



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



2021
Interim 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

JOINT COMPANY SECRETARIES

Ms. Han Yu
Ms. Li Yan Wing Rita, FCG, FCS(PE)

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

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

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)

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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUDITOR

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

HONG KONG LEGAL ADVISER

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

**CAYMAN ISLANDS PRINCIPAL
SHARE REGISTRAR**

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

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

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

**LISTING INFORMATION
AND STOCK CODE**

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

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Variance %
	2021 RMB'000	2020 RMB'000	
Revenue	447,633	478,979	-6.5%
Gross profit	308,333	336,323	-8.3%
Profit for the period	111,483	162,871	-31.6%
Profit attributable to equity shareholders of the Company	111,483	162,871	-31.6%
Earnings per share			
Basic	RMB0.10	RMB0.15	
Diluted	RMB0.10	RMB0.15	

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

2021 is a year full of challenges and uncertainty for AK Medical. As the national volume-based procurement targeted artificial joints will be initiated this year, it will bring huge impact towards the development of the whole orthopaedic industry. The future competitive landscape of the industry will change as a result, and the Company's business strategy will be adjusted accordingly. In the first half of 2021, following the gradual fading of the COVID-19 pandemic, economic activities in different regions slowly resumed, and the number of surgeries in hospitals have gradually returned to normal. Despite the recovery of the Group's terminal implantation in hospitals, under the impact of national volume-based procurement, the Group's sales revenue amounted to RMB447.6 million, representing a decrease by 6.5% as compared to the same period of last year; and the Group's net profit was RMB111.5 million, representing a decrease of 31.6% as compared to the same period of last year. The decrease in revenue was mainly attributed to the impact of volume-based procurement as the distributors purchased less joint implants. The significant decrease in profit was mainly attributed to the decline in revenue. On the other hand, compared to the year 2020 which was hard hit by the pandemic, we have resumed marketing activities in the first half of 2021 which led to a significant increase in marketing expenses. Meanwhile, the government ceased the subsidisation policies such as waiving social insurance payments, resulting in an increase in cost of staff for the Group.

In the first half of 2021, despite the impact of volume-based procurement policy, the 3D-printed products industry of the Company maintained its growth. The industry achieved sales revenue of RMB64.3 million during the period, representing an increase of 6.1% as compared with the same period of last year.

Regarding business of 3D-printed products, 3D-printed total knee joint with augments, the newly launched key product during the period, was the first domestic biological knee joint product system. We have purposely launched a series of marketing campaigns for such product, which has been used in more than 80 implantation surgeries so far. As of 30 June 2021, the Group has newly obtained three 3D-printed metal implant registration certificates for 3D-printed artificial total knee joint system, 3D-printed porous interbody cages, and 3D-printed porous artificial vertebral bodies respectively. Currently we hold a total of eight Class III registration certificates for 3D-printed products approved by NMPA, and 24 3D-printed customised products which have been filed with the local medicine regulatory authorities, meaning the products could be sold for use in partner hospitals.

The issue of exaggerated price of high-value consumables has been an obstacle in the national medical reform, and with the issuance of artificial joints volume-based procurement rules, the retail price of the species covered by volume-based procurement will significantly drop, thus affecting the business model of the industry and the competitive landscape of the industry. Although we still need to face uncertainty brought by the policy in the future, we have made a series of adjustments to strategic planning, including adjusting the direction of R&D and streamlining the operational model, in order to cope with the impact of the industrial policy properly by the time. We firmly believe that the volume-based procurement will accelerate the integration of the industry and provide more opportunities for the Company to further expand its market share. Looking forward, AK Medical will continue to uphold the vision of becoming a world-class orthopaedic brand with the aim of enriching its product types through continuous innovation, so as to deliver returns to its shareholders, customers and the society.

MANAGEMENT DISCUSSION AND ANALYSIS

During the latest round of medical reform in China, National Healthcare Security Administration (“NHSA”), as the sole payer, has controlled the national medical insurance costs by means of volume-based procurement which has become a vital part of the medical reforms. Medical devices is one of the areas of focus of medical insurance. In 2020, the NHSA introduced the national volume-based procurement of percutaneous coronary drug-eluting stents, resulting in a slump in the retail price of stent by more than 90% and has brought a huge shock to the industry.

On 21 June 2021, National Organising United Procurement Office for High-Value Medical Consumables (“國家組織高值醫用耗材聯合採購辦公室”) issued the No. 1 Announcement of Artificial Joint Volume-based Procurement (“人工關節帶量採購1號公告”), which confirmed that the second batch of volume-based procurement of high-value consumables will be targeted at joint products. Under the circumstances of volume-based procurement, the orthopaedic industry has entered a period of turbulence and adjustment and the development of the industry has been affected significantly. The general strategies, R&D directions and operating model of the Company have to be adjusted to a certain extent.

In the first half of 2021, the COVID-19 pandemic was under better control in China. Except in cities where sporadic cases were found, the majority of hospitals have resumed regular operation and the number of surgical operations conducted has gradually resume normal.

For the six months ended 30 June 2021, the Group recorded sales revenue of RMB447.6 million and net profit of RMB111.5 million, representing decreases of 6.5% and 31.6% respectively compared to the same period of the previous year.

BUSINESS OVERVIEW AND OUTLOOK

Industrial Policies

Since 2020, the everchanging industrial policies have brought uncertainty and challenges for the operation and development of the Company. Through analysis of the industrial policies, the Group would have a better understanding on the national planning on the development of the industry so as to formulate an appropriate developing strategy for the Company.

Since 2019, the issue of exaggerated price of high-value consumables has been frequently mentioned in the national medical reforms documents, and the volume-based procurement led by the health insurance department has been a main approach to solve such issue. In 2020, several provincial health insurance departments across the country have started to make attempts on volume-based procurement for joint products, with an average reduction in retail prices ranging from 35% – 85%.

In 2021, after the NHSA completed the first batch of nationwide volume-based procurement of percutaneous coronary drug-eluting stents, no sooner the second batch of nationwide volume-based procurement was confirmed to be artificial joints. On 21 June 2021, following establishment of pilot zones of joint products volume-based procurement in different provinces and promulgation of regulations on stents, the National-Organising United Procurement Office for High-Value Medical Consumables issued the No. 1 Announcement of Artificial Joints Volume-based Procurement. The announcement confirmed the fundamental rules of volume-based procurement of artificial joints, and expressed the attitude of respecting the clinical practices, and the ability of enterprises to guarantee production supply is also further emphasised.

These rules of the Nationwide Artificial-Joints Volume-based Procurement are different from the previous pilot tests in different provinces, such as fewer groupings, no distinction between domestic and imported varieties, hip joints are classified into three classes in accordance with its component materials, and no classification for knee joints. These rules have also taken into account the development of enterprises, joint products are divided into group A and group B according to the clinical demand, group A which has large procurement volume and high technical standards will be given certain policy preference in competition.

This Nationwide Volume-based Procurement will bring substantial changes to the entire artificial joint industry. The retail price of the products covered by the centralised procurement will drop significantly, which will in turn affect the distribution model and the competition landscape of the industry.

3D Printing Products Industry

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

The Group is the first orthopaedic company to launch 3D printed metal implants approved by National Medical Products Administration (“NMPA”) in the China market. As of 30 June 2021, the Group held a total of eight Class III registration certificates for 3D-printed products approved by NMPA, including six standardised products and two customised products. Meanwhile, the Group owned 24 3D-printed customised products which have been filed with the local medicine regulatory authorities and can be sold for use in partner hospitals.

During the six months ended 30 June 2021, the Group has newly obtained three 3D-printed metal implant registration certificates for 3D-printed artificial total knee joint system, 3D-printed porous interbody cages, and 3D-printed porous artificial vertebral bodies respectively.

The 3D-printed artificial total knee joint system is consisted of the total knee joint bone defect reformation plan with 3D-printed augments. Such products can solve the bone defect caused by various reasons, assist the doctor to reconstruct the bony anatomy of the patient’s knee joint, and further enrich the knee joint product line of the Company, especially in knee joint revision products. The 3D-printed porous interbody cages and artificial vertebral bodies are conducted with surface colour anodising process on the basis of the past generation products, which enhances the ability of surface anti-oxidation and corrosion resistance. In addition, the 3D-printed trabeculae structure can speed up the growth and attachment of osseous tissue from the micro perspective, thus promoting the osseointegration effect.

For the six months ended 30 June 2021, the Group’s 3D-printed products delivered RMB64.3 million in revenue, increasing by 6.1% as compared with the same period of the previous year.

Hip and Knee Products Business

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

In the first half of 2021, the Group continued to provide customers and patients with a full range of orthopedic joint products, including hip and knee implants and tools for primary, complex, revision and reconstruction surgeries.

For the six months ended 30 June 2021, the Group’s hip and knee joint products delivered RMB352.2 million in revenue, representing a year-on-year decrease of 10.5%.

Spinal and Trauma Products Business

The Group has added non-3D printing spinal and trauma products to its product portfolio through the acquisition of Beijing Libeier Bio-engineering Institute Co., Ltd.* (北京理貝爾生物工程研究所有限公司) (“**Libeier**”), and on such basis it has made further refinements and additions. With continuous R&D of new products, the Group can now provide total solutions for spinal fusion surgery, the Group is also developing implants for application in minimally invasive spine surgery at the same time.

In the first half of 2021, the Group launched two trauma products with innovative design on traditional products which makes surgeries more precise and convenient.

For the six months ended 30 June 2021, the Group’s spinal and trauma products delivered RMB20.3 million in revenue, representing a year-on-year increase of 109.3%.

Research and Development

In the first half of 2021, Beijing AK, a subsidiary of the Group, obtained three latest Class III medical device registration certificates approved by NMPA, including 3D-printed artificial total knee joint system, 3D-printed porous interbody cages, and 3D-printed porous artificial vertebral bodies. As of 30 June 2021, the Group held a total of 39 registration certificates for Class III medical devices approved by the NMPA, four CE certifications approved by European regulators, and one US FDA certification under the AK Medical brand. ITI Medical, another subsidiary of the Group, obtained seven registration certificates for Class III medical devices approved by NMPA. The JRI brand held ten CE certifications approved by European regulators and two registration certificates for Class III medical devices approved by the NMPA.

With the implementation of volume-based procurement, the Group's R&D directions have been proactively adjusted. The Group has gradually adjusted its R&D focus from the products utilised in primary replacement surgeries to products applied in complex revision surgeries and early treatment. At the same time, the Group has also started to explore into several new areas, such as the application of digital orthopaedic technology.

To cope with the possible pressure in lowering prices as a result of volume-based procurement, the Group has started a series of improvement projects on technique and skills for cost reduction and efficiency enhancement, including reuse of 3D printing waste powder, and reducing the consumable cost of 3D printing equipment per oven.

Sales and Operation

Joint products business

The Group has launched the “Master Plan” (大師計劃) project since 2019, aiming to build a three-dimensional platform model that integrates an innovative product platform, an advantageous technology platform and a customer platform, so as to build a platform for academic exchange at different levels and in different training directions surrounding the promotion of new products, technologies and techniques as well as doctor education programmes, and to build an academic high ground by leveraging on the systematic academic articles produced by such platform.

In the first half of 2021, the Group has been promoting the Master Plan project on a continuous basis, product level of which includes:

Being a leader in 3D printing orthopedic sector, AK Medical has launched:

- 1) The 3D metal printing of the Ring-fix refurbishment cup system. Continuing to build on the strengths of AK Medical's overall solutions on hip joints, the pioneering restrictive lining design is highly effective for patients with high risk of dislocation due to neuromuscular disorders, a history of previous dislocations, and severe muscle weakness.
- 2) MLII project system adopting minimally invasive project system. The MLII British Cup (MLII 英倫杯) system is the latest system launched by AK Medical that is adoptive to a wide range of lining acetabular systems and allows a larger diameter femoral head in a smaller cup diameter, increasing mobility and reducing the risk of dislocation.
- 3) In the first half of 2021, AK Medical was granted the registration certificate of the first 3D metal printing of the biological knee joint product system in China and was the first to market with the 3D ACT-NewBone™ System (NBS) knee implants revision system with augments to solve various problems of bone defect more conveniently. At present, AK Medical is the only company in China that offers a range of knee joint products from initial, complex, revision and tumour to 3D printed revision product system, further extending its product advantage in terms of knee joint.

- 4) Knee implants international tool system. The A3 knee system has been well accepted by both domestic and international markets since its launch. In order to expand its market advantage, the Company has put the international tool system, which was originally sold in Europe and the U.S. markets, into the domestic market in bulk. The excellent tool experience has improved the overall surgical experience of customers to accumulate research and development experience for the improvement and iteration of the tool, which has been recognised by top hospitals in China, and has led to significant product placement.

Academic platform:

- 1) By building an academic platform for doctors and evaluating the cooperation with top experts in China, AK Medical's products have published several high-quality articles in core journals in China and abroad, including The Journal of Bone and Joint Surgery, the Chinese Medical Association, and the Orthopedic Journal of China, further enhancing the academic high ground of AK Medical.
- 2) In the first half of 2021, leveraging on the "Master Plan" platform, AK Medical has launched a number of online and offline academic activities surrounding the promotion of hip and knee revision products and training on the minimally invasive technology platform with the focus on the professional upgrading needs of doctors, and has established four provincial level training centres, accumulatively covering approximately 1,000 key hospitals and over 50,000 person/times of training clients.

Spinal and trauma business:

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

Outlook

2021 is the year in preparation for volume-based procurement, the annual operating results of the Company will face some uncertainties due to the impact of such industrial policy. Under such circumstances, the Group has made a series of adjustments to strategic planning, including adjusting the direction of R&D and streamlining the operational model.

As a leading brand in China's orthopedic industry, the Group has strong confidence in China's orthopedic industry development and its ability to cope with the challenges. The Company believes that the volume-based procurement will accelerate the integration of the industry and provide an opportunity for the Company to further expand its market share.

FINANCIAL REVIEW

Overview

	Six months ended 30 June		Variance %
	2021 RMB'000	2020 RMB'000	
Revenue	447,633	478,979	-6.5%
Gross profit	308,333	336,323	-8.3%
Profit for the period	111,483	162,871	-31.6%
Profit attributable to equity shareholders of the Company	111,483	162,871	-31.6%
Earnings per share			
Basic	RMB0.10	RMB0.15	
Diluted	RMB0.10	RMB0.15	

Affected by the national joint implant volume-based procurement policy, there was uncertainty with the price trend and distributors (being the Group's customers) purchased less joint implants, causing a decrease in revenue as compared to the same period of last year. Meanwhile, the established brand image of the Company by virtue of its 3D-printing technology and 3D ACT platform effectively promoted the sales of its 3D-printed products and revision products, which assisted the Group to record a growth of 6.1% in 3D-printed products.

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

Revenue

	Six months ended 30 June		Variance %
	2021 RMB'000	2020 RMB'000	
Hip replacement implants ⁽¹⁾	243,375	271,064	-10.2%
Knee replacement implants ⁽²⁾	108,861	122,619	-11.2%
Spinal and trauma implants ⁽³⁾	20,327	9,711	109.3%
3D-printed products ⁽⁴⁾	64,258	60,546	6.1%
Third party orthopedic products	775	3,616	-78.6%
Others ⁽⁵⁾	10,037	11,423	-12.1%
Total	447,633	478,979	-6.5%

Notes:

- (1) Excluding 3D-printed hip replacement implants;
- (2) Excluding 3D-printed knee replacement implants;
- (3) Excluding 3D-printed spinal and trauma implants;
- (4) Including 3D-printed hip replacement implants, knee replacement implants, spinal interbody cages, artificial vertebral bodies and artificial pelvis;
- (5) Others primarily include surgical instruments and medical irrigators.

The Group's revenue amounted to RMB447.6 million for the six months ended 30 June 2021, representing a decrease of 6.5% as compared with RMB479.0 million for the six months ended 30 June 2020. Affected by the price uncertainty caused by the national joint implant volume-based procurement policy, the revenue in hip and knee implants of the Company decreased as compared to the same period of 2020. In the first half of 2021, revenue in spinal and trauma implants of the Company increased by 109.3% as compared to the same period of 2020. Meanwhile, the 3D-printed products of the Company still achieved an increase of 6.1% in revenue.

Hip and Knee Implants Products

The Group's hip and knee implants products include hip implants and knee implants.

The Group's hip implants recorded revenue of RMB243.4 million for the six months ended 30 June 2021, representing a decrease of 10.2% as compared with RMB271.1 million for the six months ended 30 June 2020. The Group's knee implants recorded revenue of RMB108.9 million for the six months ended 30 June 2021, representing a decrease of 11.2% as compared with RMB122.6 million for the six months ended 30 June 2020. The decrease in revenue of hip and knee implants products was mainly attributable to the fact that distributors reduced their purchases of primary hip and knee implants products as affected by the aforesaid national joint implant volume-based procurement policy. At the same time, in the first half of 2021, the Group's complicated surgery solutions such as 3D-printed technology and AK Rotation Hinge Knee System had facilitated the sales of joint revision products, and the sales revenue of hip and knee revision implants products increased accordingly.

Spinal and Trauma Implants Products

The Group's spinal and trauma implants products include Libeier's spinal implants and trauma implants. The Group's spinal and trauma implants recorded revenue of RMB20.3 million for the six months ended 30 June 2021, representing an increase of 109.3% as compared with RMB9.7 million for the six months ended 30 June 2020. Such increase was mainly owing to that for the first half of 2020, the Group only consolidated the revenue derived from spinal and trauma implants after the acquisition date of Libeier on 24 April 2020.

3D-printed products

The Group's 3D-printed products mainly include 3D-printed hip implants, 3D-printed Knee replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages and 3D-printed artificial pelvis implants. The Group's 3D-printed products recorded revenue of RMB64.3 million for the six months ended 30 June 2021, representing an increase of 6.1% as compared with RMB60.5 million for the six months ended 30 June 2020. In the first half of 2021, sales of the Group's 3D-printed artificial vertebral bodies and spinal interbody cage increased significantly as compared to the first half of 2020. Such increase was due to the Group's innovative 3D-printing technology, superiority of their functions and the continuous expanding product lines of spinal products which gained high recognition from the market, thus achieving a significant increase in sales.

Third Party Orthopedic Products

To enrich the Group's product portfolio, the Group also distributes orthopedic products produced by third parties. For the six months ended 30 June 2021 and the six months ended 30 June 2020, the Group's revenue from distributing third party orthopedic products amounted to RMB0.8 million and RMB3.6 million, representing 0.2% and 0.8% of the Group's revenue, respectively. As the Group's own-brand product lines become more extensive, the proportion of the Group's revenue deriving from distributing third party orthopedic products has continued to decline.

Domestic and Overseas Sales

Most of the Group's revenue was derived from the sales in China with a small proportion of the revenue derived from the sales in the overseas market. A breakdown of the Group's sales revenue from China and overseas is as follows:

	Six months ended 30 June		Variance %
	2021 RMB'000	2020 RMB'000	
China	379,553	432,933	-12.3%
Other countries	68,080	46,046	47.9%
Total	447,633	478,979	-6.5%

Overseas sales were severely affected by the pandemic for the first half 2020, while in the first half of 2021, the spread of pandemic in the overseas has been slowing down, and the volume of surgeries in the overseas' hospitals started to increase. The sales revenue from overseas for the six months ended 30 June 2021 posted a significant increase of 47.9% to RMB68.1 million as compared to the corresponding period last year. Revenue from China for the six months ended 30 June 2021 was RMB379.6 million, representing a decrease of 12.3% as compared to the corresponding period last year, mainly affected by the aforesaid national joint implant volume-based procurement policy.

Cost of Sales

For the six months ended 30 June 2021, the Group's cost of sales was RMB139.3 million, representing a decrease of 2.4% as compared with RMB142.7 million for the six months ended 30 June 2020. The decrease in cost of sales was primarily due to a decrease in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit decreased by 8.3% to RMB308.3 million for the six months ended 30 June 2021 from RMB336.3 million for the six months ended 30 June 2020. The decrease in gross profit was primarily caused by a decrease in revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 68.9% for the six months ended 30 June 2021, decreased 1.3% from 70.2% for the six months ended 30 June 2020, which was primarily due to the decrease in gross profit of regular spinal and trauma implants products. Excluding the impact of regular spinal and trauma implants products, the gross margin was 69.8%.

Other Income, net

The Group's other income for the six months ended 30 June 2021 was RMB2.1 million, representing an increase of RMB1.2 million as compared with RMB0.9 million for the six months ended 30 June 2020.

Selling and Distribution Expenses

Selling and distribution expenses were RMB78.7 million for the six months ended 30 June 2021, representing an increase of 25.5% as compared with RMB62.8 million for the six months ended 30 June 2020. The increase was primary due to the impact of COVID-19 pandemic to the Group in the first half of 2020 in that most of the Company's marketing activities were cancelled and the government had also reduced or waived some of the social insurance payments for staff. In 2021, with the resumption of marketing activities, relevant marketing expenses, travelling cost and the remuneration and social insurance payment for employees increased.

General and Administrative Expenses

General and administrative expenses amounted to RMB51.0 million for the six months ended 30 June 2021, representing an increase of 33.4% as compared with RMB38.3 million for the six months ended 30 June 2020. The increase was mainly due to the abovesaid increase in remuneration and social insurance payment for the management and an increase in charity donation.

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2021 were RMB51.7 million, representing an increase of 17.9% as compared with RMB43.9 million for the six months ended 30 June 2020. The increase was mainly due to the increase in labor costs for R&D staff, and cost of R&D materials as a result of more investment in R&D and the proactive promotion of R&D projects.

Net Finance Income

Net finance income was RMB2.7 million for the six months ended 30 June 2021, representing a decrease of RMB1.8 million from RMB4.5 million for the six months ended 30 June 2020. Such decrease was primarily attributable to the impact of the changes of foreign exchange.

Income Tax Expenses

Income tax expense was RMB20.1 million for the six months ended 30 June 2021, representing a decrease of 40.8% as compared with RMB34.0 million for the six months ended 30 June 2020. Such decrease was primarily attributable to the decline in profit before tax resulted from the combined effect of revenue decrease and expense increase. Meanwhile, in the first half of 2021, the additional tax deduction ratio on R&D costs increased from 75% to 100% in accordance with the national policy, and the Company further benefited from income tax incentives.

Liquidity and Financial Resources

As at 30 June 2021, the Group had cash and cash equivalents of RMB541.1 million, structured deposit of RMB238.9 million, time deposits over 3 months of RMB107.5 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB892.5 million in aggregate, as compared with RMB956.1 million as at 31 December 2020. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

The Group had net current assets of RMB1,527.2 million as at 30 June 2021, representing an increase of RMB42.2 million as compared with RMB1,485.0 million as at 31 December 2020. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including trade receivables, trade payables and cash balances that are denominated in foreign currency, i.e. a currency other than the functional currency of the operations to which the transaction relates generating from overseas sales and purchases. The currencies giving rise to this risk are primarily US dollars and Euro. For the six months ended 30 June 2021, the Group recorded an exchange loss of RMB1.3 million, as compared to an exchange loss of RMB0.6 million for the six months ended 30 June 2020. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing its foreign exchange risks.

Capital Expenditure

For the six months ended 30 June 2021, the Group's total capital expenditure amounted to approximately RMB39.2 million, which was primarily used in (i) construction of factories; (ii) purchase of patents; and (iii) acquiring equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As at 30 June 2021, the Group pledged a deposit of RMB5.0 million in the margin account to obtain the monthly settlement qualification of relevant tax for import and export operations incurred by the PRC Customs. Other than that, the Group did not have any charge of assets or pledge of assets.

Borrowings and Gearing Ratio

As at 30 June 2021, the Group did not have any outstanding bank loans or other borrowings (as at 31 December 2020: Nil).

Contingent Liabilities

As of 30 June 2021, the Group did not have any material contingent liabilities (as of 31 December 2020: Nil).

Significant Investments

The Group did not hold any significant investments in the equity interests of any other companies as at 30 June 2021.

Material Acquisitions and Disposals

For the six months ended 30 June 2021, the Group did not have any material acquisitions and disposals of subsidiaries, affiliated companies and joint ventures.

Future Plans for Material Investments and Capital Assets

As of 30 June 2021, in addition to the construction of Changzhou Facilities as disclosed in the prospectus of the Company dated 7 December 2017, the Group planned to acquire 50 acres of land in the Beijing Changbei base for production and to consolidate leased premises in multiple locations to improve operational and management efficiency and to reduce overall operating costs. The Company will issue further announcement(s) as and when appropriate to keep its shareholders and potential investors informed of such acquisition if it materialises in the future.

Employee and Remuneration Policy

As at 30 June 2021, the Group had 963 employees (30 June 2020: 963 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2021 amounted to RMB100.4 million (for the six months ended 30 June 2020: RMB73.8 million). The increase in staff remuneration was primary due to the increase in social insurance payment for the staff. Affected by the pandemic, in the first half of 2020, the government had reduced or waived some of the social insurance payments for the staff.

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, share option scheme and share award scheme.

Use of Proceeds from Initial Public Offering

The net proceeds from the initial public offering of the Company were approximately HK\$477.0 million and were fully utilised as at 31 December 2020. Accordingly, no further proceeds from the initial public offering were available for use during the six months ended 30 June 2021 or will be available for use in the future.

Use of Proceeds from placement and top-up subscription

The net proceeds from the top-up subscription of the Company in the first half of 2020 were approximately HK\$783.9 million. A portion of the net proceeds was used for the acquisition of Libeier (being approximately HK\$313.6 million) and as general working capital of the Group (being approximately HK\$294.0 million). For the six months ended 30 June 2021, approximately HK\$164.0 million was utilised from the net proceeds as general working capital of the Group. Up to the date of this interim report, the net proceeds had not been fully utilised by the Group. It is expected that the remaining proceeds (being approximately HK\$176.3 million) will be used in full for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022.

INDEPENDENT AUDITOR'S REPORT



Review report to the board of directors of AK Medical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report of AK Medical Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 17 to 31 which comprises the consolidated statement of financial position as of 30 June 2021 and the related consolidated statement of profit or loss and other comprehensive income, and the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by International Accounting Standards Board (“IASB”). The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

24 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2021 – unaudited
(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	3	447,633	478,979
Cost of sales		(139,300)	(142,656)
Gross profit		308,333	336,323
Other income, net		2,080	943
Selling and distribution expenses		(78,721)	(62,750)
General and administrative expenses		(51,036)	(38,260)
Research and development expenses		(51,737)	(43,900)
Operating profit		128,919	192,356
Net finance income	5	2,693	4,515
Profit before taxation	4	131,612	196,871
Income tax	6	(20,129)	(34,000)
Profit for the period		111,483	162,871
Profit attributable to equity shareholders of the Company		111,483	162,871
Other comprehensive income items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of entities outside mainland China		(4,438)	9,140
Other comprehensive income, net of tax		(4,438)	9,140
Total comprehensive income		107,045	172,011
Total comprehensive income attributable to equity shareholders of the Company		107,045	172,011
Earnings per share			
Basic	7(a)	RMB0.10	RMB0.15
Diluted	7(b)	RMB0.10	RMB0.15

The notes on pages 22 to 31 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 – unaudited
(Expressed in RMB)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	8	364,243	364,339
Intangible assets		86,166	76,045
Goodwill		133,238	133,076
Deferred tax assets		54,925	50,625
		638,572	624,085
Current assets			
Inventories	9	418,732	360,711
Trade receivables	10	481,212	450,599
Bills receivable		110,416	101,892
Deposits, prepayments and other receivables		35,428	33,551
Other financial assets		238,907	188,402
Pledged deposits and time deposits		112,521	54,575
Cash and cash equivalents	11	541,080	713,091
		1,938,296	1,902,821
Current liabilities			
Trade payables	12	105,091	145,766
Contract liabilities		52,632	46,400
Accruals and other payables		196,031	172,177
Lease liabilities		9,208	11,413
Current taxation		48,134	42,082
		411,096	417,838
Net current assets		1,527,200	1,484,983
Total assets less current liabilities		2,165,772	2,109,068

The notes on pages 22 to 31 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2021 – unaudited
(Expressed in RMB)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current liabilities			
Deferred income		12,296	12,026
Lease liabilities		14,477	15,435
Deferred tax liabilities		42,268	38,831
		69,041	66,292
NET ASSETS			
Capital and reserves			
Share capital	13(a)	9,451	9,451
Reserves		2,087,280	2,033,325
Total equity attributable to equity shareholders of the Company		2,096,731	2,042,776
TOTAL EQUITY		2,096,731	2,042,776

The notes on pages 22 to 31 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2021 – unaudited
(Expressed in RMB)

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 1 January 2020		8,888	426,380	–	55,174	7,855	601,719	15,994	1,116,010
Total comprehensive income for the period		–	–	–	–	–	162,871	9,140	172,011
Issuance of new shares	13(a)	479	700,876	–	–	–	–	–	701,355
Equity settled share-based transactions	13(c)	–	–	–	–	1,513	–	–	1,513
Shares issued under share option scheme	13(c)	71	13,867	–	–	(4,404)	–	–	9,534
Dividends approved in respect of the previous years	13(b)	–	(76,337)	–	–	–	–	–	(76,337)
Balance at 30 June 2020		9,438	1,064,786	–	55,174	4,964	764,590	25,134	1,924,086
Balance at 1 January 2021		9,451	1,068,193	–	55,174	3,791	915,726	(9,559)	2,042,776
Total comprehensive income for the period		–	–	–	–	–	111,483	(4,438)	107,045
Equity settled share-based transactions	13(c)	–	–	–	–	525	–	–	525
Dividends approved in respect of the previous years	13(b)	–	(36,830)	–	–	–	–	–	(36,830)
Shares held for share award scheme	13(d)	–	–	(16,785)	–	–	–	–	(16,785)
Balance at 30 June 2021		9,451	1,031,363	(16,785)	55,174	4,316	1,027,209	(13,997)	2,096,731

The notes on pages 22 to 31 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2021 – unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Operating activities		
Cash generated from operations	19,703	171,009
Tax paid	(15,009)	(25,134)
Net cash generated from operating activities	4,694	145,875
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(39,230)	(34,630)
Acquisition of a subsidiary, net of cash acquired	–	(261,039)
Uplift of structured deposits and time deposits	349,709	–
Placement of structured deposits and time deposits	(458,280)	(302,688)
Other cash flows arising from investing activities	4,688	4,028
Net cash used in investing activities	(143,113)	(594,329)
Financing activities		
Issuance of new shares	–	701,355
Capital element of lease rentals paid	(10,952)	(11,132)
Interest element of lease rentals paid	(426)	(278)
Proceeds from shares issued under share option scheme	–	9,534
Payment for shares held for share award scheme	(16,785)	–
Other cash flows arising from financing activities	–	(1,700)
Net cash (used in)/generated from financing activities	(28,163)	697,779
Net (decrease)/increase in cash and cash equivalents	(166,582)	249,325
Cash and cash equivalents at 1 January	713,091	276,521
Effect of movements in exchange rates on cash hold	(5,429)	12,352
Cash and cash equivalents at 30 June	541,080	538,198

The notes on pages 22 to 31 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB'000 unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 24 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2020 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2021.

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 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.

The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	243,375	271,064
– Knee replacement implants	108,861	122,619
– Spinal and trauma implants	20,327	9,711
– 3D-printed products	64,258	60,546
– Third party orthopedic products	775	3,616
– Others	10,037	11,423
	447,633	478,979
Disaggregated by geographical location of customers		
– Mainland China	379,553	432,933
– Other countries	68,080	46,046
	447,633	478,979

The geographical location of customers is based on the country in which the customer is registered and operated.

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2020 and 2021.

3 REVENUE AND SEGMENT INFORMATION (continued)

(b) Information about profit or loss, assets and liabilities

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 identified two reportable segments. No operating segments have been aggregated to form the following reportable segments:

For the six months ended 30 June	Orthopedic implants – China		Orthopedic implants – United Kingdom		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue from external customers	408,682	449,957	38,951	29,022	447,633	478,979
Inter-segment revenue	–	–	38,034	37,593	38,034	37,593
Reportable segment revenue	408,682	449,957	76,985	66,615	485,667	516,572
Reportable segment profit	137,854	197,852	3,887	2,773	141,741	200,625
As at 30 June/31 December						
Reportable segment assets	2,116,795	2,127,918	189,613	186,095	2,306,408	2,314,013
Reportable segment liabilities	390,182	404,342	22,925	25,009	413,107	429,351

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

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Reportable segment profit	141,741	200,625
Elimination of inter-segment loss	(10,129)	(3,754)
Consolidated profit before taxation	131,612	196,871

4 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Amortisation of intangible assets	5,863	4,559
Depreciation of property, plant and equipment	30,617	21,460
Impairment losses/(net reversals) of impairment on trade receivables	1,503	(246)
Cost of inventories	142,175	147,064

5 NET FINANCE INCOME

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Interest income from bank deposits and Investments in structured deposit	4,427	5,417
Foreign currency exchange loss	(1,308)	(624)
Interest on lease liabilities	(426)	(278)
	2,693	4,515

6 INCOME TAX

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Current tax – the PRC Enterprise Income Tax	19,875	27,353
Current tax – Overseas	1,186	763
Deferred tax	(932)	5,884
	20,129	34,000

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Group has no assessable profit in Hong Kong during the reporting period and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the relevant periods is 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 the six months ended 30 June 2021 at the rates of taxation prevailing in the countries in which the Group operates. Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for the six months ended 30 June 2021 are 25% (six months ended 30 June 2020: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AKEC Medical Co., Ltd. ("AK Medical Beijing") and ITI Medical Co., Ltd. ("AK Medical Changzhou") were certified as New and High Technology Enterprises, and are entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing and AK Medical Changzhou will be expired on 21 October 2023 and 2 December 2023, respectively. Taxation for subsidiaries operating mainly in the England and Wales were calculated at statutory enterprise income tax rate of 19% for the six months ended 30 June 2021 (six months ended 30 June 2020: 19%).

7 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 RMB111,483,000 (six months ended 30 June 2020: RMB162,871,000) and the weighted average of 1,114,609,000 ordinary shares (2020: 1,089,385,000 shares) in issue during the reporting period.

(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 RMB111,483,000 (six months ended 30 June 2020: RMB162,871,000) and the weighted average of 1,115,735,000 ordinary shares (2020: 1,097,283,000 shares).

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into a number of lease agreements for use of offices, and therefore recognised the additions to right-of-use assets of RMB7,928,000 (six months ended 30 June 2020: RMB11,235,000).

(b) Acquisitions of owned assets

During the six months ended 30 June 2021, the Group acquired items of property plant and machinery with a total cost of RMB27,596,000 (six months ended 30 June 2020: RMB25,512,000).

9 INVENTORIES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Raw materials	131,952	84,957
Work in progress	70,869	88,062
Finished goods	215,911	187,692
	418,732	360,711

10 TRADE RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of loss allowance, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current to 3 months	276,509	337,945
3 to 6 months	83,166	42,232
6 to 12 months	101,510	41,736
Over 12 months	20,027	28,686
Trade receivables, net of loss allowance	481,212	450,599

The credit terms agreed with commercial customers were normally ranged from 1 month to 1 year from the date of billing. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. No interest is charged on the trade receivables.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Cash at banks	541,065	713,070
Cash on hand	15	21
Cash and cash equivalents in the statement of financial position and cash flow statement	541,080	713,091

12 TRADE PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	79,650	127,532
3 to 6 months	20,425	15,689
6 to 12 months	2,842	857
1 year to 2 years	751	20
Over 2 years	1,423	1,668
	105,091	145,766

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

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2021		2020	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each: At 1 January and 30 June	20,000,000,000	168,981	20,000,000,000	168,981
Ordinary shares, issued and fully paid:				
At 1 January	1,115,500,000	9,451	1,052,700,000	8,888
Issuance of new shares	-	-	53,500,000	479
Shares issued under share option scheme (note 13(c))	-	-	7,775,000	71
At 30 June	1,115,500,000	9,451	1,113,975,000	9,438

(b) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$4.0 cents per ordinary share (2020: HK\$7.5 cents per ordinary share)	37,127	76,220

(c) Equity settled share-based transactions

On 17 November 2017, 36,000,000 share options were granted for nil consideration to employees of the Company under the Company's employee 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 equal batches and the grantees shall be entitled to exercise, on the first business day immediately following 1 May 2018 until 16 November 2027, if certain performance conditions are met. The exercise price is HK\$1.34.

No options were exercised during the six months ended 30 June 2021 (six months ended 30 June 2020: 7,775,000).

No options were lapsed during the six months ended 30 June 2021 (2020: Nil).

13 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Shares held for share award scheme

On 8 December 2020, the Company adopted a share award scheme (the "Share Award Scheme"), which is not subject to the provisions of Chapter 17 of the listing rules, to recognise and reward the contribution of certain eligible participants to the growth and development of the Group through an award of the Company's shares. The Share Award Scheme will be valid and effective for a period of 10 years commencing from 8 December 2020.

The Company's shares to be granted under the Share Award Scheme will be purchased and held by a trustee. The maximum number of shares to be subscribed for and/or purchased by the trustee for the purpose of the scheme shall not exceed 10% of the total number of issued shares as at the adoption date.

During the reporting period, the trustee purchased 1,922,000 shares of the Company on the open market at a total cost of RMB16,785,000.

No share award was granted under the Share Award Scheme until 30 June 2021.

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

	Fair value measurements as at 30 June 2021 categorised into			
	Fair value at 30 June 2021 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	238,907	–	238,907	–
	Fair value measurements as at 31 December 2020 categorised into			
	Fair value at 31 December 2020 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	188,402	–	188,402	–

There were no changes in valuation techniques in 2021.

15 COMMITMENTS

Capital commitments outstanding as at 31 December 2020 and 30 June 2021 not provided for were as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contracted for	36,645	3,900
Authorised but not contracted for	71,740	99,378
	108,385	103,278

16 MATERIAL RELATED PARTY TRANSACTIONS

There is no material related party transaction in the six months ended 30 June 2021 and 2020, except for key management personnel remuneration. No material amounts from related parties were outstanding as at 30 June 2021 and 31 December 2020.

17 EVENTS AFTER THE REPORTING PERIOD

As of the date of the report, there was no material event occurred for the Group after the reporting period.

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

As at 30 June 2021, the interests and short positions of the directors (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 of Hong Kong Limited (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 (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), were as follows:

Interest in Shares of the Company

Name of Directors	Capacity/ Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Interest In the Company (Note 2)
Mr. Li Zhijiang (Note 3)	Founder of a discretionary trust	505,157,500 (L)	45.29%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin (Note 4)	Interest in a controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	45.29%
Mr. Zhang Chaoyang (Note 5)	Founder of a discretionary trust	58,818,500 (L)	5.27%
Ms. Zhao Xiaohong (Note 6)	Beneficial Interest	2,000,000 (L)	0.18%

Notes:

- (1) The letter “L” denotes the Directors’ long position in the shares of the Company.
- (2) The percentage is calculated based on the total number of 1,115,500,000 shares in issue as at 30 June 2021.
- (3) Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 505,157,500 long positions in the Company’s shares. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in Ms. Zhang Bin’s interest in the shares of the Company pursuant to the SFO.
- (4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited’s interest in the shares of the Company pursuant to the SFO. In addition, Ms. Zhang Bin is the wife of Mr. Li Zhijiang. Therefore, Ms. Zhang Bin is deemed to be interested in Mr. Li Zhijiang’s interest in the Company’s shares pursuant to the SFO.
- (5) Mr. Zhang Chaoyang, being the founder of Bamboo Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 58,818,500 long position in the Company’s shares.
- (6) Ms. Zhao Xiaohong directly holds options to subscribe for 1,000,000 shares of the Company pursuant to the Pre-IPO Share Option Scheme and 1,000,000 shares in the Company.

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

As at 30 June 2021, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or were otherwise notified to the Company:

Name of Shareholders	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust	505,157,500 (L)	45.29%
	Interest of spouse	10,125,000 (L)	0.91%
Ms. Zhang Bin	Interest of a controlled corporation	10,125,000 (L)	0.91%
	Interest of spouse	505,157,500 (L)	45.29%
Ximalaya Limited	Beneficial owner	505,157,500 (L)	45.29%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	505,157,500 (L)	45.29%
Mr. Zhang Chaoyang	Founder of a discretionary trust	58,818,500 (L)	5.27%
Suntop Limited	Beneficial owner	58,818,500 (L)	5.27%
Bamboo Group Management Limited (Note 4)	Interest of a controlled corporation	58,818,500 (L)	5.27%
Trident Trust Company (HK) Limited (Note 3 & 4)	Trustee of a discretionary trust	563,976,000 (L)	50.56%
Hillhouse Capital Advisors, Ltd. (Note 5)	Investment manager	75,738,000 (L)	6.79%
Gaoling Fund, L.P. (Note 5)	Beneficial owner	71,025,000 (L)	6.37%

Notes:

- (1) The letter "L" denotes a person's long position in the Company's shares.
- (2) The percentage is calculated based on the total number of 1,115,500,000 shares in issue as at 30 June 2021.
- (3) LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Rainbow Holdings Limited, which holds 100% of the issued share capital of Ximalaya Limited. Therefore, each of Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO.
- (4) Bamboo Trust is a discretionary trust established by Mr. Zhang Chaoyang as settlor, with Trident Trust Company (HK) Limited acting as trustee. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Bamboo Group Management Limited, which holds 100% of the issued share capital of Suntop Limited. Therefore, each of Trident Trust Company (HK) Limited and Bamboo Group Management Limited is deemed to be interested in Suntop Limited's interest in the Company's shares pursuant to the SFO.
- (5) Hillhouse Capital Advisors, Ltd. is the sole investment manager and the general partner of Gaoling Fund, L.P. and YHG Investment, L.P. respectively. Each of Gaoling Fund, L.P. and YHG Investment, L.P. held 71,025,000 shares and 4,713,000 shares, respectively. Hillhouse Capital Advisors, Ltd. is deemed to be interested in the aggregate number of 75,738,000 Shares held by Gaoling Fund, L.P. and YHG Investment, L.P.

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

During the six months ended 30 June 2021, pursuant to the rules of the shares award scheme, the trustee purchased 1,922,000 shares of the Company through purchases on the open market at a total cost of RMB16,785,000.

Save for the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 30 June 2021, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 9,425,000, representing approximately 0.84% of the shares of the Company in issue.

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

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

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

(aa) For the purpose of this paragraph:

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

OTHER INFORMATION

- (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 six months ended 30 June 2021, no share options were granted under the Pre-IPO Share Option Scheme.

OTHER INFORMATION

The details of movements in the options granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2021 by category of grantees are set out below:

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2021	Granted during the six months ended 30 June 2021	Exercised during the six months ended 30 June 2021	Cancelled/ lapsed during the six months ended 30 June 2021	Outstanding as at 30 June 2021	Exercise period of share options	Exercise price of the share options
Director								
Zhao Xiaohong	17/11/2017	1,000,000	0	0	0	1,000,000	10 YEARS	HK\$1.34
Senior Management and Other Employees of the Group								
Senior Management and Other Employees	17/11/2017	8,425,000	0	0	0	8,425,000	10 YEARS	HK\$1.34
Total		9,425,000	0	0	0	9,425,000		

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

(b) Share Option Scheme

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

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

1. Purpose

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

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

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

- (ii) the approval of the shareholders in general meeting and/ or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the exercise price of the shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:
 - (aa) the Eligible Participant's name, address and occupation/ position;
 - (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Hong Kong Stock Exchange is open for the business of dealing in securities;
 - (cc) the date upon which an offer for an option must be accepted;
 - (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c)(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.

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| 5. | Period within which the securities must be taken up under an option | An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, except that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the Listing Date. |
| 6. | Minimum period, if any, for which an option must be held before it can be exercised | There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors. |
| 7. | Amount, if any, payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid | An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the document constituting acceptance of the option duly signed by the grantee, together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for shares may be accepted in respect of less than the number of shares for which it is offered provided that it must be accepted in respect of a board lot for dealing in shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined. |
| 8. | Basis of determining the exercise price | <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 20 December 2027. |

There is no outstanding share option as at 1 January 2021 and during the six months ended 30 June 2021, no share options were granted, exercised, cancelled or lapsed by the Company.

SHARE AWARD SCHEME

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

PURPOSES OF THE SHARE AWARD SCHEME

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

ADMINISTRATION

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

ELIGIBILITY

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

- (a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiary ("**Subsidiary**") or any of its invested entity ("**Invested Entity**") (an "**Employee**");
- (b) any non-executive director (including independent non-executive directors) of the Company, any Subsidiary or any Invested Entity;
- (c) any adviser (professional or otherwise), consultant to or expert in any area of business or business development of any member of the Group or any invested entity; and
- (d) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

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

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

SHARES POOL

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

- (a) such Shares as may be purchased by the Trustee on the Stock Exchange or off the market by utilising the funds allocated by the Board out of the Company's resources, subject to the scheme limit as described under the paragraph headed "The Share Award Scheme – Scheme limit" below;
- (b) such Shares as may be subscribed for by the Trustee by utilising the funds allocated by the Board out of the Company's resources, subject to the scheme limit as described under the paragraph headed "The Share Award Scheme – Scheme Limit" below;
- (c) such Shares as may be allotted or issued to the Trustee as a holder of Shares, whether by way of scrip dividend or otherwise; and
- (d) such Shares which remain unvested and revert to the Trustee due to the lapse of the award.

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

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

AWARD OF SHARES

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

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

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

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

VOTING RIGHTS OF THE SHARES IN THE SHARES POOL

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

VESTING OF THE AWARDED SHARES

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

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

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

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

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

BLACK-OUT PERIOD

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

- (a) an award or, as the case may be, any instruction of the Board to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool may not be made or given when inside information has come to the Company’s knowledge until such inside information has been published in accordance with the SFO; and
- (b) the Board may not make any award to any Eligible Participant or give any instruction to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company. In particular, during the period preceding the publication of financial results in which the Directors are prohibited from dealing in Shares pursuant to the Model Code as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company and up to the date of publication of the relevant financial results, no award may be made and no instruction may be given by the Board to the Trustee to acquire Shares for the purpose of increasing the Shares in the Shares Pool.

LAPSE OF AWARD

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

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

- (a) the Selected Participant ceases to be an Employee, other than for reason of death, normal retirement or early retirement (with prior written agreement given by the Company or the Subsidiary or the Invested Entity); or
- (b) the Subsidiary or Invested Entity by which a Selected Participant is employed or, in respect of a deceased or retired Selected Participant, was employed immediately prior to his death or retirement, ceases to be a Subsidiary or Invested Entity of the Company (or of a member of the Group); or
- (c) the Board shall at its absolute discretion determine in respect of a Selected Participant that (i) the Selected Participant or his associate has committed any breach of any contract entered into between the Selected Participant or his associate on one part and any member of the Group or any invested entity on the other part as the Board may in its absolute discretion determine; or (ii) the Selected Participant has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (iii) the Selected Participant could no longer make any contribution to the growth and development of any member of the Group or the invested entity by reason of the cessation of its relationship with the Group or the invested entity or by any other reasons whatsoever; or
- (d) an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company (subject to certain exceptions stipulated in the Share Award Scheme); or
- (e) a Selected Participant is found to be an excluded participant; or
- (f) subject to the terms of the Share Award Scheme, a Selected Participant fails to return duly executed transfer documents prescribed by the Trustee for the relevant awarded Shares within the stipulated period.

SCHEME LIMIT

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

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

RIGHTS ATTACHING TO THE AWARDS AND THE AWARDED SHARES

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

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

ALTERATION OF THE SHARE AWARD SCHEME

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

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

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

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

MOVEMENTS OF AWARDED SHARES

During the six months ended 30 June 2021, the trustee purchased 1,922,000 Shares on the open market at a total cost of RMB16,785,000. No awarded Shares were granted under the Share Award Scheme during the six months ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiries by the Company, all the Directors confirmed that they have complied with the requirements as set out in the Model Code throughout the six months ended 30 June 2021.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2021, save as the code provision addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

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

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

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

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

REVIEW BY THE AUDIT COMMITTEE

The Company has an audit committee with terms of reference aligned with the code provisions as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The audit committee consists of two independent non-executive Directors, Mr. Kong Chi Mo (Chairman), Dr. Li Shu Wing David and one non-executive Director, Dr. Wang David Guowei.

The Group's interim report for the six months ended 30 June 2021 have been reviewed by all members of the audit committee. Based on such review, the audit committee was of the opinion that the Group's unaudited interim financial report were prepared in accordance with the applicable accounting standards as well as the Listing Rules and that adequate disclosures have been duly made. The audit committee does not have any disagreement with the accounting treatment adopted by the Company.

INTERIM DIVIDEND

The Board did not recommend to declare any interim dividend to the shareholders of the Company for the six months ended 30 June 2021.

SUBSEQUENT EVENT

Since 30 June 2021 and up to the date of this interim report, the Group had no material events.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2021 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the shareholders of the Company.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in information of Directors during the six months ended 30 June 2021 and up to the date of this Interim Report are set out below:

Name of Director	Details of Change
Mr. Kong Chi Mo	Qualified as an EFFAS Certified Environmental Social and Governance Analyst since 22 July 2021. Admitted as a Fellow of The Hong Kong Institute of Directors since 7 June 2021.

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2021 containing all the relevant information required by the Listing Rules has been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ak-medical.net>).

By Order of the Board
AK Medical Holdings Limited
Li Zhijiang
Chairman
Hong Kong
24 August 2021