



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

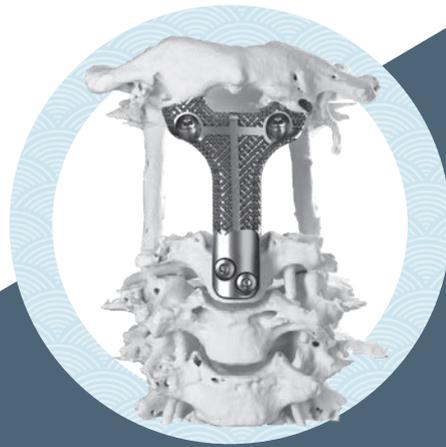
INTERIM REPORT

2022



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Ms. Zhang Bin

Mr. Zhang Chaoyang

Ms. Zhao Xiaohong

Non-executive Director

Dr. Wang David Guowei

Independent Non-executive Directors

Mr. Kong Chi Mo

Dr. Li Shu Wing David

Mr. Eric Wang

COMPANY SECRETARY

Ms. Han Yu

AUTHORIZED REPRESENTATIVES

Ms. Zhang Bin

Ms. Han Yu

AUDIT COMMITTEE

Mr. Kong Chi Mo (*Chairman*)

Dr. Li Shu Wing David

Dr. Wang David 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)

2/F, Xingye Building

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Changping District Science and Technology Park

Beijing

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

CORPORATE INFORMATION

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

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

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKS

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

LISTING INFORMATION AND STOCK CODE

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

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Revenue	531,211	447,633	18.7%
Gross profit	338,535	308,333	9.8%
Profit for the period	126,033	111,483	13.1%
Profit attributable to equity shareholders of the Company	126,033	111,483	13.1%
Earnings per share			
Basic	RMB0.11	RMB0.10	
Diluted	RMB0.11	RMB0.10	

CHAIRMAN'S STATEMENT

In the first half of 2022, the tender results of the national VBP of artificial joints began to be implemented in each province, gradually eliminating the policy risks of the entire industry and further enhancing the certainty of the industry's development. The Company faces a new challenge in how to rationalise and integrate the various segments of the industry under the new pricing system and maintain the Company's sustainable development.

Despite the complex and volatile external environment, we have taken proactive measures to address the situation. Following the implementation of the national VBP tender, we have seized market opportunities and worked hard to increase our market share in joint products. At the same time, our innovative products with 3D printing technology have been well received by hospitals and doctors, because of our excellent innovation capabilities.

In the first half of 2022, with our extensive product line and excellent services, we saw a significant increase in the volume of surgeries of products in the scope of VBP in end hospitals, which compensated for the decrease in the ex-factory price due to VBP. In the first half of 2022, the Group achieved sales revenue of RMB531.2 million, an increase of 18.7% over the same period last year, and net profit of RMB126.0 million, an increase of 13.1% over the same period last year.

Following the implementation of the results of the national VBP, the trend of import substitution and industry consolidation became more apparent. Through hospital volume submitting, we have gained access to a number of key provincial Class III A hospitals. On the one hand, we have significantly increased the volume of primary hip and knee joint implants surgeries, which has contributed to the growth of our sales revenue; on the other hand, we have vigorously promoted innovative products that meet clinical needs, such as customised ICOS products, which have maintained the Company's profit level.

In late 2021, we formulated our strategy for the Group's 2022 transformation period. In the first half of 2022, we firmly executed our transformation strategy, leveraging the advantages of 3D printing customisation technology to increase our share of the mid-to-high-end market and strengthen our image as a practitioner of orthopaedic innovation, while consolidating the mass market and strengthening our leadership position in the mass market. In March 2022, the Group launched a long-term share award and share option scheme to enhance the motivation and creativity of our employees and to share the fruits of corporate development with them.

We are confident that this national VBP is a significant opportunity for the Company to capture market share and further strengthen its position in the industry. In the future, AK Medical will continue to uphold its vision of becoming a world-leading brand and gradually realize its transformation from a product provider to a systemic technology-based enterprise, continuously innovating and rewarding its shareholders, customers and society!

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Business Overview

In the first half of 2022, the Company continued to face a complex external environment. Since April 2022, the results of the nationwide tender for the volume-based procurement (“**VBP**”) of joint implants began to be implemented in various provinces, and the uncertainty in this regard has been gradually eliminated. Under the new pricing structure, every stage of the industry chain has to be reshaped and adapted, which is the new challenge facing by the Group.

Amidst the complex and unstable external environment, the Company has actively adopted countermeasures. Upon the implementation of the results of the nationwide VBP tender, the Company has facilitated channels to secure the supply of products under centralized procurement and increased its market share of joint products. At the same time, the Group’s innovative products utilizing 3D printing technology have gained popularity by surgeons in the hospitals. In the first half of 2022, the volume of operations in the hospitals under the Group’s brands increased substantially.

For the six months ended 30 June 2022, the Group recorded sales revenue of RMB531.2 million and net profit of RMB126.0 million, representing increases of 18.7% and 13.1% respectively compared to the same period of the previous year.

Industrial Policies

In September 2021, the National Healthcare Security Administration (“**NHSA**”) organized and conducted a round of nationwide VBP tender on joint implants, which mainly involved primary artificial total hip system and primary artificial total knee system. A total of approximately 538,000 sets will be purchased in the first year with the procurement cycle lasting for two years, and the average retail price of all tender winning brands fell by around 82%.

On 31 March 2022, the NHSA and the National Health Commission (“**NHC**”) jointly issued the “Opinions on Supporting Measures for the Centralized Volume-based Procurement and Use of High-Value Medical Consumables joint implants by State Organizations”, and since April 2022, most provinces have been implementing the tender results of this round of VBP. As of 30 June 2022, all provinces except Shanghai and Anhui have started implementing the results of VBP.

During the process of VBP, for primary hip and knee systems, approximately 538,000 pieces will be purchased based on the submitted volume by hospital, and the Group has been allocated approximately 81,000 pieces according to the contracts, ranked first among all brands. A total of 3,497 hospitals are tending to purchase the Group’s joint prostheses, of which 953 are newly covered hospitals.

Hip and Knee Implants Business

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

Despite a reduction in the ex-factory price of some of the Company’s product lines as a result of the VBP policy, the volume of operations in the hospitals increased rapidly. The Group seized the opportunity to step into over ten key hospitals, such as Chinese PLA General Hospital, The Affiliated Hospital of Qingdao University, The First Affiliated Hospital of Zhejiang University School of Medicine. Hence, the sales volume of hips and knees implants increased significantly. For the six months ended 30 June 2022, the Group’s revenue from hip and knee products was RMB456.0 million, a year-on-year increase of 16.1%.

MANAGEMENT DISCUSSION AND ANALYSIS

Spinal and Trauma Implants Business

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

With the advantages of 3D printing technology, the Company’s products can be applied to the treatment of various rare and difficult spinal diseases. With the support of the national policy on rare and difficult diseases, the Company has completed many customised and complex surgeries with renowned Class III A hospitals in China, including surgeries related to cervical spine, thoracolumbar spine and pelvis, basically solving the situation where there is no prosthesis available or that prosthesis cannot match well with the patient.

For the six months ended 30 June 2022, the Group’s revenue from spinal and trauma implants reached RMB45.3 million, a year-on-year increase of 24.6%.

Research and Development

Against the background of nationwide VBP of orthopaedic products, the Group has reformulated its future R&D strategy to focus more on new technologies and new products that are innovative and meet urgent clinical needs. Led by 3D customised products and services, the Group will become a master of joint and an expert in spinal fusion, and extend its business to the digital smart orthopaedic and biomaterials segment.

In the field of joints, the Group is committed to the synergistic development of product lines both in and out of the scope of VBP to address clinical differentiation and individual needs through joint ancillary products, customised products, early intervention products and revision and reconstruction products. In the first half of 2022, AK Medical Beijing, a subsidiary of the Group, obtained the Class-III medical devices registration certificate with high cross-linked polyethylene tibial insert base for knee joints, further enriching the Company’s knee joint product line and providing clinical solutions for ultra-abrasive knee joint friction interfaces. The Group further explored customised products and services and enrich the experience in pelvic tumours, humeral tumours, finger, shoulder, wrist and ankle joint reconstruction and customised repair of trauma. The first surface total elbow replacement prosthesis implantation was completed, followed by the first half-elbow surface elbow prosthesis implantation. The customised reconstruction of complex articular surfaces is now more precise with better preservation of bone tissues and function.

In the field of spine, the Group has leveraged its leading 3D printing technology to develop synergies between standardised and customised products and to drive innovation based on the market demand. In the first half of 2022, the Company developed a 3D-printed adjustable artificial interbody which was put into clinical application. The Group has applied for the National 14th Five-Year Plan as a special project to conduct more in-depth research on 3D printing technology for the fusion of the anterior thoracolumbar spine with hospitals such as Sir Run Run Shaw Hospital affiliated with the Zhejiang University School of Medicine, Shanghai Changzheng Hospital and Tianjin Hospital.

With the aid of Innovative Customised Orthopedic Solution (“**ICOS**”), as well as its advantages in 3D printing and image processing, the Group is committed to building an innovative orthopedic customisation platform. On the platform, the Group will offer both services and products including preoperative planning, bone model printing, customised vetting guide, 3D-printed customised implants, etc., covering joint, spine, trauma, bone tumor surgeries, etc. Moreover, relying on this platform, the Group will cooperate with hospitals nationwide to develop and establish 3D-printed customised orthopedics workstations to promote the R&D, registration and popularisation of relevant customised products. At present, the Group has commenced relevant technical services in a few key hospitals, such as Beijing Jishuitan Hospital, Peking University Third Hospital, Peking University People’s Hospital and The First Affiliated Hospital of Chongqing Medical University.

At present, the Group has two Class-III 3D-printed customised products registration certificates approved by the China National Medical Products Administration (“**NMPA**”), as well as 39 customised products filed with cooperating hospitals.

MANAGEMENT DISCUSSION AND ANALYSIS

With an eye on the future direction of the orthopaedic industry, the Group has set up the digital smart orthopaedic business and a biomaterials segment. The digital orthopaedics business builds on its existing pre-surgery planning system, which integrates pre-surgery planning, 3D guiding models, navigational auxiliary system and robotic system to assist surgeons in surgery and optimise the surgical process. In the biomaterials segment, the Group has a range of product lines including bone fillers, surface functional materials and bioresorbable materials that will complement its prosthetic implants to meet clinical needs.

In the first half of 2022, the Group was awarded the first year of funding support for the first batch of national “Specialized and New” Small and Medium Enterprises High Quality Development Project. In terms of intellectual property rights, the Group was ranked among the top three in the list of national invention patents for national-level specialized and new “Small Technology Giants” enterprises in the field of medical devices. The Group signed an agreement on the technological achievements transformation of “hip and knee reconstruction technology and implants” with Beijing Jishuitan Hospital.

MARKETING AND SALES

Marketing

In the first half of 2022, under the circumstances of national VBP, the Group continued to implement Branded Academic Projects such as “Master Plan” and Pathways, with the aim of building a 3D platform composed of a new product platform, an international technology platform and a customer platform. The Group promoted surgeon education programs on new products, new technologies and new surgical operations, built an international academic exchange platforms at different levels in different training directions.

Products:

- 1) 3D-printing orthopedic fillers: Relying on the Group’s accumulated experience in 3D printing technology, the Company has launched various orthopedic fillers to enhance the stability as a whole on the one hand, and the long-term osseointegration between the implants and bone on the other hand, in the clinical application of inclusive bone defects, non-inclusive bone defects, osteoporosis, local sclerosis superimposed on non-inclusive bone defects and revision of bone defects, preserving more bone tissues and providing more reliable and long-term support for joint prostheses.
- 2) The first highly cross-linked, dual-system knee joint unicondylar replacement system in China: The system includes both mobile and fixed platform designed to meet different clinical indications, enriching the Group’s knee product line and further expanding its product advantage in knee joints.
- 3) In response to the launch of the 3D hip-conserving product AVN last year, a multi-centre clinical study was launched this year in collaboration with 28 provincial hip-conserving hospitals across China to collect data on the use of the product and made positive contribution to hip-conserving treatment in China.
- 4) For patients with congenital hip dysplasia, the Group has developed the SR II hip prosthesis system with orthopaedic experts in China and is actively promoting the multi-centre research project in collaboration with more than 20 provincial hospitals in China, with the aim of introducing a more suitable prosthesis for Chinese patients with hip dysplasia and promoting related clinical research.

MANAGEMENT DISCUSSION AND ANALYSIS

Academic platform:

- 1) Relying on the Pathways branded academic event platform, the Group established an academic platform for communication between Chinese and foreign doctors. The Group held the Pathways UK academic event in the first half of the year, inviting core R&D experts from China to give academic presentations on the international platform, with over 10,000 Chinese doctors participating, and the Group plans to hold a similar academic event in China in the second half of the year to promote international academic exchange and enhance the academic branding of AK Medical.
- 2) In 2022, leveraging on the “Master Plan” platform, the Group continued to launch a number of online and offline academic activities surrounding the promotion and training on hip and knee revision products with the focus on the professional upgrading needs of doctors, and with the help of the provincial training centres established, accumulatively covered approximately 300 key hospitals and trained over 100,000 clients.

Sales

Since April 2022, provinces across China have been implementing the results of national tenders for VBP of artificial joints, which has changed the competitive landscape of the industry.

The Group has always sold its products primarily through distributors. The distributors are important partners for the Company in providing services to hospitals and doctors. Following the national VBP, the retail price of primary hip and knee prostheses dropped significantly and the distributors' business was affected to some extent. The Group communicated with distributors well in advance of the implementation of the VBP results to clarify the sales policy and to enhance distributors' confidence with its extensive product line, good brand reputation among hospitals and flexible sales strategy.

After the implementation of the tender results of the VBP, the volume of operations under the Group's brands in hospitals increased rapidly, and the Company has newly penetrated a number of large Class III A hospitals.

Outlook

Being the first year for implementation of the Artificial Joint VBP, the industry is undergoing rapid changes in 2022. The Company believes that two important trends in the industry will be brought about by the nationwide VBP, first is the acceleration of import substitution and second is the acceleration of market consolidation of the industry.

As a leading domestic brand in the orthopaedic industry, the Group plans to leverage its core strengths in research and development and products and continues to enrich its product lines to meet the strong end-use demand for surgery and to capture the opportunities of increasing market share brought about by VBP.

FINANCIAL REVIEW

Overview

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Revenue	531,211	447,633	18.7%
Gross profit	338,535	308,333	9.8%
Profit for the period	126,033	111,483	13.1%
Profit attributable to equity shareholders of the Company	126,033	111,483	13.1%
Earnings per share			
Basic	RMB0.11	RMB0.10	
Diluted	RMB0.11	RMB0.10	

For the six months ended 30 June 2022, the Group achieved revenue of RMB531.2 million, representing a significant increase of 18.7% as compared to the same period in 2021. In the first half of 2022, following the implementation of the nationwide VBP policy for joint implants, the Company recorded significant growth in sales of hip and knee implants within the scope of VBP. At the same time, the Company's aggressive market expansion efforts and the launch of new products effectively drove revenue growth in revision replacement implants and ICOS customised products and value-added surgical services. Along with the significant revenue growth, the Group's net profit for the six months ended 30 June 2022 increased significantly by 13.1% compared to the six months ended 30 June 2021. The increase in net profit was mainly attributable to the increase in revenue mentioned above.

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

Revenue

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
Hip replacement implants ⁽¹⁾	327,864	282,964	15.9%
Knee replacement implants ⁽²⁾	128,124	109,917	16.6%
Spinal and trauma implants ⁽³⁾	45,305	36,368	24.6%
Others ⁽⁴⁾	29,918	18,384	62.7%
Total	531,211	447,633	18.7%

Notes:

- (1) Including 3D-printed hip replacement implants;
- (2) Including 3D-printed knee replacement implants;
- (3) Including 3D-printed spinal and trauma implants;
- (4) Others primarily include customised products and services, surgical instruments and third party orthopedic products.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue amounted to RMB531.2 million for the six months ended 30 June 2022, representing a significant increase of 18.7% as compared with RMB447.6 million for the six months ended 30 June 2021. The increase in revenue was mainly attributable to the increase in sales volume of hip and knee replacement implants within the scope of VBP driven by the nationwide VBP policy for joint implants.

Hip and Knee Replacement Implants Products

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

Hip implants recorded revenue of RMB327.9 million for the six months ended 30 June 2022, representing an increase of 15.9% as compared with RMB283.0 million for the six months ended 30 June 2021. Knee implants recorded revenue of RMB128.1 million for the six months ended 30 June 2022, representing an increase of 16.6% as compared with RMB109.9 million for the six months ended 30 June 2021.

In the first half of 2022, with the implementation of the tender results of nationwide VBP of joint implants, the Company has significantly increased the sales volume of hip and knee implants within the scope of VBP, resulting in an increase in sales revenue. At the same time, the Company achieved growth in revenue from the sale of revision replacement implants through aggressive market expansion and the launch of new products.

Spinal and Trauma Implants Products

The Group's spinal and trauma implants products include regular spinal implants and trauma implants, which are under the Libeier brand, as well as 3D-printed spinal implants. For the six months ended 30 June 2022, spinal and trauma implants products recorded a revenue of RMB45.3 million, representing an increase of 24.6% as compared to that of RMB36.4 million for the six months ended 30 June 2021. In the first half of 2022, the Company's innovative and functional 3D printing technology and its expanding spine product line have been highly recognised by the market and have further facilitated the implantation of spine products, resulting in a significant increase in sales.

Others

Revenue from others include revenue from customised joint, pelvis, spinal and trauma implants products, customised surgical value-added services, surgical instruments and third party orthopaedic product. For the six months ended 30 June 2022, others recorded a revenue of RMB29.9 million, representing a significant increase of 62.7% as compared to that of RMB18.4 million for the six months ended 30 June 2021. In the first half of 2022, the Company further leveraged its technical advantages in 3D printing customised products and value-added surgical services to successfully develop customised surgeries in a number of hospitals, resulting in a significant growth in revenue from others.

MANAGEMENT DISCUSSION AND ANALYSIS

Domestic and Overseas Sales

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

	Six months ended 30 June		Variance %
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	
China	467,573	379,553	23.2%
Other countries	63,638	68,080	-6.5%
Total	531,211	447,633	18.7%

Revenue from China for the six months ended 30 June 2022 was RMB467.6 million, a significant increase of 23.2% compared to the same period last year. Affected by the pandemic, for the six months ended 30 June 2022, the Group's sales revenue from overseas was RMB63.6 million, a decrease of 6.5% compared to the same period last year.

Cost of Sales

For the six months ended 30 June 2022, the cost of sales was RMB192.7 million, representing an increase of 38.3% as compared with RMB139.3 million for the six months ended 30 June 2021. The increase in cost of sales was primarily due to an increase in sales volume of the Group's products.

Gross Profit and Gross Margin

Gross profit represents revenue less cost of sales. The Group's gross profit increased by 9.8% to RMB338.5 million for the six months ended 30 June 2022 from RMB308.3 million for the six months ended 30 June 2021. The increase in gross profit was primarily due to the increase in revenue.

Gross margin is calculated as gross profit divided by revenue. The Group's gross margin was 63.7% for the six months ended 30 June 2022, decreased 5.2% from 68.9% for the six months ended 30 June 2021. Since April 2022, the implementation of the national VBP policy for joint implants resulted in a decrease in the sales price of hip and knee implants within the scope of VBP, which led to a decrease in gross profit margin. There was no significant change in gross profit margin for other products except for the change in gross profit for the hip and knee implants within the scope of VBP.

Other Income, net

The Group's other income for the six months ended 30 June 2022 was RMB5.0 million, representing an increase of RMB2.9 million as compared with RMB2.1 million for the six months ended 30 June 2021. Other income for the six months ended 30 June 2022 mainly represents government subsidy income received and grants for research and development projects.

Selling and Distribution Expenses

Selling and distribution expenses were RMB99.7 million for the six months ended 30 June 2022, representing an increase of 26.7% as compared with RMB78.7 million for the six months ended 30 June 2021. Such increase was mainly due to the marketing activities and promotions actively carried out by the Company for customised and revision products as well as product trainings, thus relevant marketing expenses increased.

General and Administrative Expenses

General and administrative expenses amounted to RMB54.5 million for the six months ended 30 June 2022, representing an increase of 6.9% as compared with RMB51.0 million for the six months ended 30 June 2021. The increase is mainly due to the increase in equity-settled share-based payment expenses in the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development Expenses

Research and development expenses for the six months ended 30 June 2022 were RMB54.4 million, representing an increase of 5.1% as compared with RMB51.7 million for the six months ended 30 June 2021. The increase was mainly due to the increase in cost of R&D materials as a result of more investment in R&D and the progress made in R&D projects.

Net Finance Income

Net finance income was RMB14.6 million for the six months ended 30 June 2022, representing an increase of RMB11.9 million from RMB2.7 million for the six months ended 30 June 2021. Such increase was primarily attributable to the increase in interest income and the impact of exchange rate movements resulted in a significant increase in foreign exchange gains.

Income Tax Expenses

Income tax expense was RMB23.4 million for the six months ended 30 June 2022, representing an increase of 16.4% as compared with RMB20.1 million for the six months ended 30 June 2021. The increase was mainly due to an increase in profit before tax.

Liquidity and Financial Resources

As of 30 June 2022, the Group had cash and cash equivalents of RMB484.9 million, structured deposit of RMB391.1 million, time deposits over 3 months of RMB224.2 million and import tariff monthly settlement deposit of RMB5.0 million, amounting to RMB1,105.2 million in aggregate, as compared with RMB948.3 million as at 31 December 2021. The Board's approach to manage the liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities so as to avoid any unacceptable losses or damage to the Group's reputation.

Net Current Assets

The Group had net current assets of RMB1,530.6 million as at 30 June 2022, representing an increase of RMB85.7 million as compared with RMB1,444.9 million as at 31 December 2021. Such increase primarily represents the proceeds from the operations of the Group.

Foreign Exchange Exposure

The Group's principal business is located in China, and it is exposed to foreign currency risks, primarily including 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 2022, the Group recorded an exchange gain of RMB7.3 million, as compared to an exchange loss of RMB1.3 million for the six months ended 30 June 2021. So far, the Group has not had any hedging arrangements to manage foreign exchange risks but has been actively monitoring and overseeing such risks.

Capital Expenditure

For the six months ended 30 June 2022, the Group's total capital expenditure amounted to approximately RMB71.6 million, which was primarily used in (i) land use right; (ii) purchase of patents; and (iii) acquiring equipment, machinery, and software for manufacturing and R&D activities.

Charge of Assets/Pledge of Assets

As of 30 June 2022, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings and Gearing Ratio

As of 30 June 2022, the Group did not have any outstanding bank loans or other borrowings. Gearing ratio represents the percentage of bank borrowings to total equity. As of 30 June 2022, the gearing ratio of the Group was Nil (as of 31 December 2021: Nil).

Contingent Liabilities

As of 30 June 2022, the Group did not have any material contingent liabilities (as of 31 December 2021: Nil).

Significant Investments

The Group did not hold any significant investments in the equity interests of any other companies as of 30 June 2022.

Material Acquisitions and Disposals

For the six months ended 30 June 2022, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Future Plans for Material Investments and Capital Assets

As of 30 June 2022, the construction of approximately 33,000 square meters of facility located at Changping New Town East has commenced and is expected to be completed in 2025. Future expenditure of construction is estimated at approximately RMB250.0 million.

Employee and Remuneration Policy

As of 30 June 2022, the Group had 950 employees (30 June 2021: 963 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended 30 June 2022 amounted to RMB100.2 million (for the six months ended 30 June 2021: RMB100.4 million).

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

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

Use of Proceeds from placement and top-up subscription

The Group completed a placement and top-up subscription exercise in the first half of 2020. A total of 53,500,000 placing shares were placed at a placing price of HK\$15.0 per share to no fewer than six independent placees whose respective ultimate beneficial owners are independent of and not connected with the Company and its connected persons. The Group received total net proceeds of approximately HK\$783.9 million from the top-up subscription, a portion of which was used for the acquisition of Libeier (being approximately HK\$313.6 million) and as general working capital of the Group (being approximately HK\$420.5 million). 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\$49.8 million) will be used for strategic acquisition investment (if any) and/or general working capital of the Group by 31 December 2022. There is no material change in the case of proceeds as previously disclosed.

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 set out on pages 16 to 30 which comprises the consolidated statement of financial position of AK Medical Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as of 30 June 2022 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 2022 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

30 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2022 – unaudited

(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	3	531,211	447,633
Cost of sales		(192,676)	(139,300)
Gross profit		338,535	308,333
Other income, net		4,956	2,080
Selling and distribution expenses		(99,713)	(78,721)
General and administrative expenses		(54,536)	(51,036)
Research and development expenses		(54,399)	(51,737)
Operating profit		134,843	128,919
Net finance income	5	14,611	2,693
Profit before taxation	4	149,454	131,612
Income tax	6	(23,421)	(20,129)
Profit for the period		126,033	111,483
Profit attributable to equity shareholders of the Company		126,033	111,483
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		3,255	(4,438)
Other comprehensive income, net of tax		3,255	(4,438)
Total comprehensive income		129,288	107,045
Total comprehensive income attributable to equity shareholders of the Company		129,288	107,045
Earnings per share			
Basic	7(a)	RMB0.11	RMB0.10
Diluted	7(b)	RMB0.11	RMB0.10

The notes on pages 21 to 30 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 2022 – unaudited
(Expressed in RMB)

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	8	423,266	382,401
Intangible assets		91,002	79,989
Goodwill		131,407	132,449
Deferred tax assets		61,654	76,074
		707,329	670,913
Current assets			
Inventories	9	347,121	423,068
Trade receivables	10	394,854	387,990
Bills receivable		73,281	142,458
Deposits, prepayments and other receivables		24,006	28,213
Other financial assets		395,611	365,528
Pledged deposits and time deposits		229,235	111,508
Cash and cash equivalents	11	484,943	475,606
		1,949,051	1,934,371
Current liabilities			
Trade payables	12	95,163	92,769
Contract liabilities		58,072	167,413
Accruals and other payables		223,248	166,779
Lease liabilities		13,038	10,952
Current taxation		28,948	51,522
		418,469	489,435
Net current assets		1,530,582	1,444,936
Total assets less current liabilities		2,237,911	2,115,849

The notes on pages 21 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2022 – unaudited
(Expressed in RMB)

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Deferred income		12,511	12,351
Other payables		8,695	–
Lease liabilities		32,214	30,607
Deferred tax liabilities		44,355	41,340
		97,775	84,298
NET ASSETS			
		2,140,136	2,031,551
Capital and reserves			
Share capital	13(a)	9,453	9,453
Reserves		2,130,683	2,022,098
Total equity attributable to equity shareholders of the Company		2,140,136	2,031,551
TOTAL EQUITY			
		2,140,136	2,031,551

The notes on pages 21 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2022 – unaudited

(Expressed in RMB)

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for share award scheme RMB'000	Share award reserve 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 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
Balance at 1 January 2022		9,453	1,032,214	(49,833)	-	55,174	4,210	1,008,345	(28,012)	2,031,551
Total comprehensive income for the period		-	-	-	-	-	-	126,033	3,255	129,288
Equity settled share-based transactions	13(c)	-	-	-	-	-	2,922	-	-	2,922
Shares granted under share award scheme	13(d)	-	-	-	366	-	-	-	-	366
Dividends approved in respect of the previous years	13(b)	-	(23,991)	-	-	-	-	-	-	(23,991)
Balance at 30 June 2022		9,453	1,008,223	(49,833)	366	55,174	7,132	1,134,378	(24,757)	2,140,136

The notes on pages 21 to 30 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2022 – unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Operating activities		
Cash generated from operations	243,091	19,703
Tax paid	(28,305)	(15,009)
Net cash generated from operating activities	214,786	4,694
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(71,583)	(39,230)
Uplift of structured deposits and time deposits	855,508	349,709
Placement of structured deposits and time deposits	(999,705)	(458,280)
Other cash flows arising from investing activities	8,219	4,688
Net cash used in investing activities	(207,561)	(143,113)
Financing activities		
Capital element of lease rentals paid	(7,611)	(10,952)
Interest element of lease rentals paid	(1,151)	(426)
Payment for shares held for share award scheme	-	(16,785)
Net cash used in financing activities	(8,762)	(28,163)
Net decrease in cash and cash equivalents	(1,537)	(166,582)
Cash and cash equivalents at 1 January	475,606	713,091
Effect of movements in exchange rates on cash hold	10,874	(5,429)
Cash and cash equivalents at 30 June	484,943	541,080

The notes on pages 21 to 30 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 (“**Listing Rules**”) 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 30 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 2021 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2022.

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

None of these developments have had a material effect on how the Group’s results and financial position for the current period 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	
	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products of service lines		
– Hip replacement implants	327,864	282,964
– Knee replacement implants	128,124	109,917
– Spinal and trauma implants	45,305	36,368
– Others (i)	29,918	18,384
	531,211	447,633
Disaggregated by geographical location of customers		
– China	467,573	379,553
– Other countries	63,638	68,080
	531,211	447,633

(i) Others

The Group reclassified the disaggregation by major products of service lines in the second half of 2021. The 3D-printed products disclosed in the six months ended 30 June 2021 has been reclassified into respective products.

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

The 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 2021 and 2022.

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	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Revenue from external customers	489,976	408,682	41,235	38,951	531,211	447,633
Inter-segment revenue	-	-	14,667	38,034	14,667	38,034
Reportable segment revenue	489,976	408,682	55,902	76,985	545,878	485,667
Reportable segment profit/(loss)	153,552	137,854	(8,093)	3,887	145,459	141,741
As at 30 June/31 December						
Reportable segment assets	2,025,567	2,003,739	177,186	174,454	2,202,753	2,178,193
Reportable segment liabilities	414,465	473,582	32,114	21,800	446,579	495,382

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	
	2022 RMB'000	2021 RMB'000
Reportable segment profit	145,459	141,741
Elimination of inter-segment loss/(profit)	3,995	(10,129)
Consolidated profit before taxation	149,454	131,612

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Amortisation of intangible assets	6,612	5,863
Depreciation of property, plant and equipment	34,268	30,617
Impairment losses of impairment on trade receivables	4,199	1,503
Cost of inventories	191,981	142,175

5 NET FINANCE INCOME

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Interest income from bank deposits and investments in structured deposit	8,449	4,427
Foreign currency exchange gain/(loss)	7,313	(1,308)
Interest on lease liabilities	(1,151)	(426)
	14,611	2,693

6 INCOME TAX

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Current tax – the PRC Enterprise Income Tax	5,731	19,875
Current tax – Overseas	–	1,186
Deferred tax	17,690	(932)
	23,421	20,129

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 2022 at the rates of taxation prevailing in the countries in which the Group operates. Applicable statutory enterprise income tax rate of PRC subsidiaries of the Company for the six months ended 30 June 2022 are 25% (six months ended 30 June 2021: 25%). According to the relevant PRC income tax law, the Company's subsidiaries, Beijing AKEC Medical Co., Ltd. ("**AK Medical Beijing**") and ITI Medical Co., Ltd. ("**AK Medical Changzhou**") were certified as New and High Technology Enterprises, and are entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing and AK Medical Changzhou will be expired on 21 October 2023 and 2 December 2023, respectively. 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 2022 (six months ended 30 June 2021: 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 RMB126,033,000 (six months ended 30 June 2021: RMB111,483,000) and the weighted average of 1,109,176,000 ordinary shares (2021: 1,114,609,000 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 RMB126,033,000 (six months ended 30 June 2021: RMB111,483,000) and the weighted average of 1,115,675,000 ordinary shares (2021: 1,115,735,000 shares).

8 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for use of factories and offices, and land use right with a lease term of 20 years, and therefore recognised the additions to right-of-use assets of RMB11,304,000 (six months ended 30 June 2021: RMB7,928,000) and RMB51,312,000 (six months ended 30 June 2021: Nil), respectively.

(b) Acquisitions of owned assets

During the six months ended 30 June 2022, the Group acquired items of property plant and machinery with a total cost of RMB23,562,000 (six months ended 30 June 2021: RMB27,596,000).

9 INVENTORIES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Raw materials	76,279	115,645
Work in progress	66,656	62,693
Finished goods	204,186	244,730
	347,121	423,068

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 2022 RMB'000	At 31 December 2021 RMB'000
Current to 3 months	262,425	239,330
3 to 6 months	13,166	10,877
6 to 12 months	99,237	90,666
Over 12 months	20,026	47,117
Trade receivables, net of loss allowance	394,854	387,990

The credit terms agreed with commercial customers were normally ranged from 1 month to 1 year from the date of billing. Balances due 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 2022 RMB'000	At 31 December 2021 RMB'000
Cash at banks	484,935	475,599
Cash on hand	8	7
Cash and cash equivalents in the statement of financial position and cash flow statement	484,943	475,606

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 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	80,940	72,240
3 to 6 months	7,093	13,253
6 to 12 months	4,949	1,709
1 year to 2 years	1,385	4,377
Over 2 years	796	1,190
	95,163	92,769

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

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	2022		2021	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each: At 1 January and 30 June	20,000,000,000	168,981	20,000,000,000	168,981
Ordinary shares, issued and fully paid: At 1 January and 30 June	1,115,700,000	9,453	1,115,500,000	9,451

(b) Dividends

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$2.5 cents per ordinary share (2021: HK\$4.0 cents per ordinary share)	23,853	37,127

(c) Equity settled share-based transactions

On 30 June 2022, the Group had the following share-based transactions arrangements.

(i) **Pre-IPO share option scheme**

On 17 November 2017, 36,000,000 share options were granted at a consideration of HK\$1.00 for each grantee to employees of the Group under the Company's share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest in four 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 (six months ended 30 June 2021: Nil) and 450,000 options (six months ended 30 June 2021: Nil) were lapsed during the six months ended 30 June 2022.

13 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Equity settled share-based transactions (continued)

(ii) Share option scheme

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

Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

The expected volatility is determined by the historical volatility of the Company. Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

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

No options were exercised or lapsed during the six months ended 30 June 2022.

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

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.

For the six months ended 30 June 2022, the Company granted 838,784 shares (six months ended 30 June 2021: Nil) to the Group's executives and employees. These shares will vest in four batches and the grantees shall be vested with such shares on each of 31 March 2023, 2024, 2025 and 2026 for nil consideration if certain performance conditions are met.

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

	Fair value measurements as at 30 June 2022 categorised into			
	Fair value at 30 June 2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	391,116	–	391,116	–
Other financial assets – investments in unlisted equity instrument at FVPL	4,495	–	–	4,495
	395,611	–	391,116	4,495

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial assets:				
Other financial assets – investments in structured deposit at fair value through profit or loss	361,230	–	361,230	–
Other financial assets – investments in unlisted equity instrument at FVPL	4,298	–	–	4,298
	365,528	–	361,230	4,298

There were no changes in valuation techniques in 2022.

15 COMMITMENTS

Capital commitments outstanding as at 31 December 2021 and 30 June 2022 not provided for were as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Contracted for	14,300	52,017
Authorised but not contracted for	281,887	226,673
	296,187	278,690

16 MATERIAL RELATED PARTY TRANSACTIONS

There is no material related party transaction in the six months ended 30 June 2022 and 2021, except for key management personnel remuneration. No material amounts from related parties were outstanding as at 30 June 2022 and 31 December 2021.

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.

OTHER INFORMATION

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 2022, 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)	45.28%
	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)	45.28%
Mr. Zhang Chaoyang (Note 5)	Founder of a discretionary trust	58,818,500 (L)	5.27%
Ms. Zhao Xiaohong (Note 6)	Beneficial Interest	2,660,304(L)	0.24%

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 1,115,700,000 shares in issue as at 30 June 2022.
- (3) Mr. Li Zhijiang, being the founder of LZY Trust who can influence how the trustee exercises his discretion, is deemed to be interested in 505,157,500 long 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, options to subscribe for 660,304 shares of the Company pursuant to the 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 2022, 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)	45.28%
	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)	45.28%
Ximalaya Limited	Beneficial owner	505,157,500 (L)	45.28%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	505,157,500 (L)	45.28%
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)	50.55%
Hillhouse Capital Advisors, Ltd. (Note 5)	Investment manager	75,738,000 (L)	6.79%
Gaoling Fund, L.P. (Note 5)	Beneficial owner	71,025,000 (L)	6.37%

Notes:

- (1) The letter "L" denotes a person's long position in the Company's shares.
- (2) The percentage is calculated based on the total number of 1,115,700,000 shares in issue as at 30 June 2022.
- (3) LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% issued share capital of Rainbow Holdings Limited, which holds 100% 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% issued share capital of Bamboo Group Management Limited, which holds 100% 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

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 2022.

SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

As at 30 June 2022, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 8,575,000, representing approximately 0.77% 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.

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- (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 2022, no share options were granted under the Pre-IPO Share Option Scheme.

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The details of movements in the options granted under the Pre-IPO Share Option Scheme during the six months ended 30 June 2022 by category of grantees are set out below:

Category and Name of grantee	Date of grant of share option	Outstanding as at 1 January 2022	Granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Cancelled/ lapsed during the six months ended 30 June 2022	Outstanding as at 30 June 2022	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	8,025,000	0	0	450,000	7,575,000	10 YEARS	HK\$1.34
Total		9,025,000	0	0	450,000	8,575,000		

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

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- (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

The exercise price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, except that such price will not be less than the highest of:

 - (i) the closing price of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Hong Kong Stock Exchange is open for the business of dealing in securities;
 - (ii) the average of the closing prices of the shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
 - (iii) the nominal value of a share.
9. The remaining life of the Share Option Scheme

The Share Option Scheme remains in force until 20 December 2027.

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On 31 March 2022, the Company granted 8,582,362 share options (representing approximately 0.77% of the issued share capital of the Company as at the date of this report and approximately 0.76% of the enlarged issued share capital of the Company upon exercise in full of the Options, respectively) (the “Options”) at an exercise price of HK\$4.66 per share to 112 employees of the Group (the “Grantees”). The validity period of the Options granted were from 31 March 2022 to 30 March 2032 (both dates inclusive). The closing price of the shares on the date of grant was HK\$4.66 per share.

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

- (i) 1,716,472 Options, representing 20% of the total Options granted, will be vested on 31 March 2023 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee;
- (ii) 1,716,472 Options, representing 20% of the total Options granted, will be vested on 31 March 2024 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee;
- (iii) 2,574,709 Options, representing 30% of the total Options granted, will be vested on 31 March 2025 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee; and
- (iv) 2,574,709 Options, representing 30% of the total Options granted, will be vested on 31 March 2026 conditional upon the achievement or attainment of certain performance targets by the Company and the respective Grantee.

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

The details of movement in the options granted under the Share Option Scheme during the six months ended 30 June 2022 by category of grantees are set out below:

Category and name of grantee (Note 1)	Share options outstanding as at 1 January 2022	Date of grant of share option	Share options granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Cancelled/ lapsed during the six months ended 30 June 2022	Share options outstanding as at 30 June 2022	Vesting period (Note 2)	Exercise period of share options	Exercise price of the share options	Closing price immediately before the date of grant
Director										
Zhao Xiaohong	0	31/3/2022	660,304	0	0	660,304	(i) 132,061 on 31/3/2023; (ii) 132,061 on 31/3/2024; (iii) 198,091 on 31/3/2025; (iv) 198,091 on 31/3/2026.	10 years	HK\$4.66	HK\$4.66

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Category and name of grantee (Note 1)	Share options outstanding as at 1 January 2022	Date of grant of share option	Share options granted during the six months ended 30 June 2022	Exercised during the six months ended 30 June 2022	Cancelled/lapsed during the six months ended 30 June 2022	Share options outstanding as at 30 June 2022	Vesting period (Note 2)	Exercise period of share options	Exercise price of the share options	Closing price immediately before the date of grant
Senior Management and Other Employees of the Group										
Senior Management and Other Employees	0	31/3/2022	7,922,058	0	0	7,922,058	(i) 1,584,412 on 31/3/2023; (ii) 1,584,412 on 31/3/2024; (iii) 2,376,617 on 31/3/2025; (iv) 2,376,617 on 31/3/2026.	10 years	HK\$4.66	HK\$4.66
Total	0		8,582,362	0	0	8,582,362				

Notes:

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

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.

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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.

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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

OTHER INFORMATION

- (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.

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MOVEMENTS OF AWARDED SHARES

During the six months ended 30 June 2022, there were 6,524,000 Shares held in trust by the trustee under the Share Award Scheme.

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

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

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 2022.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2022, 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 contained in Appendix 14 to the Listing Rules.

Code provision C.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 2022 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.

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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 2022.

SUBSEQUENT EVENT

Since 30 June 2022 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 2022 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 2022 and up to the date of this Interim Report are set out below:

Name of Director	Details of Change
Dr. Li Shu Wing David	Appointed as an adjunct associate professor of The Chinese University of Hong Kong since 1 August 2022

DISCLOSURE OF INFORMATION

The interim report of the Group for the six months ended 30 June 2022 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
30 August 2022