgery cases, and facilitate the development of clinical research.

7.2 Healthcare Accessibility

AK Medical is committed to improving the accessibility of medical products, making its products and services accessible to more medical institutions and patients at more affordable prices, and promoting a more equitable distribution of medical resources. By establishing close cooperation with hospitals, the Company not only provides high-quality products, but is also committed to providing customers with customized services and solutions to meet different medical needs.

During the Reporting Period, AK Medical made significant progress in the field of medical consumables. Against the background of the VBP policy of national orthopedic high-value medical consumables, the Company has successfully introduced its products to medical institutions in first-tier cities, such as Shanghai Sixth People’s Hospital. This move not only expands the market coverage of the Company’s products, but also effectively reduces the burden of medical expenses on patients.

At the same time, AK Medical has achieved significant technological breakthroughs in the field of robotics and navigation systems. Compared with imported products, AK Medical’s self-developed Visual Intelligent Assistance System (the “VTS”) has shown obvious advantages in terms of cost, realizing implantation of higher precision during surgeries, thereby benefiting a wider patient population and significantly improving the accessibility and availability of medical services. The VTS system has been successfully approved for registration by the National Medical Products Administration and is ready for launch.

8. APPENDIX

8.1 About this Report

This report provides a comprehensive overview of management initiatives and sustainability performance of AK Medical Holdings Limited in terms of environmental, social and corporate governance in 2023.

Scope of disclosure: This report covers the Group's information and data from 1 January 1 to 31 December 2023 (hereinafter referred to as the "Reporting Period"), and in order to increase the completeness, comparability and timeliness of the report, some of the content is retrospective to previous years, or extended to 2024. The content of this report covers AK Medical and its subsidiaries, and a small number of the data covers less than the above scope. The disclosure cycle of this report is annual.

Basis for compilation:

- It refers to the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange
- It refers to the core ideas of the Global Reporting Initiative (the "GRI") Sustainability Reporting Standards (GRI Standards)
- It refers to the United Nations Sustainable Development Goals (SDGs)

Information description: The ESG information in this report is derived from relevant internal statistical reports or documents. The monetary amounts covered in the report are measured in RMB.

Description of appellation: For the convenience of expression and reading the abbreviations below, AK Medical Holdings Limited is referred to as "AK Medical", and "the Company".

Language Description: This report is published in Chinese Traditional.

Confirmation & Approval: This report is issued after confirmation and approval by the Board.

Form of release: This report is published electronically. To view or download the report online, please visit our official website.

Contact information: The Company values the opinions of our stakeholders and welcomes readers to contact us through the following means.

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8.2 TABLES OF KEY PERFORMANCE
8.2.1 Table of Environmental Performance Information

Indicators	Unit	2023				2022				2021						
		AK Medical	Beijing	ITI Medical	Libeier	JRI	AK Medical	Beijing	ITI Medical	Libeier	JRI	AK Medical	Beijing	ITI Medical	Libeier	JRI
Greenhouse gas emissions																
Direct Scope 1 greenhouse gas emission	Tons	43.0	36.2	6.8	0.0	0.0	68.6	57.8	4.0	6.9	0.0	71.6	/	/	/	/
Intensity of direct Scope 1 greenhouse gas emission	Tons/RMB10,000	0.0004	/	/	/	/	0.0007	/	/	/	/	0.0009	/	/	/	/
Indirect Scope 2 greenhouse gas emission	Tons	5,824.3	2,155.3	2,450.5	1,048.2	170.3	4,291.7	1,525.0	581.9	726.4	338.2	3,911.7	/	/	/	/
Intensity of indirect Scope 2 greenhouse gas emission	Tons/RMB10,000	0.05	/	/	/	/	0.04	/	/	/	/	0.05	/	/	/	/
Greenhouse gas emission (Scopes 1 and 2)	Tons	5,867.3	2,191.5	2,457.3	1,048.2	170.3	4,360.3	1,532.8	585.8	733.3	338.2	3,983.3	/	/	/	/
Intensity of greenhouse gas emission (Scopes 1 and 2)	Tons/RMB10,000	0.05	/	/	/	/	0.04	/	/	/	/	0.05	/	/	/	/
Energy consumption																
Total energy consumption	kWh	12,379,777.7	4,257,225.9	5,228,914.2	2,068,064.3	825,573.3	10,331,902.6	3,212,721.9	4,021,095.0	1,388,778.4	1,729,307.3	5,429,767.9	/	/	/	/
Energy consumption intensity	kWh/RMB10,000	113.2	/	/	/	/	98.2	/	/	/	/	71.3	/	/	/	/
Direct energy consumption																
Direct energy consumption	kWh	1,079,421.4	147,351.2	932,070.2	0.0	0.0	1,289,765.4	235,323.0	1,036,485.0	27,957.4	0.0	866,767.9	179,231.9	617,536.0	90,000.0	0.0
Intensity of direct energy consumption	kWh/RMB10,000	9.9	/	/	/	/	12.4	/	/	/	/	11.6	/	/	/	/
Direct energy consumption - non-renewable energy sources (natural gas, coal, other fuel sources)	kWh	174,914.4	147,351.2	27,565.2	0.0	0.0	279,480.4	235,323.0	16,200.0	27,957.4	0.0	291,731.9	179,231.9	22,500.0	90,000.0	0.0
Direct energy consumption - renewable energy sources (solar, wind, hydro, other)	kWh	904,507.0	0.0	904,507.0	0.0	0.0	1,020,285.0	0.0	1,020,285.0	0.0	0.0	585,036.0	0.0	595,036.0	0.0	0.0
Indirect energy consumption																
Indirect energy consumption	kWh	11,300,356.3	4,109,874.7	4,286,844.0	2,068,064.3	825,573.3	9,032,137.2	2,977,398.9	2,984,610.0	1,340,821.0	1,729,307.3	4,543,000.0	/	/	/	/
Intensity of indirect energy consumption	kWh/RMB10,000	103.3	/	/	/	/	85.9	/	/	/	/	59.7	/	/	/	/
Indirect energy consumption - purchased electricity from non-renewable sources	kWh	11,300,356.3	4,109,874.7	4,286,844.0	2,068,064.3	825,573.3	9,032,137.2	2,977,398.9	2,984,610.0	1,340,821.0	1,729,307.3	4,543,000.0	/	/	/	/
Direct Energy Consumption - purchased Electricity from Renewable Energy Sources	kWh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	/	/	/	/	/
Consumption of water																
Total water consumption	Tons	41,533.7	8,894.2	26,624.0	4,419.0	1,596.5	35,261.0	5,800.0	25,283.0	2,930.0	1,248.0	24,192.0	4,950.0	12,421.0	4,298.0	2,523.0
Intensity of total water consumption	Tons/Output	0.4	/	/	/	/	0.3	/	/	/	/	0.3	/	/	/	/
Total water discharge volume	Tons	13,941.6	2,850.0	8,549.0	1,026.0	1,516.6	17,501.8	5,800.0	7,129.0	2,930.0	1,642.8	11,435.0	3,762.0	3,148.0	2,675.0	1,850.0
Total recycled water	Tons	0.0	0.0	/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	/	/	/	/

Indicators	Unit	2023				2022				2021				
		AK Medical	AK Medical	Libeier	JRI	AK Medical	AK Medical	Libeier	JRI	AK Medical	AK Medical	Libeier	JRI	
		Beijing	ITI Medical			Beijing	ITI Medical			Beijing	ITI Medical			
Raw material consumption														
Production raw materials														
Forging blanks, cobalt-chromium-molybdenum	Tons	81.4	48.6	15.8	5.1	53.9	23.4	20.0	10.5	53.7	0.0	36.0	15.0	2.7
Casting blanks, titanium alloy	Tons	96.7	68.3	0.0	5.8	104.1	29.1	75.0	0.0	37.9	0.0	8.0	15.0	14.9
Polyethylene	Tons	22.0	8.6	4.5	1.4	21.9	7.0	10.9	3.0	10.4	0.0	3.5	6.0	0.9
Stainless steel	Tons	38.6	50.7	0.0	7.8	46.7	0.0	40.0	0.0	46.2	0.0	38.0	0.2	8.0
Packaging raw materials														
Total amount of packaging material used in finished product	Tons	35.5	15.8	6.7	13.0	32.7	0.0	18.0	3.3	14.6	0.0	4.0	1.5	9.1
Amount per unit of production of packaging materials used in finished products	Tons/RMB10,000	0.0003	/	/	/	0.0003	/	/	/	0.0002	/	/	/	/
Waste														
Hazardous waste														
Total waste liquid production	Tons	177.1	1.2	4.9	127.0	147.6	1.3	17.3	11.0	83.0	2.3	9.7	15.0	56.0
Waste liquid handling volume	Tons	177.1	1.2	4.9	127.0	143.8	1.3	13.5	11.0	83.0	2.3	9.7	15.0	56.0
Intensity of waste liquid produced	Tons/Output	0.002	/	/	/	0.001	/	/	/	/	/	/	/	/
Total volume of dust production	kg	24,949.0	3,328.0	8,500.0	6,647.0	10,405.0	750.0	0.0	450.0	6,726.0	800.0	0.0	426.0	5,800.0
Total volume of dust handling	kg	24,949.0	3,328.0	8,500.0	6,647.0	10,405.0	750.0	0.0	450.0	6,726.0	800.0	0.0	426.0	5,800.0
Non-hazardous waste														
Titanium waste handling volume	kg	7,404.0	1,500.0	4,225.0	879.0	/	/	/	/	/	/	/	/	/
Titanium waste production volume	kg	7,404.0	1,500.0	4,225.0	879.0	8,335.0	1,560.0	3,867.0	1,350.0	5,195.0	1,481.0	1,014.0	500.0	2,200.0
Cobalt-chromium-molybdenum waste productions	kg	1,515.0	600.0	745.0	230.0	/	/	/	/	/	/	/	/	/
Cobalt-chromium-molybdenum waste handling volume	kg	1,515.0	600.0	745.0	230.0	2,007.0	340.0	820.0	550.0	1,462.0	682.0	242.0	369.0	158.0
Other waste productions	kg	10,577.4	3,000.0	4,496.0	3,081.0	/	/	/	/	/	/	/	/	/
Other waste handling volume	kg	10,577.4	3,000.0	4,496.0	3,081.0	10,140.0	0.0	6,436.0	0.0	8,894.9	0.0	5,866.9	0.0	3,025.0

8.2.2 Table of Social Performance Information

Indicators	Unit	2023			2022			2021							
		AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI		
Employees															
Employment of employee															
Total number of employees employed	person	1,052	602	224	102	1,034	576	245	100	113	908	524	178	114	92
Number of employees by employment type															
Full-time employee	person	1,049	602	224	102	1,023	576	245	100	102	903	524	178	114	87
Part-time employee	person	3	0	0	0	11	0	0	0	11	5	0	0	0	5
Number of employees by gender															
Male	person	679	375	139	71	669	368	155	68	78	583	330	106	76	71
Female	person	369	227	85	31	354	208	90	32	24	320	194	72	38	16
Other gender	person	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Number of employees by age															
Under 30	person	288	163	64	25	288	153	83	28	24	246	125	58	37	26
30-39	person	449	264	103	51	455	270	113	47	25	414	257	83	55	19
40-49	person	233	139	47	21	204	120	39	20	25	182	111	32	18	21
50 and above	person	79	36	10	5	76	33	10	5	28	61	31	5	4	21
Number of employees by region															
Mainland China	person	928	602	224	102	921	576	245	100	0	816	524	178	114	0
Hong Kong, Macau and Taiwan	person	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overseas	person	121	0	0	0	102	0	0	0	102	87	0	0	0	87
Employee turnover rate by gender															
Male	%	20.5	17.9	33.8	22.5	27.1	20.1	47.1	16.2	29.5	29.7	/	/	/	/
Female	%	19.5	14.5	27.1	19.4	38.5	20.2	37.8	37.5	16.7	30.0	/	/	/	/
Employee turnover rate by age															
Under 30	%	29.5	26.4	50.0	24.0	37.5	23.5	69.9	28.6	25.0	34.5	/	/	/	/
30-39	%	19.8	14.8	31.1	25.5	24.6	22.2	31.0	19.1	32.0	28.2	/	/	/	/
40-49	%	12.9	12.2	10.6	14.3	19.1	11.7	33.3	25.0	28.0	25.1	/	/	/	/
50 and above	%	8.9	2.8	10.0	0.0	18.4	18.2	0.1	20.0	21.4	32.2	/	/	/	/
Employee turnover rate by region															
Mainland China	%	20.7	16.6	31.3	21.6	26.7	0.2	0.4	0.2	0.0	0.3	/	/	/	/
Hong Kong, Macau and Taiwan	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	/	/	/	/
Overseas	%	15.7	0.0	0.0	0.0	26.5	0.0	0.0	0.0	0.3	0.4	/	/	/	/

Indicators	Unit	2023			2022			2021						
		AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI	
Occupational health and safety														
Number of employees who died arising out of work in the past three years	person	0	0	0	0	0	0	0	0	0	0	0	0	0
Percentage of employees who died arising out of work in the past three years	%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	/
Number of days of work injury leave of employees	days	82.0	72.0	0.0	0.0	37.0	37.0	10.0	37.0	18.0	39.0	17.0	0.0	4.0
Number of employees trained on occupational health and safety	person	382	121	224	26	310	31	245	310	0	0	0	0	0
Total number of training hours trained on occupational health and safety	hours	2,549.0	1,936.0	3,450	88.0	1,139.0	248.0	490.0	169.0	232.0	0.0	0.0	0.0	0.0
Firstline operating staff's per capita security training hours	hours	39.0	8.0	16.0	8.0	44.0	16.0	8.0	16.0	70.0	16.0	8.0	16.0	30.0
Safety management personnel's average per capita security training hours	hours	72.0	24.0	24.0	0.0	123.0	24.0	40.0	24.0	92.0	24.0	40.0	24.0	4.0
Amounts invested on security	RMB10,000	276.9	18.6	221.0	13.1	205.5	45.0	110.0	36.0	14.5	195.0	90.0	32.0	20.0
Employee training														
Percentage of employees trained by gender														
Male	%	98.4	100.0	100.0	88.3	98.4	100.0	100.0	100.0	85.9	95.2	/	/	/
Female	%	98.9	100.0	100.0	84.6	98.6	100.0	100.0	100.0	79.2	98.8	/	/	/
Percentage of employees trained by employee level														
Senior management	%	96.1	100.0	100.0	0.0	100.0	100.0	100.0	100.0	100.0	95.7	/	/	/
Middle management	%	96.5	100.0	100.0	50.0	98.0	100.0	100.0	100.0	77.8	97.9	/	/	/
General employees	%	98.9	100.0	100.0	91.0	98.4	100.0	100.0	100.0	84.6	96.3	/	/	/
Average number of hours of training by gender														
Male	hours	27.0	40.0	8.2	23.0	28.7	40.0	26.0	3.0	3.5	30.4	/	/	/
Female	hours	28.7	40.0	9.0	19.0	29.9	40.0	22.7	4.2	3.9	32.8	/	/	/
Average number of hours of training by employee level														
Senior management	hours	35.8	40.0	22.5	26.0	24.1	20.0	64.0	8.0	2.0	25.9	/	/	/
Middle management	hours	30.1	40.0	12.9	23.0	39.5	50.0	58.0	4.0	5.7	46.8	/	/	/
General employees	hours	26.8	40.0	7.7	21.5	28.0	40.0	21.4	3.1	3.4	31.0	/	/	/

Indicators	Unit	2023			2022			2021								
		AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI			
Employee compensation and benefits																
Ratio of basic salary and remuneration of women to men																
Male	%	/	62.0	54.0	63.0	11.0	/	67.9	50.1	69.9	/	/	/			
Female	%	/	66.0	66.0	57.0	7.0	/	71.7	50.4	65.8	/	/	/			
Ratios of standard entry level wage by gender compared to local minimum																
Male	%	/	6.4	2.0	5.4	1.1	/	6.2	3.7	5.2	/	/	/			
Female	%	/	5.5	2.3	4.1	1.1	/	5.1	2.9	3.8	/	/	/			
Parental Leave																
Total number of employees who are entitled to parental leave	person	32	22	0	9	1	/	/	/	/	/	/	/			
Total number of employees returning to work after parental leave	person	31	22	0	9	0	/	/	/	/	/	/	/			
Supplier																
Total number of suppliers	per	409	89	57	61	202	249	78	61	24	86	232	72	48	24	88
Number of suppliers in Asia	per	205	85	55	58	7	160	74	59	21	6	137	66	46	21	4
Number of suppliers in Europe	per	194	4	2	0	188	86	4	2	3	77	90	6	2	1	81
Number of suppliers from North America	per	9	0	0	3	6	3	0	0	0	3	5	0	0	2	3
Number of suppliers from other continents	per	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0
Supplier verification																
Number of supplier verifications	per	174	85	57	26	6	166	78	61	24	3	69	/	/	/	/
Number of supplier on-site verifications	per	68	19	32	12	5	27	5	17	3	2	9	/	/	/	/
New suppliers screened using environmental criteria	per	18	/	2	/	16	2	/	/	/	2	0	/	/	/	/
Percentage of suppliers signed anti-corruption agreement	%	/	100.0	90.0	100.0	21.0	/	100.0	80.0	87.0	0.0	93.0	/	/	/	/
Percentage of suppliers certified																
Suppliers who obtained ISO 90001 as a percentage of the total number of suppliers	%	/	40.0	95.0	54.0	6.0	/	36.0	98.0	12.0	30.2	/	47.0	0.0	0.0	0.0
Suppliers who obtained ISO 13485 as a percentage of the total number of suppliers	%	/	53.0	80.0	54.0	15.0	/	42.0	95.0	12.0	51.2	/	54.0	0.0	0.0	0.0

Indicators	Unit	2023			2022			2021					
		AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI AK Medical	AK Medical Beijing	ITI Medical	Libeier	JRI
Product responsibility													
Percentage of total products sold or shipped subject to recall due to safety and health reasons	%	/	0.0	0.0	0.0	0.0	0.0	0.0	0.2	/	0.0	0.0	1.1
Number of customer complaints during the year	case	50	6	4	5	35	45	5	0	30	5	0	22
Completion rates of customer complaints handled	%	/	100.0	100.0	100.0	33.0	/	100.0	/	/	100.0	/	95.5
Customer satisfaction for the year	%	/	85.6	97.0	97.0	100.0	/	80.0	100.0	/	86.4	100.0	100.0
Intelligent property rights													
Invention patents	per	304	/	/	/	/	192	/	/	100	/	/	/
Utility model patents	per	404	/	/	/	/	424	/	/	313	/	/	/
Granted PCT patents	per	31	/	/	/	/	20	/	/	10	/	/	/
Anti-corruption													
Number of operation sites carried out risk assessment on corruption	per	0	0	0	0	0	0	0	0	/	/	/	/
Total number of hours of anti-corruption training (full-time employee only)	hours	602.0	602.0	0.0	0.0	0.0	47.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of closed legal cases regarding corrupt practices brought against the issuer or its employees	case	0	0	0	0	0	0	0	0	0	0	0	0
Social welfare													
Amounts invested in social welfare	RMB	1,940,000.0	1,940,000.0	0.0	0.0	0.0	1,100,000.0	1,100,000.0	0.0	0.0	0.0	6,000,000.0	/
Number of hours devoted to social welfare	hours	234.0	224.0	0.0	0.0	10.0	50.0	50.0	0.0	0.0	0.0	20.0	/
Charitable donations amount	RMB	3,078,000.0	/	/	/	/	/	/	/	/	/	/	/

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INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of AK Medical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of AK Medical Holdings Limited ("the **Company**") and its subsidiaries ("the **Group**") set out on pages 142 to 210, which comprise the consolidated statement of financial position as at 31 December 2023, 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, comprising material accounting policy information and other explanatory information.

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 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards 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 166 and 162.

The Key Audit Matter

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

The Group's customers are mainly distributors and sales contracts with customers have a variety of different terms relating to the recognition of revenue and the right of return of the goods sold by the Group.

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

How the matter was addressed in our audit

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

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition and the calculation of the amount of expected sales returns;
- inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to notes 4 and 2(r) to the consolidated financial statements and the accounting policies on pages 166 and 162.

The Key Audit Matter

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

How the matter was addressed in our audit

- comparing the actual sales returns recorded by the Group with the sales returns provision made in the previous year to assess the reliability of management's process for the estimation of the sales return rate for the sales of the year and the refund liabilities recognised at the financial year end;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and
- inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

KEY AUDIT MATTERS (continued)

Impairment of goodwill

Refer to notes 15 and 2(j)(iii) to the consolidated financial statements and the accounting policies on pages 180 and 157.

The Key Audit Matter

Goodwill attributable to Beijing Libeier Bio-engineering Institute Co., Ltd. ("**Libeier**"), the subsidiary acquired by the Group amounted to RMB113,411,000 as at 31 December 2023.

Management performs annual impairment assessment 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 operating expenses 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 assessment 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, and future operating expenses 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 and discount rates used in the discounted cash flow forecasts;

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 180 and 157.

The Key Audit Matter

We identified the assessment of potential impairment of goodwill as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgement, which can be inherently uncertain and could subject to management bias.

How the matter was addressed in our audit

- assessing the qualifications, experience and expertise of the external valuer appointed by management in assessing the impairment of goodwill and considering their objectivity;
- performing a retrospective review by comparing the prior year's discounted cash flow forecast with the current year's results and evaluating the subsequent re-estimation of assumptions that do not have an outcome in the current year to assess whether there is any indication of management bias;
- performing a sensitivity analysis of key assumptions, including future revenue, future operating expenses and the discount rates 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 assessment of goodwill with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Certified Public Accountants

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

26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023
(Expressed in Renminbi (“RMB”))

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	4	1,093,862	1,052,047
Cost of sales		(419,376)	(415,612)
Gross profit		674,486	636,435
Other income, net	5	26,370	11,193
Selling and distribution expenses		(218,806)	(180,107)
General and administrative expenses		(133,441)	(118,313)
Research and development expenses		(137,126)	(110,865)
Impairment loss on goodwill	15	-	(18,360)
Operating profit		211,483	219,983
Net finance income	7	19,634	20,307
Profit before taxation	6	231,117	240,290
Income tax	8(a)	(49,013)	(35,518)
Profit for the year		182,104	204,772
Profit attributable to equity shareholders of the Company		182,104	204,772
Other comprehensive income			
Item that is or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		13,475	23,243
Other comprehensive income, net of tax		13,475	23,243
Total comprehensive income		195,579	228,015
Total comprehensive income attributable to equity shareholders of the Company		195,579	228,015
Earnings per share			
Basic	11(a)	RMB0.16	RMB0.18
Diluted	11(b)	RMB0.16	RMB0.18

The notes on pages 148 to 210 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 2023
(Expressed in RMB)

	Note	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment	13	574,970	435,629
Intangible assets	14	87,966	85,275
Goodwill	15	113,411	113,411
Deferred tax assets	28(b)	67,260	74,820
Pledged and time deposits	21	184,601	–
		1,028,208	709,135
Current assets			
Inventories	17	595,514	402,330
Trade receivables	18	451,401	467,079
Bills receivable	18	78,777	78,274
Deposits, prepayments and other receivables	19	87,207	34,362
Other financial assets	31(d)	395,455	416,593
Pledged and time deposits	21	35,245	40,890
Cash and cash equivalents	20	331,217	625,829
		1,974,816	2,065,357
Current liabilities			
Trade payables	22	151,451	155,167
Bills payable		23,470	–
Contract liabilities	23	85,299	79,846
Accruals and other payables	24	184,724	165,098
Bank loans	25	21,394	–
Lease liabilities	26	14,239	13,500
Current taxation	28(a)	17,596	22,773
		498,173	436,384
Net current assets		1,476,643	1,628,973
Total assets less current liabilities		2,504,851	2,338,108

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

at 31 December 2023
(Expressed in RMB)

	Note	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Non-current liabilities			
Deferred income	29	10,425	13,331
Other payables		5,926	8,324
Lease liabilities	26	16,311	25,281
Bank loans	25	32,259	–
Deferred tax liabilities	28(b)	48,027	47,411
		112,948	94,347
NET ASSETS			
		2,391,903	2,243,761
CAPITAL AND RESERVES			
Share capital	30(b)	9,508	9,453
Reserves	30(c)	2,382,395	2,234,308
Total equity attributable to equity shareholders of the Company			
		2,391,903	2,243,761
TOTAL EQUITY			
		2,391,903	2,243,761

Approved and authorised for issue by the board of directors on 26 March 2024 and signed on behalf of the board by:

Li Zhijiang
Directors

Zhao Xiaohong
Directors

The notes on pages 148 to 210 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023
(Expressed in RMB)

		Share capital	Share premium	Shares held for share award scheme	Capital reserve	Share-based payment reserve	Exchange reserve	Retained profits	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		30(b)	30(c)(i)	27(c)/30(c)(iv)	30(c)(ii)	30(c)(v)	30(c)(vi)		
Balance at 1 January 2022		9,453	1,032,214	(49,833)	55,174	4,210	(28,012)	1,008,345	2,031,551
Total comprehensive income for the year		-	-	-	-	-	23,243	204,772	228,015
Equity settled share-based transactions	27/30(c)(v)	-	-	-	-	8,129	-	-	8,129
Shares issued under share option scheme	30(b)(i)/30(c)(v)	-	418	-	-	(361)	-	-	57
Dividends declared	12	-	(23,991)	-	-	-	-	-	(23,991)
Balance at 31 December 2022 and 1 January 2023		9,453	1,008,641	(49,833)	55,174	11,978	(4,769)	1,213,117	2,243,761
Total comprehensive income for the year		-	-	-	-	-	13,475	182,104	195,579
Equity settled share-based transactions	27/30(c)(v)	-	-	-	-	5,056	-	-	5,056
Shares issued under share option scheme	30(b)(i)/30(c)(v)	55	13,860	-	-	(4,982)	-	-	8,933
Unlock of restricted shares	27(c)/30(c)(iv)	-	(93)	1,141	-	(1,048)	-	-	-
Dividends declared	12	-	(61,426)	-	-	-	-	-	(61,426)
Balance at 31 December 2023		9,508	960,982	(48,692)	55,174	11,004	8,706	1,395,221	2,391,903

The notes on pages 148 to 210 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2023
(Expressed in RMB)

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Operating activities		
Profit before taxation	231,117	240,290
Adjustments for:		
Depreciation of property, plant and equipment	76,508	68,206
Amortisation of intangible assets	14,431	12,195
Impairment for goodwill	–	18,360
Recognition of deferred income	(3,961)	(1,762)
Interest on lease liabilities	1,287	2,174
Interest income	(22,772)	(17,752)
Credit losses recognised for trade receivables	13,698	10,491
Loss on disposal of property, plant and equipment	173	134
Equity settled share-based payment expenses	5,056	8,129
Changes in operating activities	315,537	340,465
Changes of:		
Inventories	(193,184)	20,738
Trade and bills receivables	3,328	(26,816)
Deposits, prepayments and other receivables	(52,845)	(5,403)
Pledged deposits	(5,712)	–
Contract liabilities	5,453	(87,567)
Trade and bills payables	19,754	62,398
Accruals and other payables	(12,328)	(3,686)
Cash generated from operations	80,003	300,129
Income tax paid	(46,068)	(57,210)
Net cash generated from operating activities	33,935	242,919

CONSOLIDATED CASH FLOW STATEMENT (continued)
for the year ended 31 December 2023
(Expressed in RMB)

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Investing activities		
Interest received	17,578	15,841
Proceeds from sale of property, plant and equipment	313	62
Uplift of structured deposits and time deposits	1,620,890	1,941,373
Placement of structured deposits and time deposits	(1,761,908)	(1,920,595)
Acquisition of intangible assets	(12,280)	(6,517)
Acquisition of property, plant and equipment	(183,796)	(115,200)
Government grants received relating to assets	1,055	2,742
Net cash used in investing activities	(318,148)	(82,294)
Financing activities		
Capital element of lease rentals paid	(13,167)	(10,717)
Interest element of lease rentals paid	(1,287)	(2,174)
Proceeds from bank loans	58,800	–
Repayments of bank loans	(5,258)	–
Borrowing costs paid	(533)	–
Dividends paid	(61,509)	(23,962)
Proceeds from equity settled share-based payment	8,933	57
Net cash used in financing activities	(14,021)	(36,796)
Net (decrease)/increase in cash and cash equivalents	(298,234)	123,829
Cash and cash equivalents at 1 January	625,829	475,606
Effect of movements in exchange rates on cash hold	3,622	26,394
Cash and cash equivalents at 31 December	331,217	625,829

The notes on pages 148 to 210 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB'000 unless otherwise indicated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

The Company’s shares were listed on the Stock Exchange on 20 December 2017 (the “Listing”).

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements set out in this report has been prepared in accordance with IFRS Accounting Standards 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”). Material 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 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 2023 comprise the Company and its subsidiaries.

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

2 MATERIAL 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:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The adoption of the above new and amended IFRSs effective for the financial year beginning on 1 January 2023 does not have a material impact on the Group. Among which, impacts of the adoption of the amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction* are discussed below:

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognized the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately, and the associated deferred tax assets and liabilities are required to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. The change primarily impacts disclosures of components of deferred tax assets and liabilities in note 28, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under IAS 12.

In addition, the IASB also published a number of new standards and amendments to standards which are effective for the Group's financial year beginning on or after 1 January 2024 and have not been early adopted by the Group (see note 37). Management is assessing the impact of such standards and will adopt the relevant standards in the subsequent periods as required.

2 MATERIAL ACCOUNTING POLICIES (continued)

(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).

(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.

2 MATERIAL ACCOUNTING POLICIES (continued)

(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 31(d). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(r)(ii)).
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

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

2 MATERIAL 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.

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

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

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

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

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

No depreciation is provided in respect of construction in progress.

2 MATERIAL 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 MATERIAL 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 rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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

2 MATERIAL 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 and equity and debt securities measured at FVPL are not subject to the ECL assessment.

Measurement of ECLs

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

2 MATERIAL ACCOUNTING POLICIES (continued)

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

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

Significant increases in credit risk

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

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

- failure to make payments of principal on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Basis of calculation of interest income

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

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

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

Basis of calculation of interest income (continued)

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

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

Write-off policy

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

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

(ii) Impairment of other assets

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

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

(ii) Impairment of other assets (continued)

- Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.
- Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).
- Reversals of impairment losses
In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(k) Inventories

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(l) Trade and other receivables

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

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

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

(m) Cash and cash equivalents

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

(n) Trade and other payables

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

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

(o) Employee benefits

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

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

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

(ii) Share-based payments

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(ii) Share-based payments (continued)

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

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

(p) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

2 MATERIAL ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(q) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

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

(ii) Onerous contracts

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(r) Revenue and other income

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

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

(i) Revenue from contracts with customers

Sales of products are recognised as follows:

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

Sale of goods

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

If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis except when a variable consideration is allocated to a specific performance obligation in the contract. Generally, the Group establishes standalone selling prices with reference to the observable prices of products or services sold separately in comparable circumstances to similar customers.

(ii) Revenue from other sources and other income

(a) Interest income

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

(ii) Revenue from other sources and other income (continued)

(b) Government grants

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

(s) Translation of foreign currencies

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

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

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

(t) Asset acquisition

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(u) Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
 - a. has control or joint control over the Group;
 - b. has significant influence over the Group; or
 - c. is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - a. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - c. Both entities are joint ventures of the same third party.
 - d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - f. The entity is controlled or jointly controlled by a person identified in note 2(u)(i).
 - g. A person identified in note 2(u)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2 MATERIAL ACCOUNTING POLICIES (continued)

(v) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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 material accounting policies are set out in note 2. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Allowance for expected credit losses

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

(b) Impairment of goodwill

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(c) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. Based on this approach, the percentage of subsequent returns will be approximately 2.1% of annual sales for certain products. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of products, the Group recognises revenue after taking into account adjustment to transaction price arising from returns as mentioned above. A refund liability is recognised for the expected returns, and is included in accruals and other payables (see note 24). A right to refund assets (included in deposits, prepayments and other receivables, see note 19) and corresponding adjustment to cost of sales are also recognised for the right to recover products from customers. This right to refund assets is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	590,396	654,999
– Knee replacement implants	311,351	266,415
– Spinal and trauma implants	123,268	60,006
– Customised products and services	49,593	46,952
– Others (i)	19,254	23,675
	1,093,862	1,052,047

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

4 REVENUE AND SEGMENT INFORMATION (continued)

(a) Revenue (continued)

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2023 (2022: nil). Details of concentrations of credit risk arising from major customers are set out in note 31(a).

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

(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 2023 and 2022 is set out below.

	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Revenue from external customers	991,365	974,203	102,497	77,844	1,093,862	1,052,047
Inter-segment revenue	2,226	3,463	49,988	38,914	52,214	42,377
Reportable segment revenue	993,591	977,666	152,485	116,758	1,146,076	1,094,424
Reportable segment profit/(loss)	239,787	267,066	(7,043)	(29,666)	232,744	237,400
Interest income	22,772	17,752	-	-	22,772	17,752
Depreciation and amortisation for the year	80,263	69,768	10,676	10,633	90,939	80,401
Impairment loss on goodwill	-	-	-	18,360	-	18,360
Reportable segment assets	2,380,775	2,149,067	168,241	156,570	2,549,016	2,305,637
Additions to non-current assets during the year	228,128	129,533	2,673	12,767	230,801	142,300
Reportable segment liabilities	525,029	453,793	29,176	29,312	554,205	483,105

4 REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment reporting (continued)

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

	2023 RMB'000	2022 RMB'000
Revenue		
Reportable segment revenue	1,146,076	1,094,424
Elimination of inter-segment revenue	(52,214)	(42,377)
Consolidated revenue	1,093,862	1,052,047
Profit		
Reportable segment profit	232,744	237,400
Elimination of inter-segment (profit)/loss	(1,627)	2,890
Consolidated profit before taxation	231,117	240,290
Assets		
Reportable segment assets	2,549,016	2,305,637
Elimination of inter-segment receivables	(8,707)	(22,558)
Other financial assets	2,540,309	2,283,079
Deferred tax assets	395,455	416,593
Deferred tax assets	67,260	74,820
Consolidated total assets	3,003,024	2,774,492
Liabilities		
Reportable segment liabilities	554,205	483,105
Elimination of inter-segment payables	(8,707)	(22,558)
Current taxation	545,498	460,547
Deferred tax liabilities	17,596	22,773
Deferred tax liabilities	48,027	47,411
Consolidated total liabilities	611,121	530,731

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	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
– China	866,730	886,318	931,045	598,914
– United Kingdom	55,178	42,475	29,903	35,401
– Other countries	171,954	123,254	–	–
	1,093,862	1,052,047	960,948	634,315

5 OTHER INCOME, NET

	2023 RMB'000	2022 RMB'000
Government grants	19,944	9,720
Others	6,426	1,473
	26,370	11,193

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs:

	Note	2023 RMB'000	2022 RMB'000
Salaries, wages and other benefits		229,854	189,566
Contribution to defined contribution retirement scheme		20,054	16,483
Equity settled share-based transactions	27	5,056	8,129
		254,964	214,178

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

	2023 RMB'000	2022 RMB'000
Cost of Inventories*	435,315	426,461
Amortisation cost of intangible assets	14,431	12,195
Depreciation charge		
– Owned property, plant and equipment	58,495	51,719
– Right-of-use assets	18,013	16,487
	76,508	68,206
Credit losses recognised from trade and other receivables	13,698	10,491
Auditors' remuneration		
– Audit services	3,047	2,626
– Other services	1,300	1,300
	4,347	3,926

* Cost of inventories includes RMB120,409,000 in 2023 (2022: RMB99,949,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above.

7 NET FINANCE INCOME

	2023 RMB'000	2022 RMB'000
Interest income from bank deposits and investments in structured deposits	22,772	17,752
Foreign exchange (loss)/gain	(1,851)	4,729
Interest on lease liabilities	(1,287)	(2,174)
	19,634	20,307

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

	2023 RMB'000	2022 RMB'000
Current tax		
Provision for the year	40,623	28,796
Under/(over)-provision in respect of prior years	268	(335)
Deferred tax		
Reversal and origination of temporary differences	8,122	7,057
	49,013	35,518

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 2023 (2022: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2023 is 16.5% (2022: 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 2023 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 2023 are 25% (2022: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AK Medical Co., Ltd. ("**AK Medical Beijing**") and ITI Medical Co., Ltd. ("**ITI Medical**"), together with Beijing Libeier Bio-engineering Institute Co., Ltd. ("**Libeier**") which was certified as a New and High Technology Enterprise for the first time during 2023, are entitled to a preferential income tax rate of 15% for their New and High Technology Enterprises status. The current certification of New and High Technology Enterprise held by AK Medical Beijing, ITI Medical and Libeier will be expired on 25 October 2026, 5 November 2026 and 25 October 2026, 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 2023 (2022: 19%).

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

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

	2023 RMB'000	2022 RMB'000
Profit before taxation	231,117	240,290
Notional tax of PRC statutory tax rate of 25%	57,779	60,073
Effect of PRC preferential tax rate	(22,273)	(33,504)
Effect of tax rate changes	14,183	–
Effect of lower tax rates in other countries	423	678
Effect of non-deductible expenses	1,430	5,570
Effect of unused tax losses not recognised	2,235	6,175
Effect of additional deduction on research and development expenses *	(10,044)	(10,888)
PRC dividend withholding tax	5,012	7,749
Under/(over)-provision in respect of prior years	268	(335)
Actual tax expenses	49,013	35,518

* According to the relevant PRC income tax law, certain research and development costs of PRC subsidiaries are qualified for 100% (2022: 100%) additional deduction for tax purpose.

9 DIRECTORS' EMOLUMENTS

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

2023	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 27)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	-	814	210	63	-	1,087
Zhang Bin	-	193	-	-	-	193
Zhang Chaoyang	-	852	274	63	-	1,189
Zhao Xiaohong	-	858	267	63	385	1,573
Non-executive director						
Wang David Guowei	-	-	-	-	-	-
Independent Non-executive directors						
Li Shu Wing David	178	-	-	-	-	178
Kong Chi Mo	178	-	-	-	-	178
Wang Eric	182	-	-	-	-	182
	538	2,717	751	189	385	4,580

2022	Director's fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Share-based payment RMB'000 (Note 27)	Total RMB'000
Executive directors						
Li Zhijiang (chairman)	-	806	108	58	-	972
Zhang Bin	-	30	-	-	-	30
Zhang Chaoyang	-	776	216	90	-	1,082
Zhao Xiaohong	-	811	257	58	583	1,709
Non-executive director						
Wang David Guowei	-	-	-	-	-	-
Independent Non-executive directors						
Li Shu Wing David	170	-	-	-	-	170
Kong Chi Mo	170	-	-	-	-	170
Wang Eric	174	-	-	-	-	174
	514	2,423	581	206	583	4,307

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 1 (2022: 1) is director whose emoluments is disclosed in note 9. The aggregate of the emoluments in respect of the other 4 (2022: 4) individuals respectively, are as follows:

	2023 RMB'000	2022 RMB'000
Salaries and other emoluments	4,848	3,938
Discretionary bonuses	853	947
Equity settled share-based transactions	465	1,194
Retirement scheme contributions	406	116
	6,572	6,195

The emoluments of the 4 (2022: 4) individuals with the highest emoluments are within the following bands:

	2023	2022
HK\$		
Nil – 1,000,000	Nil	Nil
1,000,001 – 1,500,000	1	Nil
1,500,001 – 2,000,000	2	3
2,000,001 – 2,500,000	1	1

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB182,104,000 (2022: RMB204,772,000) and the weighted average number of issued ordinary shares of 1,113,122,158 (2022: 1,109,200,658 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at 1 January	1,115,750,000	1,115,700,000
Effect of issue of shares under the Company's share option scheme (note 27)	3,796,559	24,658
Effect of shares held for share award scheme (note 30(c)(iv))	(6,424,401)	(6,524,000)
Weighted average number of ordinary shares at 31 December	1,113,122,158	1,109,200,658

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 RMB182,104,000 (2022: RMB204,772,000) and the weighted average number of issued ordinary shares of 1,119,189,095 (2022: 1,117,457,448 shares) after adjusting the effects of dilutive potential ordinary shares during the year, as follows:

Weighted average number of ordinary shares (diluted)

	2023	2022
Weighted average number of ordinary shares at 31 December	1,113,122,158	1,109,200,658
Effect of deemed issue of shares under the Company's equity settled share-based transactions (note 27)	6,066,937	8,256,790
Weighted average number of ordinary shares (diluted) at 31 December	1,119,189,095	1,117,457,448

12 DIVIDENDS

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

	2023 RMB'000	2022 RMB'000
Final dividend proposed after the end of the reporting period of HK\$4.5 cents per ordinary share (2022: HK\$6.0 cents per ordinary share)	45,750	59,800

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.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$6.0 cents per ordinary share (2022: HK\$2.5 cents per ordinary share)	61,509	23,962

13 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Properties and buildings RMB'000	Leasehold properties and improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Land use rights RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2022	133,832	77,926	288,303	5,101	15,214	21,406	12,411	554,193
Additions	-	14,034	6,002	-	1,400	51,312	51,649	124,397
Transfer from construction in progress	5,493	-	39,085	-	-	-	(44,578)	-
Disposals	-	(9,190)	(199)	-	(19)	-	-	(9,408)
Exchange adjustments	-	(255)	(823)	(34)	(40)	-	-	(1,152)
At 31 December 2022 and 1 January 2023	139,325	82,515	332,368	5,067	16,555	72,718	19,482	668,030
Additions	-	6,876	63,530	141	2,626	-	141,448	214,621
Transfer from construction in progress	-	-	15,676	-	-	-	(15,676)	-
Disposals	-	(1,446)	(2,740)	(56)	(1,291)	-	-	(5,533)
Exchange adjustments	-	902	2,795	103	136	-	-	3,936
At 31 December 2023	139,325	88,847	411,629	5,255	18,026	72,718	145,254	881,054
Accumulated depreciation								
At 1 January 2022	(16,946)	(33,509)	(108,181)	(3,658)	(8,428)	(1,070)	-	(171,792)
Charged for the year	(6,402)	(14,544)	(41,116)	(928)	(2,436)	(2,780)	-	(68,206)
Written back on disposals	-	6,832	78	-	17	-	-	6,927
Exchange adjustments	-	230	386	28	26	-	-	670
At 31 December 2022 and 1 January 2023	(23,348)	(40,991)	(148,833)	(4,558)	(10,821)	(3,850)	-	(232,401)
Charged for the year	(6,581)	(16,437)	(47,345)	(654)	(2,497)	(2,994)	-	(76,508)
Written back on disposals	-	1,446	2,264	46	1,291	-	-	5,047
Exchange adjustments	-	(268)	(1,778)	(89)	(87)	-	-	(2,222)
At 31 December 2023	(29,929)	(56,250)	(195,692)	(5,255)	(12,114)	(6,844)	-	(306,084)
Net book value								
At 31 December 2023	109,396	32,597	215,937	-	5,912	65,874	145,254	574,970
At 31 December 2022	115,977	41,524	183,535	509	5,734	68,868	19,482	435,629

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:

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
Land use rights	(i)	65,874	68,868
Leasehold properties	(ii)	28,831	36,798
Motor vehicles		–	509
		94,705	106,175

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

	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold properties	14,588	13,333
Motor vehicles	431	374
Land use rights	2,994	2,780
	18,013	16,487
Interests on lease liabilities	1,287	2,174
Expenses relating to short-term leases	2,055	1,332

During the year, additions to leasehold properties under new tenancy agreements of the different subsidiaries in the Group were RMB4,936,000 (2022: RMB10,221,000), and there is no additions to land use rights (2022: RMB51,312,000).

Details of the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 20(c), 26 and 31, respectively.

(i) Land use rights

The Group holds the land use rights with a lease term of 20 to 50 years. Lump sum payments were made upfront to lease the land use rights from the government and there are no ongoing payments to be made under the terms of the land lease.

(ii) Leasehold properties

The Group has obtained the right to use leasehold properties as its factories and offices through tenancy agreements. The leases typically run for an initial period of 2 to 5 years (2022: 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	Patents and products licenses RMB'000	Technical know-how RMB'000	Brand name RMB'000	Total RMB'000
Cost:					
At 1 January 2022	17,593	21,548	54,272	25,933	119,346
Additions	1,368	16,535	–	–	17,903
Exchange adjustments	(119)	(87)	(400)	(196)	(802)
At 31 December 2022 and 1 January 2023	18,842	37,996	53,872	25,737	136,447
Additions	2,366	13,814	–	–	16,180
Exchange adjustments	350	237	1,252	615	2,454
At 31 December 2023	21,558	52,047	55,124	26,352	155,081
Accumulated amortisation					
At 1 January 2022	(10,601)	(11,129)	(11,646)	(5,981)	(39,357)
Charged for the year	(1,960)	(2,266)	(5,404)	(2,565)	(12,195)
Exchange adjustments	108	76	131	65	380
At 31 December 2022 and 1 January 2023	(12,453)	(13,319)	(16,919)	(8,481)	(51,172)
Charged for the year	(2,046)	(4,277)	(5,497)	(2,611)	(14,431)
Exchange adjustments	(317)	(213)	(655)	(327)	(1,512)
At 31 December 2023	(14,816)	(17,809)	(23,071)	(11,419)	(67,115)
Net book value					
At 31 December 2023	6,742	34,238	32,053	14,933	87,966
At 31 December 2022	6,389	24,677	36,953	17,256	85,275

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

	2023 RMB'000	2022 RMB'000
Cost:		
At 1 January	140,333	141,013
Exchange adjustments	2,074	(680)
At 31 December	142,407	140,333
Accumulated impairment losses:		
At 1 January	(26,922)	(8,564)
Impairment loss	-	(18,360)
Exchange adjustments	(2,074)	2
At 31 December	(28,996)	(26,922)
Carrying amount:		
At 31 December	113,411	113,411

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:

	2023 RMB'000	2022 RMB'000
JRI	-	-
Libeier	113,411	113,411
	113,411	113,411

Management engaged an independent valuer to assess the recoverable amounts of the CGUs, which is the higher of fair value less costs of disposal calculation and value-in-use ("VIU") calculation. VIU is determined using cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the budget period are extrapolated using an estimated weighted average growth rate.

15 GOODWILL (continued)

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

	At 31 December 2023		At 31 December 2022	
	Libeier	JRI	Libeier	JRI
Annualised revenue growth rate during the budget period	0% – 9%	N/A	7% – 22%	8% – 10%
Steady growth rate used in the extrapolation after budget period	2.2%	N/A	2.5%	2.0%
Pre-tax discount rate	18.9%	N/A	19.0%	17.0%

The recoverable amount of the CGU of Libeier is estimated to exceed the carrying amount of the CGU at 31 December 2023 by RMB51,501,000 (2022: RMB48,360,000). Any reasonably possible change in the assumptions used in the calculation of recoverable amount would not result in impairment loss.

16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up capital	Percentage of equity attributable to Company			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
AK Medical Investment Limited ("AK Medical BVI")	British Virgin Islands 21/07/2015	United States Dollars ("US\$") US\$50,000	100%	100%	–	Investing holding company
Bright AK HK	Hong Kong 07/07/2015	HK\$10,000	100%	–	100%	Investing holding company
AK Medical HK	Hong Kong 28/07/2015	HK\$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京愛康宜誠醫療器材有限公司	The PRC 08/05/2003	RMB 100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co., Ltd. ("AK Medical XMKS") 北京西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 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
Libeier 北京理贝尔生物工程研究所有限公司	The PRC 15/07/1996	RMB30,000,000	100%	–	100%	Design, manufacture and supply spinal and trauma implants and related products

17 INVENTORIES

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Raw materials	133,998	82,970
Work in progress	72,882	68,784
Finished goods	388,634	250,576
	595,514	402,330

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

	2023 RMB'000	2022 RMB'000
Cost of inventories sold	419,376	415,612
Cost of inventories directly recognised as research and development expenses	15,939	10,849
	435,315	426,461

18 BILLS RECEIVABLE/TRADE RECEIVABLES

	31 December 2023 RMB'000	31 December 2022 RMB'000
Bills receivable	78,777	78,274
Trade receivables	496,393	498,373
Less: allowance for credit loss	(44,992)	(31,294)
	451,401	467,079

As at 31 December 2023, approximately RMB18,771,000 (2022: nil) of bills receivable was pledged for bills payable.

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 2023, 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	
	2023 RMB'000	2022 RMB'000
Current to 3 months	188,537	284,885
4 to 6 months	139,093	103,051
7 to 12 months	82,478	48,459
Over 12 months	41,293	30,684
	451,401	467,079

The credit terms agreed with customers were normally ranged from 1 month to 1 year (2022: 1 month to 1 year) from the date of billing. No interest is charged on the trade receivables. Further details on the Group's credit policy are set out in note 31(a).

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2023 RMB'000	31 December 2022 RMB'000
Prepayments to suppliers	18,022	16,520
Refund assets (note 24(i))	8,250	7,443
Deposits	2,876	3,046
VAT recoverable	46,453	1,355
Others	11,606	5,998
	87,207	34,362

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	
	2023 RMB'000	2022 RMB'000
Cash at bank	331,211	625,824
Cash on hand	6	5
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	331,217	625,829

As at 31 December 2023, cash and cash equivalents of the Group held in bank in the PRC amounted to RMB247,636,000 (2022: RMB495,503,000). 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 2022	–	41,559	41,559
Capital element of lease rentals paid	–	(10,717)	(10,717)
Interest element of lease rentals paid	–	(2,174)	(2,174)
Total changes from financing cash flows	–	(12,891)	(12,891)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	10,221	10,221
Lease terminations	–	(2,282)	(2,282)
Interest expenses	–	2,174	2,174
At 31 December 2022 and 1 January 2023	–	38,781	38,781
Proceeds from bank loans	58,800	–	58,800
Repayments of bank loans	(5,258)	–	(5,258)
Capital element of lease rentals paid	–	(13,167)	(13,167)
Interest element of lease rentals paid	–	(1,287)	(1,287)
Borrowing costs paid	(533)	–	(533)
Total changes from financing cash flows	53,009	(14,454)	38,555
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	4,936	4,936
Interest expenses	–	1,287	1,287
Capitalised borrowing costs	644	–	644
At 31 December 2023	53,653	30,550	84,203

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:

	2023 RMB'000	2022 RMB'000
Within operating cash flows	2,055	1,332
Within financing cash flows	14,454	12,891
	16,509	14,223

21 PLEDGED AND TIME DEPOSITS

	31 December 2023 RMB'000	31 December 2022 RMB'000
Non-current assets		
Pledged and time deposits		
– Pledged deposits	184,601	–
Current assets		
Pledged and time deposits		
– Time deposits	30,033	30,000
– Pledged deposits	5,212	10,890
	35,245	40,890
	219,846	40,890

As of 31 December 2023, the Group had pledged deposits of US\$25,993,000 (approximately RMB184,101,000) as standby letters of credit.

22 TRADE PAYABLES

As at 31 December 2023, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within 3 months	104,965	126,716
4 to 6 months	29,662	23,633
7 to 12 months	12,708	2,043
1 year to 2 years	3,506	1,871
Over 2 years	610	904
	151,451	155,167

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

23 CONTRACT LIABILITIES

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
Provision for price discount	(i)	31,429	33,485
Advance and deposit from customers	(ii)	38,672	31,163
Sales rebates	(iii)	15,198	15,198
		85,299	79,846

(i) Provision for price discount

The Group participated in the national joint implant volume-based procurement (“VBP”) organised by the National Healthcare Security Administration (“NHSA”) in October 2021, which has been executed since March 2022 for a two-year period. In September 2022, the Group also participated in the national spinal implant VBP organised by the NHSA, which has been executed since March 2023 for a three-year period. The Group sells the products to distributors, being the customers of the Group. The distributors which purchased the related products covered by VBP from the Group before the implementation of VBP would be affected because the retail selling prices of those products generally decrease upon the above VBP policies have become effective.

Although it was not anticipated at the contract inception, to maintain continuing business relationship with the distributors, the Group expects to compensate the distributors for losses incurred in connection with the VBP policies by way of price discount of future sales. The discount is estimated based on the potential price reduction and unsold inventories held by the distributors, and accrued as a provision for price discount with a corresponding deduction of revenue. In 2023, the Group did not accrue additional provision for price discount (2022: RMB19,983,000).

(ii) Advance and deposit from customers

Advance and deposit from customers primarily represent advances made by customers for purchases of products. The Group normally requires certain customers to pay 30% – 100% deposits upfront.

23 CONTRACT LIABILITIES (continued)

(iii) Sales rebates

Sales rebates represents rebates granted to the customers the right to redeem the rebates through purchase of the Group's products at a discount in the future. Under the Group's loyalty programme, the sales rebates granted give the customer the right to purchase the Group's products at a discount in the future. The amount of this contract liability is based on the stand-alone selling price of goods delivered and undelivered, and takes into account the amount of rebates granted to customers that have not been redeemed and the expected forfeiture rate.

RMB19,742,000 has been recognised as revenue in 2023 that was included in the contract liabilities at the beginning of the year (2022: RMB129,898,000). All the balances of the contract liabilities at 31 December 2023 are expected to be recognised as revenue within one year.

24 ACCRUALS AND OTHER PAYABLES

Note	31 December 2023 RMB'000	31 December 2022 RMB'000
Payables to contractors and equipment suppliers	37,242	4,971
Accrued charges	36,270	36,350
Salary and welfare payable	32,298	25,849
Deposits	30,274	32,106
Refund liabilities (i)	17,621	18,251
Other taxes payable	5,934	25,996
Others	25,085	21,575
	184,724	165,098

(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.

25 BANK LOANS

(a) The analysis of the repayment schedule of bank loans is as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Within 1 year or on demand	21,394	–
After 1 year but within 2 years	21,745	–
After 2 years but within 5 years	10,514	–
	32,259	–
	53,653	–

25 BANK LOANS (continued)

(b) Assets pledged as security for bank loans

At 31 December 2023, the bank loans were secured as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Secured bank loans	53,653	–

As at 31 December 2023, the Group had bank loans of RMB53,653,000, and the bank loans were secured by the Group's non-current pledged deposits of US\$25,993,000 (approximately RMB184,101,000).

26 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 2023		At 31 December 2022	
	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	14,239	15,713	13,500	15,100
After 1 year but within 2 years	10,678	10,945	12,330	13,309
After 2 years but within 5 years	5,633	5,790	12,951	13,585
	16,311	16,735	25,281	26,894
	30,550	32,448	38,781	41,994
Less: total future interest expenses		(1,898)		(3,213)
Present value of lease liabilities		30,550		38,781

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme adopted on 17 November 2017

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

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

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

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

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

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

	2023		2022	
	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	8,425	1.34	9,025
Exercised during the year	1.34	5,625	1.34	50
Forfeited during the year	1.34	–	1.34	550
Outstanding at the end of the year	1.34	2,800	1.34	8,425
Exercisable at the end of the year	1.34	2,800	1.34	8,425

The options outstanding at 31 December 2023 had a weighted average remaining contractual life of 4 years (2022: 5 years).

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) Share option scheme adopted on 17 November 2017 (continued)

(iii) Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

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

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

(b) Share option scheme adopted in March 2022 and April 2023 (“New Share Option”)

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

In April 2023, 1,699,036 share options at a fair value of RMB8,800,000 were granted at a consideration of HK\$1.00 for each grantee to employees of the Group under the Company’s share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest in four batches and the grantees shall be entitled to exercise, on 11 April 2024 until 11 April 2033, if certain performance conditions are met. The exercise price is HK\$10.18.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share option scheme adopted in March 2022 and April 2023 (“New Share Option”) (continued)

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

	Number of instruments	Contractual life of options
Options granted to a director:		
– on 31 March 2022	660,304	10 years
– on 11 April 2023	139,620	10 years
Options granted to employees:		
– on 31 March 2022	7,922,058	10 years
– on 11 April 2023	1,559,416	10 years
Total share options granted	10,281,398	

The above share options are vested in instalments over an explicit vesting period of four years. Each instalment is accounted for as a separate share-based transaction. The contractual life of options is ten years.

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

	2023		2022	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the year	4.66	8,379,747	–	–
Granted during the year	10.18	1,699,036	4.66	8,582,362
Exercised during the year	4.66	521,437	4.66	–
Forfeited during the year	5.63	387,867	4.66	202,615
Outstanding at the end of the year	5.64	9,169,479	4.66	8,379,747
Exercisable at the end of the year	4.66	1,149,844	4.66	–

For the share option scheme adopted in March 2022, the options outstanding as of 31 December 2023 had a weighted average remaining contractual life of 9 years (2022: 10 years).

For the share option scheme adopted in April 2023, the options outstanding as of 31 December 2023 had a weighted average remaining contractual life of 10 years.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(b) Share option scheme adopted in March 2022 and April 2023 (“New Share Option”) (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

	2023	2022
Fair value at measurement date	HK\$4.9710 – HK\$6.9325	HK\$2.1810 – HK\$3.0340
Share price	HK\$10.18	HK\$4.66
Exercise price	HK\$10.18	HK\$4.66
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	71.53%	67.06%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years	10 years
Expected dividends	0.59%	0.54%
Risk-free interest rate	3.02%	2.06%

The expected volatility is determined by the historical volatility of the Company. Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

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

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

(c) **Shares held for share award scheme**

On 8 December 2020, the Company adopted a share award scheme (the “Share Award Scheme”), to recognise and reward the contribution of certain eligible participants to the growth and development of the Group through an award of the Company’s shares. The Share Award Scheme will be valid and effective for a period of 10 years commencing from 8 December 2020.

The Company’s shares to be granted under the Share Award Scheme will be purchased and held by a trustee. The maximum number of shares to be subscribed for and/or purchased by trustee for the purpose of the scheme shall not exceed 10% of the total number of issued shares as at the adoption date.

27 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

(c) Shares held for share award scheme (continued)

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

These shares will unlock in four batches and the grantees shall be vested with such shares on each of 31 March 2023, 2024, 2025 and 2026 for nil consideration if certain performance conditions are met.

Set out below are details of the movements of the shares held for share award scheme:

	2023	2022
Outstanding at the beginning of the year	752,823	–
Granted during the year	–	838,784
Unlocked during the year	(149,398)	–
Forfeited during the year	(46,992)	(85,961)
Outstanding at the end of the year	556,433	752,823

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2023 RMB'000	2022 RMB'000
At 1 January	22,773	51,522
Provision for the year	40,623	28,796
Under/(over)-provision in respect of prior years	268	(335)
Provisional tax paid	(46,068)	(57,210)
At 31 December	17,596	22,773

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

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Sales rebate	Unrealised profits of intra-group transaction	Sales return	Provision for price discount	Tax losses	PRC dividend withholding tax (iv)	Fair value adjustment in respect of net assets acquired in business combinations	Right of use assets	Lease liabilities	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	3,144	9,989	1,745	15,574	35,131	(28,809)	(12,531)	(9,538)	8,907	11,122	34,734
(Charged)/credited to profit or loss (note 8)	(1,300)	7,821	(309)	(8,861)	(2,950)	(7,749)	1,565	1,343	(676)	4,059	(7,057)
Exchange adjustments	-	-	-	-	-	-	113	-	-	(381)	(268)
At 31 December 2022 and 1 January 2023	1,844	17,810	1,436	6,713	32,181	(36,558)	(10,853)	(8,195)	8,231	14,800	27,409
Credited/(charged) to profit or loss (note 8)	-	10,054	(29)	(2,339)	(14,655)	(5,013)	4,742	3,201	(3,183)	(900)	(8,122)
Exchange adjustments	-	-	-	-	-	-	(345)	-	-	291	(54)
At 31 December 2023	1,844	27,864	1,407	4,374	17,526	(41,571)	(6,456)	(4,994)	5,048	14,191	19,233

(ii) Reconciliation to the consolidated statement of financial position

	2023 RMB'000	2022 RMB'000
Net deferred tax asset recognised	67,260	74,820
Net deferred tax liability recognised	(48,027)	(47,411)
	19,233	27,409

28 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 RMB76,864,000 (2022: RMB67,006,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

As at 31 December 2023, the certain subsidiaries of the Group located in PRC had unrecognised tax losses carried forward of RMB28,531,000 (2022: RMB20,611,000) as the management is of the view that it was not probable that such benefit of tax losses would be realised before they expire. The year of expiry of the tax losses unrecognised is as below:

	2023 RMB'000	2022 RMB'000
Year of expiry of PRC entities		
2026	9,394	9,928
2027	10,683	10,683
2028	8,454	–
	28,531	20,611

(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 2023, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB1,051,535,000 (2022: RMB919,316,000), comprised retained earnings of RMB984,031,000 (2022: RMB858,300,000) and statutory surplus reserve of RMB67,504,000 (2022: RMB61,016,000). The Company controls the dividend policy of these subsidiaries and it has been determined that the 70% of profit for 2023 will not be distributable in the foreseeable future (2022: the retained earnings before 31 December 2022 and 70% of profit for 2022 will not be distributable). The Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised for the above mentioned temporary differences of the 70% profit of the Company's PRC subsidiaries.

29 DEFERRED INCOME

	Government subsidies for research and development projects
	RMB'000
At 1 January 2022	12,351
Additions	2,742
Government grant recognised as other income	(1,762)
At 31 December 2022 and 1 January 2023	13,331
Additions	1,055
Government grant recognised as other income	(3,961)
At 31 December 2023	10,425

30 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	Share premium	Shares held for share award scheme	Share-based		Exchange reserve	Accumulated losses	Total equity
				Capital reserve	payment reserve			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022	9,453	1,032,214	(49,833)	60,700	4,210	(59,264)	(22,113)	975,367
Total comprehensive income for the year	-	-	-	-	-	86,830	(9,298)	77,532
Equity settled share-based transactions	27/30(c)(v)	-	-	-	8,129	-	-	8,129
Shares issued under share option scheme	30(b)(i)/30(c)(v)	-	418	-	(361)	-	-	57
Dividends declared	12	-	(23,991)	-	-	-	-	(23,991)
Balance at 31 December 2022 and 1 January 2023	9,453	1,008,641	(49,833)	60,700	11,978	27,566	(31,411)	1,037,094
Total comprehensive income for the year	-	-	-	-	-	15,524	(4,209)	11,315
Equity settled share-based transactions	27/30(c)(v)	-	-	-	5,056	-	-	5,056
Shares issued under share option scheme	30(b)(i)/30(c)(v)	55	13,860	-	(4,982)	-	-	8,933
Unlock of restricted shares	27(c)/30(c)(iv)	-	(93)	1,141	(1,048)	-	-	-
Dividends declared	12	-	(61,426)	-	-	-	-	(61,426)
Balance at 31 December 2023	9,508	960,982	(48,692)	60,700	11,004	43,090	(35,620)	1,000,972

30 CAPITAL AND RESERVES (continued)

(b) Share capital

	Note	2023		2022	
		No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each: At 1 January and 31 December		20,000,000,000	168,981	20,000,000,000	168,981
Ordinary shares, issued and fully paid: At 1 January		1,115,750,000	9,453	1,115,700,000	9,453
Shares issued under share option scheme	(i)	6,146,437	55	50,000	–
At 31 December		1,121,896,437	9,508	1,115,750,000	9,453

The holders of ordinary shares as at 31 December 2023 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

- (i) In 2023, options were exercised to subscribe for 6,146,437 ordinary share in the Company pursuant to the share option scheme (see note 27) at the consideration of RMB8,933,000, of which RMB55,000 was credited to share capital and RMB8,878,000 was credited to share premium. RMB4,982,000 was transferred to share premium from the share-based payment reserve in accordance with the policy set out in note 2(o)(ii).

In 2022, options were exercised to subscribe for 50,000 ordinary share in the Company pursuant to the share option scheme (see note 27) at the consideration of RMB57,000, of which RMB400 was credited to share capital and RMB57,000 was credited to share premium. RMB361,000 was transferred to share premium from the share-based payment reserve in accordance with the policy set out in note 2(o)(ii).

(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.

30 CAPITAL AND RESERVES (continued)

(c) Reserves (continued)

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB67,504,000 (2022: RMB61,016,000).

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.

(iv) Shares held for share award scheme

The Company adopted a share award scheme as described in note 27. In 2021, the trustee purchased 6,524,000 shares of the Company on the open market at a total cost of RMB49,833,000. The trustee did not purchase any shares of the Company in 2022 and 2023.

In 2023, 149,398 restricted shares were unlocked, and the repurchase cost of related share repurchases amounted to RMB1,141,000, which was transferred into share premium from the shares held for share award scheme. Concurrently, RMB1,048,000 was transferred to the share premium from the share-based payment reserve accordance with the policy set out in note 2(o)(ii).

(v) Share-based payment reserve

The Company adopted a share option scheme and a share award scheme to employees as described in note 27. The Group recognises the grant-date fair value of the share options and shares ratably over the vesting period. Accordingly, a total amount of RMB5,056,000 (2022: RMB8,129,000) was charged as an equity settled share-based payment to profit or loss with a corresponding increase in share-based payment reserve for the year. Such share-based payment reserve will be transferred to share premium as and when such option are exercised or when they expire.

(vi) Exchange reserve

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

(d) Distributability of reserves

At 31 December 2023, 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 RMB948,374,000 (2022: RMB1,000,075,000).

30 CAPITAL AND RESERVES (continued)

(e) Capital management

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

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

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

The Group's adjusted net debt-to-capital ratio at 31 December 2023 and 2022 as follows:

	Note	31 December 2023 RMB'000	31 December 2022 RMB'000
Current liabilities:			
Bank loans	25	21,394	–
Lease liabilities	26	14,239	13,500
Non-current liabilities:			
Bank loans	25	32,259	–
Lease liabilities	26	16,311	25,281
Total debt		84,203	38,781
Add: Proposed dividends	12(a)	45,750	59,800
Less: Cash and cash equivalents	20(a)	331,217	625,829
Adjusted net debt		(201,264)	(527,248)
Total equity			
Total equity		2,391,903	2,243,761
Less: Proposed dividends	12(a)	45,750	59,800
Adjusted capital		2,346,153	2,183,961
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.

31 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 (2022: 1 month to 1 year) from the date of billing. Commercial customers with past due balances are requested to settle all outstanding balances before any further credit is granted. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. The Group does not obtain collateral from customers.

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2023: 2.4% (2022: 7.7%) of the total trade receivables was due from the Group's largest customer in 2023, and 16.1% (2022: 19.8%) was due from the five largest customers in 2023.

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.

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

(a) Credit risk (continued)

The following table provides information about the Group's PRC subsidiaries exposure to credit risk and ECLs for trade receivables as at 31 December 2023:

	Expected loss rate %	2023 Gross carrying amount RMB'000	Loss allowance RMB'000
Current	1%	33,435	(334)
1 – 3 months past due	5%	158,134	(7,907)
4 – 6 months past due	5%	141,899	(7,095)
7 – 12 months past due	5%	84,954	(4,247)
1 – 2 years past due	20%	35,345	(7,069)
More than 2 years past due	96%	18,949	(18,159)
		472,716	(44,811)

	Expected loss rate %	2022 Gross carrying amount RMB'000	Loss allowance RMB'000
Current	1%	168,419	(1,686)
1 – 3 months past due	5%	166,994	(8,296)
4 – 6 months past due	5%	88,782	(4,453)
7 – 12 months past due	5%	38,073	(1,921)
1 – 2 years past due	20%	2,873	(574)
More than 2 years past due	95%	14,756	(14,028)
		479,897	(30,958)

31 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 2023:

	Expected loss rate %	2023 Gross carrying amount RMB'000	Loss allowance RMB'000
1 – 3 months past due	1%	27,801	(170)
More than 3 months past due	1%	1,844	(11)
		29,645	(181)
	Expected loss rate %	2022 Gross carrying amount RMB'000	Loss allowance RMB'000
1 – 3 months past due	2%	16,956	(308)
More than 3 months past due	2%	1,520	(28)
		18,476	(336)

Expected loss 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:

	2023 RMB'000	2022 RMB'000
Balance at 1 January	31,294	20,803
Credit losses recognised during the year	13,698	10,491
Balance at 31 December	44,992	31,294

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

(b) Liquidity risk

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

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

	2023 Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000		
As at 31 December 2023					
Bank loans	21,394	22,700	10,610	54,704	53,653
Lease liabilities	15,713	10,945	5,790	32,448	30,550
Trade payables	151,451	-	-	151,451	151,451
Bills payable	23,470	-	-	23,470	23,470
Accruals and other payables	184,724	3,200	2,900	190,824	190,650
Total	396,752	36,845	19,300	452,897	449,774

	2022 Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000		
As at 31 December 2022					
Lease liabilities	15,100	13,309	13,585	41,994	38,781
Trade payables	155,167	-	-	155,167	155,167
Accruals and other payables	165,098	2,700	6,100	173,898	173,422
Total	335,365	16,009	19,685	371,059	367,370

31 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 2023		
	HK\$ RMB'000	US\$ RMB'000	EUR RMB'000
Cash and cash equivalents	1,055	27,128	–
Trade receivables	–	43,826	23
Trade payables	–	–	(81)
	1,055	70,954	(58)

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2022		
	HK\$ RMB'000	US\$ RMB'000	EUR RMB'000
Cash and cash equivalents	908	87,502	327
Trade receivables	–	33,962	378
Trade payables	–	–	(3,416)
	908	121,464	(2,711)

31 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.

	2023		2022	
	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000
United States Dollars	5% (5)%	3,216 (3,216)	5% (5)%	4,555 (4,555)
Hong Kong Dollars	5% (5)%	44 (44)	5% (5)%	34 (34)
Euros	5% (5)%	(2) 2	5% (5)%	(102) 102

(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.

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

(d) Fair value measurement (continued)

		Fair value measurements as at 31 December 2023 categorised into			
Notes		Fair value at 31/12/2023 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement					
Financial assets:					
Other financial assets – investments in structured deposit at FVPL					
(i)		390,935	–	390,935	–
Other financial assets – investments in unlisted equity instrument at FVPL					
(ii)		4,520	–	–	4,520
		395,455	–	390,935	4,520
		Fair value measurements as at 31 December 2022 categorised into			
Notes		Fair value at 31/12/2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement					
Financial assets:					
Other financial assets – investments in structured deposit at FVPL					
(i)		412,396	–	412,396	–
Other financial assets – investments in unlisted equity instrument at FVPL					
(ii)		4,197	–	–	4,197
		416,593	–	412,396	4,197

During the years ended 31 December 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

- (i) Other financial assets of investments in structured deposit are measured at their fair values in the consolidated statement of financial position. The Group benchmarks the costs against fair values of comparable investments as of the end of each reporting period, and categorised all fair value measures of bank financial products as Level 2 of the fair value hierarchy because they are valued using directly or indirectly observable inputs in the market place.
- (ii) The fair value of unlisted equity instruments is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

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

(d) Fair value measurement (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2023 RMB'000	2022 RMB'000
Unlisted equity securities		
At 1 January	4,197	4,298
Changes in fair value recognised in profit or loss during the year	(14)	(31)
Foreign exchange gain/(loss)	337	(70)
At 31 December	4,520	4,197

32 COMMITMENTS

Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2023 not provided for in this financial statements were as follows:

	2023 RMB'000	2022 RMB'000
Contracted for	133,157	216,751
Authorised but not contracted for	147,020	104,740
	280,177	321,491

In addition, the Group was committed at 31 December 2023 to enter no new lease that is not yet commenced (2022: nil).

33 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2023, transactions with the following parties are considered as related party transaction:

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

(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	
	2023 RMB'000	2022 RMB'000
Salaries and other emoluments	6,452	6,016
Discretionary bonuses	1,449	1,392
Retirement scheme contributions	482	496
Equity settled share-based transactions	1,563	2,335
	9,946	10,239

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

34 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 26 March 2024, the directors proposed a final dividend. Further details are disclosed in note 12.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2023, 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.

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statement of financial position

	Note	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Non-current asset			
Interests in subsidiaries		1,009,272	985,479
		1,009,272	985,479
Current assets			
Other financial assets		4,520	4,197
Cash and cash equivalents		55,336	166,869
		59,856	171,066
Current liability			
Accruals and other payables		68,156	119,451
		68,156	119,451
Net current (liabilities)/assets			
		(8,300)	51,615
Total assets less current liability			
		1,000,972	1,037,094
NET ASSETS			
		1,000,972	1,037,094
CAPITAL AND RESERVES			
Share capital	30(b)	9,508	9,453
Reserves	30(c)	991,464	1,027,641
TOTAL EQUITY		1,000,972	1,037,094

Approved and authorised for issue by the board of directors on 26 March 2024 and signed on behalf of the board by:

Li Zhijiang
Directors

Zhao Xiaohong
Directors

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 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 IAS 1, <i>Presentation of financial statements:</i> <i>Classification of liabilities as current or non-current ("2020 amendments")</i>	1 January 2024
Amendments to IAS 1, <i>Presentation of financial statements:</i> <i>Non-current liabilities with covenants ("2022 amendments")</i>	1 January 2024
Amendments to IFRS 16, <i>Leases: Lease liability in a sale and leaseback</i>	1 January 2024
Amendments to IAS 7, <i>Statement of cash flows and IFRS 7,</i> <i>Financial Instruments: Disclosures: Supplier finance arrangements</i>	1 January 2024
Amendments to IAS 21, <i>The effects of changes in foreign exchange rates:</i> <i>Lack of exchangeability</i>	1 January 2025

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.