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

Annual Report 2017

CONTENTS

CORPORATE INFORMATION

DIRECTORS

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

Non-executive Directors
Mr. Li Wenming
Dr. Wang David Guowei

Independent Non-executive Directors
Mr. Dang Gengting
Mr. Kong Chi Mo
Mr. Li Shu Wing David

JOINT COMPANY SECRETARIES

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

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Kong Chi Mo *(Chairman)*
Mr. Li Shu Wing David
Mr. Li Wenming

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Li Zhijiang *(Chairman)*
Mr. Li Shu Wing David
Mr. Dang Gengting

REGISTERED OFFICE

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

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

2/F, Xingye Building
10 Baifuquan Road
Changping District Science and Technology Park
Beijing
China

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

KPMG
8th Floor, KPMG Tower, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, China

HONG KONG LEGAL ADVISER

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

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central, Hong Kong

PRINCIPAL SHARE REGISTRAR

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

SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.ak-medical.net

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of Communications
East West Bank
The Hongkong and Shanghai Banking Corporation Limited

LISTING INFORMATION

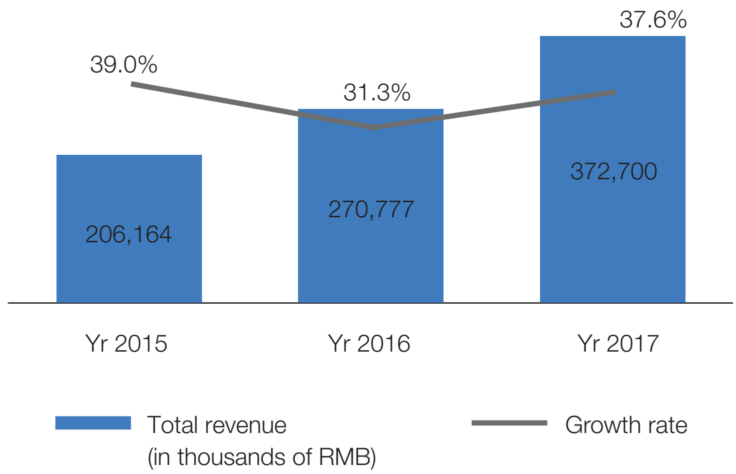
The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: 1789.HK)

FINANCIAL HIGHLIGHTS

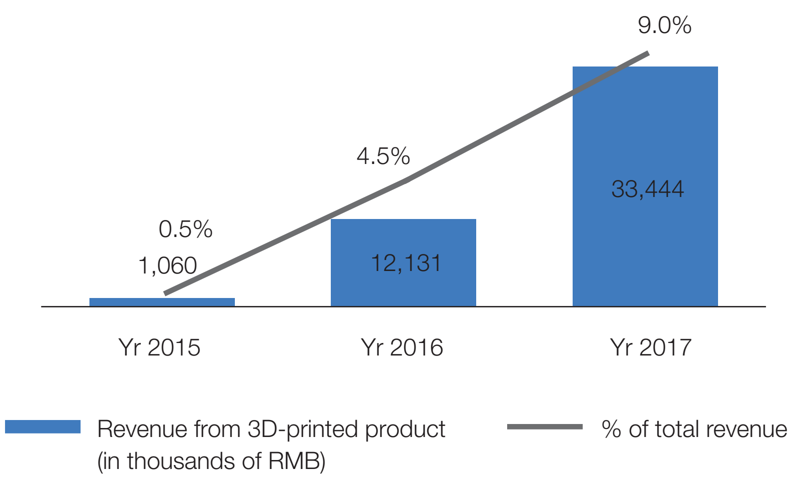
For the year ended December 31

	2017 RMB'000	2016 RMB'000	Change
Revenue	**372,700**	270,777	37.6%
Gross Profit	**263,790**	187,311	40.8%
Gross Profit Margin	**70.8%**	69.2%	
Profit for the year attributable to Equity shareholders of the Company	**105,376**	77,326	36.3%
Net profit margin	**28.3%**	28.6%	
Earnings per share			
Basic	**RMB0.14**	RMB0.10	40.0%
Diluted	**RMB0.14**	RMB0.10	40.0%

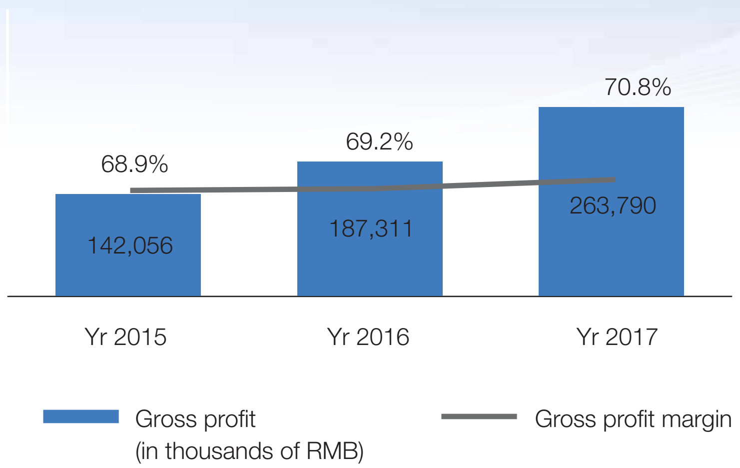
Growth of total revenue



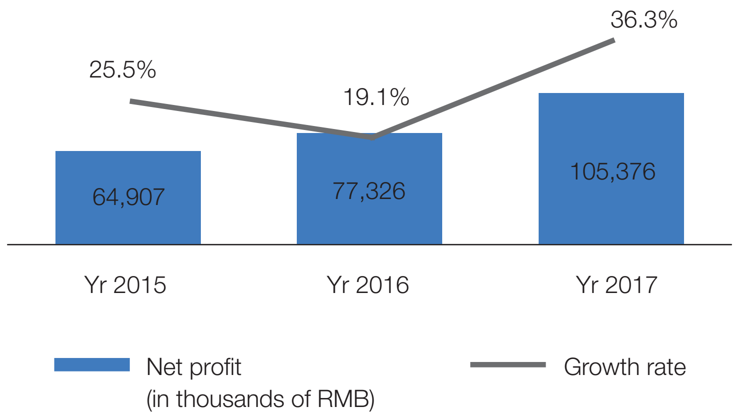
Growth of revenue from 3D-printed product



Growth of gross profit



Growth of net profit



FOUR YEARS' FINANCIAL SUMMARY

	2017 **RMB'000**	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	**372,700**	270,777	206,164	148,278
Profit for the year	**105,376**	77,326	64,907	51,721
Assets				
Non-current assets	**126,039**	83,078	59,777	35,610
Current assets	**731,568**	322,457	223,973	177,037
Total assets	**857,607**	405,535	283,750	212,647
Liabilities				
Current liabilities	**179,362**	99,034	100,819	51,065
Non-current liabilities	**10,262**	12,108	5,993	5,631
Total liabilities	**189,624**	111,142	106,812	56,696
Total equity	**667,983**	294,393	176,938	155,951

DEAR SHAREHOLDERS,

The year 2017 marked the milestone for the development of AK Medical Holdings Limited ("AK Medical") and was the first annual reporting year of the Company after its listing on the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 20 December 2017. AK Medical has achieved and implemented its mission, vision and values through operational performance, and confidently delivers returns to our investors.

As the largest leading brand of joint implant in China, AK Medical maintains its leading position in the orthopedic joint implant market. With the most comprehensive product line of the hip joint and knee joint implants, it achieved fruitful results. Its revenue recorded a year-on-year increase of 37.6% to RMB372.7 million. Net profit reached RMB105.4 million, realizing a significant growth of 36.3%.

As the first and only medical device company that has commercialized the application of 3D-printing technology in orthopedic joint and spine replacement implants in China and provides clinical system solutions, AK Medical achieved considerable growth for its 3D-printed products. In 2017, revenue generated from the 3D-printed products amounted to RMB33.4 million, representing an increase of 175.7% from RMB12.1 million in 2016, which also led to the rapid growth of the Company's off-the-shelf products.

As a company that spearheads the market with product research and development ("R&D") capability, we maintain the launch of at least one new product every two years, and continue to focus on increasing investment in the R&D efforts. The R&D expenditure in 2017 amounted to RMB35.0 million, accounting for 9.4% of revenue. We entered into a five-year R&D strategic framework agreement with Peking University Third Hospital in 2017, pursuant which both parties will continuously collaborate in the 3D printing development. As of 31 December 2017, we have obtained a total of 40 invention patents, 143 utility patents, two patents under Patent Cooperation Treaty ("PCT"), 134 invention patents pending for approval, and 26 registration certificates for Class III medical devices, maintaining our advantage of having the largest number of registration certificates for Class III medical devices.

As the best-selling brand of joint implant prosthesis in the PRC market in terms of sales volume, the Company took up a market share of 15.1% in 2017. With accumulation of data, resources and experience in the orthopedic joint implant market over the past 15 years, we have formed a strong advantage in joint branding. In addition to solving the two core technical challenges in the joint implant technology by acquiring the bone interface technology and friction interface technology, we are also the first to launch the 3D ACT Physician-Technician Interaction Platform, or "PTIP" in China. We are committed to creating "an engineer behind every doctor" and providing doctors with multiple clinical service solutions. Leveraging on differentiated services and differentiated products, we are able to tap into the high-end market and enjoy greater competitive advantage in the import-substitution market. In 2017, we have covered 3715 hospitals, of which 1124 are Class III Hospitals, an increase of 821 compared to the figure in 2016.

Over the past 15 years, we insisted on innovating product and service models in the orthopedic joint implant market and were given many awards. We continue to uphold such principle, and will continue to fulfil our commitments to shareholders, customers, patients and society in a practical manner.

We believe that we will continue to take the lead on driving innovation of 3D printing in orthopedic implant market, invest in the R&D, and strengthen our core technological competencies so as to move further in the orthopedic implant market.

Under the favorable market and policy environment, we believe that AK Medical will firmly seize the opportunity arising from the import-substitution policy to further increase our market share and penetration rate.

We believe that the establishment of sustainable business requires AK Medical to have a longer-term vision and commitment, which embraces on enhancing and investing in the overall competence of the Company, including recruitment of new talents, development of new technologies, application of new management methods, and implementation of innovative practices. These will lay the foundation for AK Medical to become a multinational corporation.

In the future, AK Medical will continue to practice the mission of "Serving hundreds of millions of Patients". To solve the skeletal problems of elderly patients and to offer effective treatment for patients living in urban areas or rural areas, we strive to become a world-class innovative orthopedic joint product company that provides surgeons and patients with comprehensive orthopedic surgical solutions and orthopedic products so as to promote sustainable growth of AK Medical as well as deliver returns to shareholders, customers and the society.

BUSINESS OVERVIEW AND OUTLOOK

Overview

2017 was a year of rapid development for medical device industry in China due to favourable policy development. The ministries and commission under the State Council issued a series of guiding principles for medical device in October 2017 and the General Office of the State Council issued the "Opinions on Deepening the Examination and Approval System for Drugs, and Reforming and Encouraging Innovation of Drugs and Medical Devices" (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》), covering various areas and strengthening the entire life cycle management for drugs and medical devices. The promulgation of this series of regulations has expedited the approval process, encouraged innovation on medical device, optimized the registration process and strengthened the management for clinical trials, which was beneficial to the medical device industry, especially for the future development of the medical device enterprise with R&D (as defined below) capability.

Leveraging on the opportunities brought about by the policy development, the Group promoted its business growth on a steady pace. For the year ended 31 December 2017, we obtained three product registration certificates for Class II medical devices and 26 product registration certificates for Class III medical devices approved by China Food and Drug Administration ("CFDA"). We remain the orthopedic joint company with the largest number of registration certificates for Class III medical devices in China and its products can meet the needs of all kinds of orthopedic joint surgeries.

For the year ended 31 December 2017, the Group achieved an annual revenue of RMB372.7 million, representing an increase of 37.6% as compared to the same period in 2016; the Group achieved profit of RMB105.4 million, representing a growth of 36.3% as compared to the same period in 2016.

3D-printed Products Business

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

For the year ended 31 December 2017, we had a total of three 3D-printed products approved by CFDA, namely 3D-printed acetabular cup and augment, 3D-printed spinal interbody cages and 3D-printed artificial vertebral bodies, respectively. We remain the only orthopedic company in China with 3D-printed metal implants approved by CFDA.

In 2017, our 3D-printed products achieved sales revenue of RMB33.4 million, including hip joint products of RMB28.5 million. Meanwhile, our 3D-printed products technologies also allow us to enter into the spine field. In 2017, our spine products achieved sales revenue of RMB4.9 million. The increase in revenue from sales of our 3D-printed products was 175.7% as compared with 2016. This rapid growth was due to the fact that we are the only company which can provide 3D-printed orthopedic implant products in the market, while the structural advantage of 3D-printed products is gradually gaining the recognition from the orthopedists.

Other than our products, we also provide our customers with personalized 3D Accurate Construction Technology ("3D ACT") solutions, which are personalized solutions the Group developed and introduced in July 2014 to assist surgeons in simulating and planning for implant surgeries to achieve their expectation. For the year ended 31 December 2017, such platform has covered 546 hospitals to assist the doctors in designing 2616 surgical solutions, an increase of 1700 compared to the figure in 2016. Out of the 546 hospitals covered by this platform, 368 hospitals of which are Class III hospitals, an increase of 310 compared to the figure in 2016, so this platform played an important role in helping us to enter into high-end medical market and especially in the top-three hospitals in the first- and second-tier cities in the PRC.

Off-the-shelf Products Business

Off-the-shelf products are the standard, mass-produced orthopedic products that are of pre-determined shapes and sizes.

In 2017, we continued to provide our customers and patients with a full product line of orthopedic joint products, including hip and knee implants and tools for initial, complex, revision and reconstruction surgeries.

Our hip and knee off-the-shelf products achieved a revenue of RMB317.0 million in 2017, representing a year-on-year increase of 31.0%. The rapid growth in revenue from sales of off-the-shelf products was owing to our excellent product quality and extensive sales channels. At the same time, as a hip system includes several components and is sold by set, our off-the-shelf products have also been driven by the strong sales of 3D-printed acetabular cup and augment, gaining excess growth.

Research and Development

As an orthopedic company driven by research and development ("R&D"), we continue to focus on enhancing the Group's capabilities of and investments in R&D. We improve the Group's capabilities of R&D through various aspects. Firstly, we cultivate talent to enhance the strength of the Group's internal R&D team. We provide training for R&D personnel on regular basis and give particular attention to the development of reserve personnel. Secondly, we step up cooperation with external experts to explore the R&D of innovative products. In January 2017, we entered into a five-year R&D strategic framework agreement with Peking University Third Hospital, whereby both parties will jointly conduct R&D in 3D-printing area. Thirdly, we develop good interaction with surgeons, thus accumulating data to enhance R&D capabilities. Our 3D ACT Physician-Technician Interaction Platform (PTIP) provides physician and our R&D technician with an unimpeded communication channel, through which the Group's R&D team will gain experience and data in practice while assisting the physicians in designing surgical solutions.

The number of patents we obtained can indicate our strong R&D capabilities. As of 31 December 2017, we have obtained a total of 40 invention patents, 143 utility patents, two patents under Patent Cooperation Treaty ("PCT") and two appearance patents, with 124 invention patents, 69 utility patents and six patents under PCT pending for approval.

Production facilities

In 2017, the Group persistently strengthened the lean procedure management and the concepts of safety and protection, continued to enhance the utilization rate of equipment and lowered the unit material cost and processing time.

In 2017, there was no material safety accident occurred in the Group and we have passed all the relevant compliance inspection of the government.

Changzhou Facilities

We plan to establish new production facilities in the Taihu West Science, Technology and Properties Park, Changzhou, Jiangsu Province, China to meet the demands of increased capacity from the development of business.

The construction of the Changzhou Facilities commenced at the end of 2017, and the first phase of construction is expected to be completed at the end of 2018.

Sales and Marketing

In 2017, we continued to strengthen the management of the entire sales system, expand our internal sales team and broaden the sales network. As of 31 December 2017, we have a sound distributor system over all regions of the PRC (for the purpose of this report, excluding the Hong Kong Special Administrative Region of the PRC, the Macao Special Administrative Region of the PRC and Taiwan), covering 3715 hospitals, 1124 of which are Class III hospitals, an increase of 821 from 2016.

With the enhancement of our technologies and product quality and leveraging on the deepening of the national policy of import substitution, our products gradually entered into the high-end market and obtained more market shares. Meanwhile, our 3D ACT solution also became an important auxiliary means to enter the high-end market.

OUTLOOK FOR 2018

In December 2017, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which provided the Group with a good opportunity to develop in the future. With the help of the capital market, we will consolidate our leading position in the joint industry in China and adopt active development strategies, including but not limited to the following:

1. Continuous development of 3D-printing orthopedic products and promotion of 3D ACT Physician-Technician Interaction Platform ("PTIP")

In 2018, we will continuously deepen the research and development of 3D-printing technology, which is regarded as one of important development strategies of the Group and conduct further research and development of 3D standardized and customized products to increase the proportion of 3D-printing products in sales income. At the same time, we will also continuously promote our 3D ACT PTIP among hospitals and orthopaedic surgeons to accumulate more case data for future product development.

2. Committed to research and development as the core of the Group's development and more investment in research and development

We always believe that research and development capability is the core competitiveness of the Group's development. In the coming year, we will continue to invest in research and development, and will explore advanced technologies and products from abroad to be introduced into the markets in China.

3. Consolidating the leadership position of the Group in the field of joint and forging the Group into a well-established orthopedic platform step by step

We will continue to maintain our leadership in the field of joint, and further expand the market share of our brand. At the same time, we also believe that China's orthopaedic industry will gradually enter into the consolidation period. We will explore opportunities in other segments of orthopedics and gradually build the Group into a platform for orthopaedic industry in China.

4. Actively respond to policies initiated by government

In 2017, the PRC Government issued a series of policies and regulations in respect of medical devices industry. We expect that these policies and regulations, such as "two invoice policy" and "national price negotiation mechanism", will be further carried out and implemented in 2018. We will conduct an analysis and research and make a judgment on these policies, so as to grasp the opportunities arising from the trend of import substitution brought by these policies, and continuously introduce new competitive products to cope with the price pressure.

5. Actively explore suitable opportunities for strategic acquisitions and alliance

We continue to explore suitable opportunities in the orthopedic product market which is in line with the strategic positioning of the Group for strategic acquisitions and alliance to grow our business, expand our product and service offerings.

FINANCIAL REVIEW

Overview

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	%
Revenue	**372,700**	270,777	37.6%
Gross Profit	**263,790**	187,311	40.8%
Profit for the year attributable to equity shareholders of the Company	**105,376**	77,326	36.3%
Earnings per share			
Basic	**RMB0.14**	RMB0.10	40.0%
Diluted	**RMB0.14**	RMB0.10	40.0%

Benefiting from the trend of import substitution and the lead of 3D-printed products, we achieved income growth of 37.6% for the year ended 31 December 2017 and continued to maintain its standing as the best-selling brand of joint implants in the PRC market in terms of sales volume. We dedicated ourselves to change the perception of domestic brands and became an honorable world-class medical enterprise and continued to make unremitting efforts to improve the quality of life for hundreds of millions of patients.

The following discussions are on the basis of the financial information and its notes as set out in other sections in this announcement and shall be reviewed together with those financial information and its notes.

Revenue

	For the year ended 31 December		
	2017	2016	Change
	RMB'000	RMB'000	%
Off-the-shelf products(1)	**316,972**	241,879	31.0%
3D-printed products(2)	**33,444**	12,131	175.7%
Others(3)	**22,284**	16,767	32.9%
Total	**372,700**	270,777	37.6%

Notes:

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

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

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

Our revenue for the year ended 31 December 2017 was RMB372.7 million, increased by 37.6% compared to RMB270.8 million for the year ended 31 December 2016. Such increase was mainly driven by the strong sales performance of hip replacement implants including 3D-printed products, and the increase in the sales of knee replacement implants.

Off-the-shelf products

Our off-the-shelf products include knee replacement implants and hip replacement implants.

Off-the-shelf products achieved revenue of RMB317.0 million for the year ended 31 December 2017, representing an increase of 31.0% as compared with that of RMB241.9 million for the year ended 31 December 2016.

The increase of revenue from knee replacement implants was mainly attributed to the increase of sales driven by the Group's offering of knee products with relatively higher price-performance ratio to the market.

The increase of revenue from off-the-shelf hip replacement implants was partly attributed by the Group tapping into more hospitals by virtue of 3D printing products, and the Group's product performance has been recognized by more hospitals and distributors, so that there was a sales growth in the off-the-shelf hip replacement implants. Meanwhile, due to the increased sales proportion of new products we launched in the product portfolio, the average selling unit price of off-the-shelf hip replacement implants in 2017 also increased correspondingly, which also promoted the revenue growth of off-the-shelf hip replacement implants.

3D-printed products

Our 3D-Printed Products include 3D-printed hip replacement implants, 3D-printed artificial vertebral bodies and spinal interbody cages. 3D-Printed Products achieved revenue of RMB33.4 million for the year ended 31 December 2017, representing an increase of 175.7% as compared with that of RMB12.1 million for the year ended 31 December 2016. Such increase was mainly due to the fact that our 3D printing products were the only 3D printing orthopedic products in China that received registration certificate. The products were highly recognized by the market as soon as it was launched, so as to gain a rapid growth in their sales.

Others

In order to complement our own product portfolio, we also distribute other orthopedic products including those produced by third parties. In 2017 and 2016, our revenue from other orthopedic products were RMB22.3 million and RMB16.8 million, representing 6.0% and 6.2% of our revenue, respectively. The increase of revenue from other products was mainly attributable to the increase of hospitals entered in 2017.

Cost of sales

Our cost of sales primarily consists of materials, labor cost and production cost for our self-produced products and our distribution costs for orthopedic products produced by third parties.

For the year ended 31 December 2017, our cost of sales was RMB108.9 million, representing an increase of 30.5% as compared with RMB83.5 million for the year ended 31 December 2016. The increase in cost of sales was primarily due to the growth of our sales of off-the-shell products and 3D-printed products.

Gross profit and gross margin

Gross profit increased by 40.8% to RMB263.8 million for the year ended 31 December 2017 from RMB187.3 million for the year ended 31 December 2016. The increase in gross profit was primarily driven by the growth of our overall business scale.

Our gross margin was 70.8% for the year ended 31 December 2017, up from 69.2% for the year ended 31 December 2016, which was primarily due to increasing proportion of products with a relatively higher gross margin in the product portfolio, such as the total knee replacement products and 3D-printed products.

Gross margin of our knee replacement implants increased due to an increase in the sales of our A3 total knee replacement products, which was a relatively high selling price and gross margin than the other knee products for primary surgeries.

Further, the 3D-printed products had a much higher gross margin as compared to our other products. As the proportion of 3D-printed products in our sales had increased in year 2017, the overall gross margin had consequently increased.

Other income

Our other income primarily consists of ad hoc government grants we received from time to time.

Other income increased by 238.0% from RMB0.8 million for the year ended 31 December 2016 to RMB2.7 million for the year ended 31 December 2017, which was primarily due to increase in both government grants and IIT concession.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of compensation and benefits for our sales and marketing personnel, promotion and advertising expenses, traveling and transportation expenses etc.

Selling and distribution expenses was RMB50.4 million for the year ended 31 December 2017, representing an increase of 39.1% as compared with RMB36.2 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in compensation, benefits and travel expenses due to an increase in the number of sales personnel, an increase in rental fees due to the newly leased office, and an increase in the costs incurred by an external service fees, academic promotion and industry conferences.

General and administrative expenses

Our general and administrative expenses primarily consist of IPO listing expenses, compensation and benefits for our administrative personnel, traveling expenses, training program fees for our senior management and other personnel.

General and administrative expenses amounted to RMB56.2 million for the year ended 31 December 2017, representing an increase of 47.5% as compared with RMB38.1 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in IPO listing expenses, compensation, benefits and travel expenses of our administrative personnel and an increase in provision for bad debts resulted from an increase in the balance of accounts receivable. The Company incurred IPO Listing expenses of RMB17.7 million and RMB22.0 million respectively in year 2016 and 2017.

Research and development expenses

Our R&D expenses primarily consist of cost of materials, fuel and power for our laboratories, compensation and benefits for our R&D personnel, cost of experiments and clinical trials, and depreciation expenses on R&D equipment.

Research and development expenses amounted to RMB35.0 million for the year ended 31 December 2017, representing an increase of 71.5% as compared with RMB20.4 million for the year ended 31 December 2016. Such increase was primarily a result of an increase in research and development expenses resulted from our strategic research and development cooperation with Peking University Third Hospital in 2017, an increase in testing fees for registration of new product, and an increase in depreciation expenses of devices resulted from our five 3D-printing devices that put into research and development after commissioning in 2017.

Net finance income

Net finance income was RMB0.5 million for the year ended 31 December 2017, representing a decrease of 70.1% as compared with RMB1.7 million for the year ended 31 December 2016. Such decrease was primarily due to reduction in foreign exchange gains.

Income tax expense

Income tax expense was RMB20.0 million for the year ended 31 December 2017, representing an increase of 13.0% as compared with RMB17.7 million for the year ended 31 December 2016. Such increase was primarily due to an increase in our profit before taxation and corresponding increase in income tax resulted from our expansion of operations.

Net profit for the year

As a result of above, our net profit for the year increased by 36.3%, from RMB77.3 million in 2016 to RMB105.4 million in 2017.

Liquidity and financial resources

As of 31 December 2017, we had cash and cash equivalents of RMB517.5 million, as compared to RMB160.6 million as of 31 December 2016. The Board's approach to manage liquidity of the Group is to ensure sufficient liquidity at any time to meet its matured liabilities to avoid any unacceptable losses or damage to the Group's reputation.

Contingent liabilities and guarantees

As of 31 December 2017, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

Significant investment

As of 31 December 2017, the Group did not have any significant investment.

Net current assets

We had net current assets of RMB552.2 million as of 31 December 2017, representing an increase of 147.2% as compared with RMB223.4 million as of 31 December 2016. Such increase was primarily from the proceeds from the initial public offering of the Company.

Foreign exchange exposure

We mainly operate in the PRC and are exposed to foreign currency risk, primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk is primarily HK$ and US$. For the year ended 31 December 2017, the Group recorded a net exchange loss of RMB0.6 million, as compared to an exchange gain of RMB1.2 million for the year ended 31 December 2016. The Group did not have any significant hedging arrangements to manage foreign exchange risk but has been actively monitoring and overseeing its foreign exchange risk.

Capital expenditure

Our capital expenditure was used primarily for construction of production facilities, acquisition of production equipment and R&D equipment and leasehold improvements.

For the year ended 31 December 2017, the Group's total capital expenditure amounted to approximately RMB45.8 million, which was used in (i) construction of buildings; (ii) acquiring equipment and machineries; (iii) prepayment for leasehold land; and (iv) expenditures for R&D projects under development stage.

Use of proceeds from initial public offering

The shares of the Company listed on the Main Board of the Stock Exchange on 20 December 2017, and the net proceeds from this initial public offering (including the exercise of the overallotment option on 4 January 2018), after deducting the underwriting commission and other expenses in connection with the global offering which the Company received amounted to approximately HKD477 million, comprising HKD415 million raised from global offering and HKD62 million from issue of share pursuant to the exercise of the overallotment option respectively. As of 31 December 2017, such proceeds have not yet been utilized by the Company. The Company has and will utilize the net proceeds in such manners and proportions as disclosed in the prospectus issued by the Company on 7 December 2017.

Subsequent events

On 4 January 2018, the listing and dealings of 37,500,000 ordinary shares issued and allotted by the Company pursuant to the exercise of the over-allotment option granted by the Company in connection with its initial public offering commenced on the Main board of the Stock Exchange.

Save for the above, no material events have occurred since 31 December 2017.

Financial Risks

The Group is not subject to significant credit risk and liquidity risk. The Group had cash at banks denominated in foreign currencies, which exposed the Group to foreign exchange risk. The Group does not use any derivative contracts to hedge against its exposure to foreign exchange risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will take prudent measures to minimize the currency translation risk.

Capital Structure

As of 31 December 2017, the Group had net assets of approximately RMB668.0 million, as compared to RMB294.4 million as of 31 December 2016, comprising current assets of RMB731.6 million, non-current assets of approximately RMB126.0 million, current liabilities of RMB179.4 million and non-current liabilities of approximately RMB10.3 million.

Material acquisition and future plans for major investment

In 2017, the Group did not conduct any material investments, acquisitions or disposals. In addition, save for that disclosed in "Subsequent Event" and "Future Plans and Use of Proceeds" in the Prospectus of the Company (the "Prospectus"), the Group has no specific plan for major investment or acquisition for major assets or other business. However, the Group will continue to identify new opportunities for business development.

Gearing Ratio

During the year ended 31 December 2017, the Company did not incur any interest-bearing debts. Neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

DIRECTORS

Executive Directors

Mr. Li Zhijiang (李志疆), aged 49, is the chairman of our Board, the chief executive officer of our Company and an executive Director, primarily responsible for the overall strategic planning and development of our Group. He was appointed as a Director on 17 July 2015 and was designated as the chairman of our Board, the chief executive officer of our Company and an executive Director on 6 April 2016. Mr. Li is the spouse of Ms. Zhang Bin, an executive Director and a senior vice president of our Company, and the brother-in-law of Mr. Zhang Chaoyang, an executive Director and a senior vice president of our Company.

Mr. Li is one of the founders of our Group and has over 20 years of experience in the clinical and orthopedic industry. He has been a director of AK Medical Investments Limited, AK Medical International Limited, Bright AK Limited (formerly known as OrbiMed Asia AK Limited), Beijing AK Medical Co., Ltd* (北京愛康宜誠醫療器材有限公司) ("**AK Medical Beijing**") (formerly known as 北京愛康宜誠醫療器材股份有限公司) and Beijing Ximai Kesi Medical Device Limited* (北京西麥克斯醫療器械有限公司) since 21 July 2015, 28 July 2015, 15 March 2016, 8 May 2003 and 11 November 2009, respectively. He has also been the general manager of AK Medical Beijing since May 2003. Prior to establishing our Group in May 2003, Mr. Li worked in the surgical department of Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China from 1988 to 1999.

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

Ms. Zhang Bin (張斌), aged 50, is an executive Director and a senior vice president of our Company, primarily responsible for the overall management and operations including management of the capital markets, human resources and administrative matters of our Group. She was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of our Company on 6 April 2016. Ms. Zhang is the spouse of Mr. Li, the chairman of our Board, an executive Director and the chief executive officer of our Company, and the sister of Mr. Zhang Chaoyang, an executive Director and a senior vice president of our Company.

Ms. Zhang has over 20 years of experience in the medical industry. She has been a director of Bright AK Limited (formerly known as OrbiMed Asia AK Limited) and AK Medical Beijing since 15 March 2016 and 30 July 2015, respectively. She has also been a vice general manager of AK Medical Beijing since December 2009. Prior to joining our Group, Ms. Zhang had served several roles including physician, head of the hospital chief executive office and radiologist in the CT room of the radiological department in Shougang Kuangshan Hospital (首鋼礦山醫院) in Tangshan, Hebei Province, China respectively from 1988 to 2002.

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

Mr. Zhang Chaoyang (張朝陽), aged 48, is an executive Director and a senior vice president of our Company, primarily responsible for product development, planning, construction, operation and management of the new production facilities of our Group. He was appointed as a Director on 17 July 2015 and was designated as an executive Director and a senior vice president of our Company on 6 April 2016. Mr. Zhang is brother of Ms. Zhang Bin, an executive Director and a senior vice president of our Company, and brother-in-law of Mr. Li, the chairman of our Board, an executive Director and the chief executive officer of our Company.

Mr. Zhang is one of the founders of our Group and has over 10 years of experience in the orthopedic medical device industry. He has been a director of AK Medical Investments Limited, AK Medical International Limited, AK Medical Beijing and ITI Medical Co. Ltd.* (天衍醫療器材有限公司) since 21 July 2015, 28 July 2015, 30 July 2015 and 28 March 2016, respectively. He has also been a vice general manager of AK Medical Beijing since May 2003. Prior to joining our Group, Mr. Zhang had served as a vice director of workshop and a vice president of labor union of Shougang Mining Company Sintering Plant (首鋼礦業公司燒結廠) from September 1988 to March 2003 respectively.

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

Ms. Zhao Xiaohong (趙曉紅), aged 40, is an executive Director and the chief financial officer of our Company, primarily responsible for financial management and accounting affairs of our Group. She was appointed as a Director on 29 February 2016 and was designated as an executive Director and the chief financial officer of our Company on 6 April 2016.

Ms. Zhao has over 10 years of experience in the accounting industry. She has been the finance director of AK Medical Beijing since September 2010 and served as the operation director of AK Medical Beijing from December 2014 to December 2016. Prior to joining our Group, she worked as an auditor in Ernst & Young Hua Ming LLP from August 2004 to September 2009. Ms. Zhao has been a Certified Public Accountant recognized by the Chinese Institute of Certified Public Accountants since 27 November 2009 and an associate member of the Association of International Accountants since 27 February 2015.

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

Non-executive Directors

Dr. Wang David Guowei (王國瑋), aged 56, is a non-executive Director primarily responsible for providing advice on strategy of our Group. He was appointed as a Director on 29 February 2016 and was designated as a non-executive Director on 6 April 2016.

Dr. Wang has over 10 years of experience in the medical industry. Dr. Wang is the senior managing director of Asia at OrbiMed Advisors LLC, an investment fund with a focus on healthcare industry, where he has worked from August 2011. From April 2006 to July 2011, he served as managing director at WI Harper Group, responsible for investment activities in life sciences and healthcare areas. From March 2010 to July 2012, he served on the board of directors of Edan Instruments, Inc. (a company listed in the Shenzhen Stock Exchange, stock code: 300206), a provider of advanced electronic medical equipments, where he also served on both the audit committee and strategic committee. Dr. Wang is a director of Amoy Diagnostics Co., Ltd. (a company listed in Shenzhen Stock Exchange, stock code: 300685) and a director of Suzhou Medical System Technology Co., Ltd. (a company listed in Shanghai Stock Exchange, stock code: 603990).

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

Mr. Li Wenming (李文明), aged 44, is a non-executive Director primarily responsible for providing advice on strategy and operations of our Group. Mr. Li has been an independent director of AK Medical Beijing since May 2010, and was appointed and designated as a non-executive Director on 6 April 2016.

Mr. Li has over 10 years of experience in the pharmaceutical and investment industry. Mr. Li has been a pharmacist registered with China Food and Drug Administration since February 2004. He has been a partner of Beijing Hejun Consulting Company Limited (北京和君諮詢有限公司), a company principally engaged in economy and trading consulting, investment consulting and enterprise management consulting since January 2007. Since 20 March 2015, he has been appointed as an independent non-executive director of Shandong Xinhua Pharmaceutical Company Limited (山東新華製藥股份有限公司) (A-share stock code: 756, H-share stock code: 719), a company listed on the Stock Exchange and the Shenzhen Stock Exchange.

Mr. Li obtained a Master of Business Administration from the Faculty of Management of the Dalian University of Technology (大連理工大學) in July 2004.

Independent Non-executive Directors

Mr. Dang Gengting (黨耕町), aged 82, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group on 17 November 2017, when he was appointed as an independent non-executive Director.

Mr. Dang has over 40 years of experience in the medical field. From September 1963 to February 2006, he worked in the Peking University Third Hospital and his last role served was a professor of Peking University Third Hospital.

Mr. Dang was the chairman of committee of China Orthopedic Association (中華醫學會骨科學分會) from 1992 to 2000 and honorary chairman from 2000 to 2004. He was the president of the first committee and honorary president of the second committee of Chinese Association of Orthopedic Surgeons (中國醫師協會骨科醫師分會).

Mr. Dang received first class Science and Technology Progress Award (教育部科技進步一等獎) presented by Ministry of Education of the People's Republic of China in 2003. Mr. Dang received second class award National Science and Technology Progress Award (國家科學技術進步二等獎) in 2002.

Mr. Kong Chi Mo (江智武), aged 42, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group on 17 November 2017, when he was appointed as an independent non-executive Director.

Mr. Kong has over 19 years of experience in accounting, auditing, financial management, corporate finance, investor relations, company secretarial affairs and corporate governance. Presently, Mr. Kong holds the position of independent non-executive director in Aowei Holding Limited (stock code: 01370), Huazhang Technology Holding Limited (stock code: 01673), ZACD Group Ltd. (stock code: 08313) and Starlight Culture Entertainment Group Limited (stock code: 01159) whereas in China Vanadium Titano-Magnetite Mining Company Limited ("**China Vanadium**") (stock code: 00893), he holds the position of company secretary and authorised representative. All these public companies are listed on the Main Board or Growth Enterprise Market of the Stock Exchange.

Prior to this, he was the independent non-executive director of CAA Resources Limited (stock code: 02112), a company also listed on the Main Board of the Stock Exchange from April 2013 to August 2017. Mr. Kong was the executive director and chief financial officer of China Vanadium from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong worked at KPMG from October 1999 to December 2007 and was promoted to senior manager during his term of office. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998, and as an associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong obtained his Bachelor's Degree in Business Administration from The Chinese University of Hong Kong in December 1997. Mr. Kong has been a fellow of The Association of Chartered Certified Accountants since February 2008, a member of The Hong Kong Institute of Directors since May 2010, a fellow of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators since February 2012, an ordinary member of Hong Kong Securities and Investment Institute since October 2017 and a full member of Hong Kong Investor Relations Association since November 2017.

Mr. Li Shu Wing David (李澍榮), aged 53, is an independent non-executive Director primarily responsible for overseeing the management of our Group independently. He joined our Group on 17 November 2017, when he was appointed as an independent non-executive Director.

Mr. Li has substantial experience in management in the retailing industry and medical industry. Mr. Li is the sole director of Great Bonus Development Limited, a management consulting company founded in July 20l2. From July 2010 to January 2013, he served as the senior director of Medtronic Weigao Orthopedic Device Company Limited, specialized in research and development, production and sale of spine, trauma and joint orthopedic implants. Mr. Li worked in G2000 (Apparel) Limited, from November 2007 to January 2008. He was the managing director in Stryker China Limited from July 2001 to 2006.

Mr. Li obtained a Master of Business Administration degree from Chaminade University of Honolulu in December 1986 and a Bachelor of Business Administration degree from University of Hawaii at Hilo in May 1986. He attended Stryker Advanced Leadership Academy Program in Harvard University in March 2005 and INSEAD Hewlett-Packard Management Academy in April 1999.

Senior Management

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

Ms. Liu Aiguo (劉愛國), aged 44, is a vice general manager of AK Medical Beijing. Ms. Liu has over 12 years of experience in the orthopedic medical device industry. She worked in Beijing Bearing Factory (北京軸承廠) from January 1996 to October 2003. She joined our Group in October 2003 as the head of production of AK Medical Beijing and was appointed as a vice general manager of AK Medical Beijing in July 2012, primarily responsible for quality control management and legal and regulatory affairs of AK Medical Beijing. Since January 2017, her responsibility has been re-designated to the management of the legal and regulatory department of AK Medical Beijing.

Ms. Liu has enrolled in the program of Executive Master of Business Administration of Cheung Kong Graduate School of Business (長江商學院) and received her diploma in information management and Application from Beijing Union University (北京聯合大學) in July 1998.

Mr. Zhang Weiping (張衛平), aged 67, is the chief engineer of AK Medical Beijing, primarily responsible for technical and R&D matters of AK Medical Beijing. Mr. Zhang has over 7 years of experience in 3D-printing in orthopedic field. He joined our Group in December 2008 as the chief engineer of AK Medical Beijing.

Prior to joining our Group, he served as a senior engineer of Beijing Textile Equipment Institute (北京紡織機械器材研究所). Mr. Zhang received his diploma in knitwear from Tianjin Textile Institute (天津紡織工學院) (currently known as School of Textiles of Tianjin Polytechnic University (天津工業大學紡織學院)) in October 1977.

Ms. Wang Caimei (王彩梅), aged 45, is the director of research center of AK Medical Beijing, primarily responsible for overseeing the management of the research center of AK Medical Beijing. Ms. Wang has over 10-year R&D experience in orthopedic implants. She joined our Group in October 2010 as the supervisor of research center of AK Medical Beijing and was promoted to the director of research center of AK Medical Beijing in December 2014.

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

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

Ms. Han Yu (韓鈺), aged 35, is one of our joint company secretaries, primarily responsible for capital markets matters and company secretarial matters of our Group. Ms. Han has over 7 years of experience in the finance industry. She joined our Group in September 2015 as the senior financial analysis manager of AK Medical Beijing until 31 December 2015. She has become the secretary to the board of directors of AK Medical Beijing since 1 January 2016. She was appointed as one of our joint company secretaries on April 6, 2016.

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

Ms. Han received her master degree in statistics from Yale University in May 2007. She obtained her bachelor degree in science from University of Victoria in May 2006.

Mr. Qi Yajun (亓亞軍), aged 45, has been the general manager of the sales department of AK Medical Beijing since January 2017, primarily responsible for managing the sales department of AK Medical Beijing. Mr. Qi has over 10 years of experience in the healthcare industry. Mr. Qi joined our Group in November 2005 and served as a regional manager of AK Medical Beijing until April 2011. He then worked as a marketing manager of AK Medical Beijing from May 2011 to December 2011, marketing director of AK Medical Beijing from January 2012 to June 2012, and sales director of AK Medical Beijing from July 2012 to January 2017.

Mr. Qi obtained a diploma in clinical medicine from Inner Mongolia Medical College (內蒙古醫學院) (currently known as Inner Mongolia Medical University (內蒙古醫科大學)) in July 1999.

Ms. Qi Zijuan (齊子娟), aged 51, has been the general manager of the business development department of AK Medical Beijing since January 2017, primarily responsible for managing the business department of AK Medical Beijing. Ms. Qi is experienced in the healthcare industry and she joined our Group in February 2014. From February 2014 to June 2014 and July 2014 to December 2014, she was the project director of AK Medical Beijing and the sales director of AK Medical Beijing, respectively. She acted as the business development director of AK Medical Beijing from December 2014 to January 2017.

Prior to joining our Group, Ms. Qi worked as the business executive at Stryker (Beijing) Healthcare Products Company Limited, a manufacturer of medical devices and equipment, from January 2007. She served as the sales director at Beijing Chunlizhengda Medical Instruments Co., Ltd. (北京市春立正達醫療器械股份有限公司), a company specialized in medical devices and listed on the Stock Exchange (stock code: 1858), from 2010 and the vice general manager of distribution business at Beijing Ruikangdacheng Medical Devices Co., Ltd. (北京瑞康大成醫療器械有限公司) specialized in medical devices, from 2013, respectively.

Ms. Qi obtained a diploma in psychology from Peking University in December 1989.

Mr. Sun Yanshi (孫彥實), aged 40, has been the director of the operation management department of AK Medical Beijing since August 2017, primarily responsible for overseeing the operation of AK Medical Beijing. Mr. Sun has approximately 5 years of experience in the medical device industry. He joined our Group in August 2013 and served as the assistant to general manager from August 2013 to December 2013. He then worked as the product strategy director of AK Medical Beijing from January 2014 to December 2014 and the marketing director of AK Medical Beijing from December 2014 to August 2017.

Prior to joining our Group, he worked at the medical product department of CeramTec (德國賽瑯泰克有限公司), a supplier of ceramic materials from 2011 to 2013.

Mr. Sun obtained a master degree in bio-medical engineering from Technische Universität Berlin in December 2007. He obtained his diploma in automobile engineering from Tsinghua University in September 2000.

Mr. Wang Zhengmin (王政民), aged 49, has been the director and management representative of the quality control centre of AK Medical Beijing since January 2017, primarily responsible for managing the quality control centre of AK Medical Beijing. Mr. Wang has extensive experience in the production and manufacturing industry. He joined our Group in October 2013.

From October 2013 to June 2014 and July 2014 to December 2015, he was the head of the corporate system department and head of the production center, respectively.

From June 2003 to March 2006 and from February 2007 to May 2008, he served several roles including quality manager, production manager and factory head at Beijing TianXinFu Medical Appliance Co., Ltd. (北京天新福醫療器材有限公司), a company specialized in research, development, production and sales of medical devices. He also worked at Beijing Heavy Electric Machinery Factory (北京重型電機廠) as a welding engineer.

Mr. Wang obtained a bachelor degree in welding technology and equipment from Gansu University of Technology (甘肅工業大學) (currently known as Lanzhou University of Technology (蘭州理工大學)) in June 1994. Mr. Wang obtained a Welding Engineer Certificate from Beijing Intermediate Professional Technical Position Appraisal Committee (北京中級專業技術職務評審委員會) in October 1999.

Ms. Wang Nannan (王楠楠), aged 39, has been the human resources and administration director of AK Medical Beijing since January 2015, primarily responsible for the human resources and administrative management of AK Medical Beijing. Ms. Wang has over 5 years of experience in human resources management. Ms. Wang joined our Group in May 2014 as a senior human resources manager of AK Medical Beijing.

Prior to joining our Group, Ms. Wang worked as the human resources manager at Unisplendour Digital Company Limited (紫光數碼有限公司) from January 2006 to October 2011.

From November 2011 to June 2013, Ms. Wang worked as the human resources manager at Beijing Konruns Pharmaceutical Co., Ltd (北京康辰藥業股份有限公司).

Ms. Wang obtained a bachelor degree in management through a distance learning course from Renmin University of China in January 2010.

Mr. Sun Hongbo (孫洪波), aged 36, has been the head of production centre of AK Medical Beijing since December 2016, primarily responsible for managing the production centre of AK Medical Beijing. Mr. Sun has extensive experience in the production and manufacturing industry. He joined our Group in May 2014.

From August 2005 to December 2012, he served as production manager at Grinm Semiconductor Materials Co., Ltd (有研半導體材料有限公司). From December 2012 to April 2014, he served as production manager at Beijing Microtech Medical Device Limited Company (北京微創醫療裝備有限公司).

Mr. Sun obtained a bachelor degree in electronic science and technology from University of Electronic Science and Technology of China (電子科技大學) in July 2005.

REPORT OF THE DIRECTORS

The board (the "**Board**") of directors (the "**Directors**") of AK Medical Holdings Limited (the "**Company**") is pleased to present this report together with the audited financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Leveraging on the opportunities brought about by the policy development, the Group promoted its business growth on a steady pace. For the year ended 31 December 2017, the Group achieved an annual revenue of RMB372.7 million, representing an increase of 37.6% as compared to the same period in 2016; the Group achieved profit of RMB105.4 million, representing a growth of 36.3% as compared to the same period in 2016.

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year under review and the material factors underlying its results and financial position are provided in the part of "Management discussion and analysis" from page 9 to page 16 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Market risk

In recent years, the Chinese government announced a series of healthcare reform plans, including the reform on tender system, and insurance system, etc., among others, to establish a universal healthcare framework and to ensure that basic healthcare services are accessible to Chinese nationals. The Chinese government may decide to impose stronger price controls over the medical device industry, which may impact the retail price of our product.

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

Patent risk

Our success relies largely on our proprietary technologies. Therefore, effective protection of our intellectual property, including patents and proprietary know-how, is critical to maintaining our competitive position. Any failure to protect or enforce our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We have obtained a series of patents to protect our 3D-printed and other proprietary technology. We will assess the potential loss and take legal steps if there is any unauthorized use of our intellectual property.

KEY RELATIONSHIP

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

Employees

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

Customers

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

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

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

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

Suppliers

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

ENVIRONMENTAL POLICY

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Mainland China while the Company is a holding company incorporated in the Cayman Islands with its shares listed on the Main Board of the Stock Exchange. Our establishments and operations accordingly shall comply with relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong. In 2017, our businesses were in compliance with all the relevant laws and regulations in Mainland China, the Cayman Islands and Hong Kong in all material aspects.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements.

The Directors have resolved to recommend the payment of a final dividend of HKD3.5 cent per share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on Wednesday, 27 June 2018. The final dividend, if approved by the shareholders of the Company at the annual general meeting (the "**AGM**") to be held on 11 June 2018, will be payable on or around 9 July 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 6 June 2018 to Monday, 11 June 2018, both days inclusive. In order to qualify for attending and voting at the AGM, all transfer documents should be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 5 June 2018.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Monday, 25 June 2018 to Wednesday, 27 June 2018, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 June 2018.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four years is set out in the financial summary on page 6 of this annual report. The summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements in this annual report.

BORROWINGS

As of 31 December 2017, the Group has no banking borrowings.

PLEDGE OF ASSETS

As of 31 December 2017, no assets of the Group were pledged.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2017, sales to the Group's five largest customers accounted for approximately 16.1% of the Group's total sales and sales to the largest customer included therein amounting to approximately RMB16.9 million, which amounts to approximately 4.5% of the Group's total sales.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 59.4% of the Group's total purchases for the year and purchase from the largest supplier included therein amounting to approximately RMB22.8 million, which amounts to approximately 23.8% of the Group's total purchases.

None of the directors or any of their associates or any shareholders that to the knowledge of our Directors own more than 5% of the issued share capital of our company had any interest in any of our five largest customer and supplier during the year ended 31 December 2017.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2017 are set out in note 26 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2017 are set out in the section headed "Consolidated Statement of Changes in Equity" of this annual report.

As of 31 December 2017, the Company had a share premium balance of RMB411.2 million, which shall be available for distribution to the Shareholders.

DIRECTORS

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

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

Non-executive Directors
Dr. Wang David Guowei
Mr. Li Wenming

Independent Non-executive Directors
Mr. Dang Gengting
Mr. Kong Chi Mo
Mr. Li Shu Wing David

In accordance with the Company's Articles of Association, Mr. Li Zhijiang, Ms. Zhang Bin, Mr. Zhang Chaoyang, Ms. Zhao Xiaohong, Mr. Li Wenming, and Dr. Wang David Guowei will retire from office as Directors at the AGM. All of them will offer themselves for re-election.

SERVICE CONTRACTS OF DIRECTORS

Each of the Directors has entered into a service contract with the Company which commenced from 17 November 2017 for an initial term of three years and shall be terminable by either party giving not less than three months' notice in writing to the other.

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

EMOLUMENT POLICY

During the year ended 31 December 2017, the Remuneration Committee reviewed the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, which is determined with reference to the Group's operating results, individual performance and comparable market practices.

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

REMUNERATION OF DIRECTORS, SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

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

The annual remuneration of the Executive Directors and the senior management by band for the year ended 31 December 2017 is as follow:

Annual Income	Number of Persons
Below RMB300,000	5
RMB300,000 to 499,999	3
Over RMB500,000	6

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S INTEREST IN TRANSACTIONS, AGREEMENTS AND CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, agreements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party at any time during the year ended 31 December 2017.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a controlling shareholder of the Company was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 December 2017 or at any time during the year ended 31 December 2017.

NON-COMPETE UNDERTAKINGS

Each of Ximalaya Limited, Summer Limited, Mr. Li Zhijiang, Ms. Zhang Bin and Rainbow Holdings Limited (collectively the "**Covenantors**") has entered into the deed of non-competition dated 17 November 2017 (the "**Deed**") in favour of the Company. Pursuant to the Deed, each of the Covenantors shall not and shall procure that its/his/her close associates (other than members of the Group) not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its/his/her own account or with each other or in conjunction with or on behalf of any person or company, any business in competition with or likely to be in competition with the existing business activities of the Group. For further details of the Deed, please refer to the prospectus of the Company dated 7 December 2017.

The Company has received confirmations from the Covenantors of their compliance with the terms of the Deed. The Covenantors declared that they had fully complied with the Deed for the year ended 31 December 2017. The independent non-executive directors have reviewed on the confirmations from the Covenantors and concluded that the Deed has been complied with and has been effectively enforced.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, were as follows:

(i) Interest in Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Interest in the Company (Note 2)
Mr. Li Zhijiang (Note 3)	Founder of a discretionary trust and interest in a controlled corporation	585,157,500 (L)	58.52%
		37,500,000 (S)	3.75%
	Interest of spouse	10,125,000 (L)	1.01%
Ms. Zhang Bin (Note 4)	Interest of controlled corporation	10,125,000 (L)	1.01%
	Interest of spouse	585,157,500 (L)	58.52%
		37,500,000 (S)	3.75%
Mr. Zhang Chaoyang (Note 5)	Interest of controlled corporation	67,432,500 (L)	6.74%
Ms. Zhao Xiaohong (Note 6)	Interest of controlled corporation	12,285,000 (L)	1.23%
	Beneficial interest	4,000,000 (L)	0.40%

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2017.

(3) Mr. Li Zhijiang, being the sole director of Ximalaya Limited, directly holds 50% of the issued share capital of Ximalaya Limited, which holds 585,157,500 long position in the Company's shares and 37,500,000 short position in the Company's shares. Therefore, Mr. Li Zhijiang is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO. In addition, Mr. Li Zhijiang is the husband of Ms. Zhang Bin. Therefore, Mr. Li Zhijiang is deemed to be interested in Ms. Zhang Bin's interest in the Company's shares pursuant to the SFO. Mr. Li Zhijiang is also the founder of LZY Trust.

(4) Ms. Zhang Bin, being the sole director of Summer Limited, is the sole shareholder of Summer Limited which holds 10,125,000 shares. Therefore, Ms. Zhang Bin is deemed to be interested in Summer Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhang Bin is the wife of Mr. Li Zhijiang. Therefore, Ms. Zhang Bin is deemed to be interested in Mr. Li Zhijiang's interest in the Company's shares pursuant to the SFO.

(5) Mr. Zhang Chaoyang, being the sole director of Suntop Limited, is the sole shareholder of Suntop Limited which holds 67,432,500 shares. Therefore, Mr. Zhang Chaoyang is deemed to be interested in Suntop Limited's interest in the Company's shares pursuant to the SFO. Mr. Zhang Chaoyang is the brother of Ms. Zhang Bin and the brother-in-law of Mr. Li Zhijiang.

(6) Ms. Zhao Xiaohong, being the sole director of Sanbao Limited, holds 30.22% of the issued share capital of Sanbao Limited, which holds 12,285,000 shares. Therefore, Ms. Zhao Xiaohong is deemed to be interested in Sanbao Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Zhao has been granted with options to subscribe for 4,000,000 shares pursuant to the Pre-IPO Share Option Scheme.

(ii) Interest in Associated Corporation of the Company

Name of Director	Name of the Company's Associated Corporation	Capacity/ Nature of Interest	Number and Class of Securities (Note)	Approximate Percentage of Interest in the Company's Associated Corporation
Mr. Li Zhijiang	Ximalaya Limited	Beneficial interest	1 ordinary share (L)	50%

Note:

The letter "L" denotes our Director's long position in the share of the Company's associated corporation.

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

As at 31 December 2017, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/nature of Interest	Number of Shares (Note 1)	Approximate Percentage of Shareholding (Note 2)
Mr. Li Zhijiang	Founder of a discretionary trust and interest in a controlled corporation	585,157,500 (L) 37,500,000 (S)	58.52% 3.75%
	Interest of spouse	10,125,000 (L)	1.01%
Ms. Zhang Bin	Interest of controlled corporation	10,125,000 (L)	1.01%
	Interest of spouse	585,157,500 (L) 37,500,000 (S)	58.52% 3.75%
Mr. Zhang Chaoyang	Interest of controlled Corporation	67,432,500 (L)	6.74%
Ximalaya Limited	Beneficial owner	585,157,500 (L) 37,500,000 (S)	58.52% 3.75%
Suntop Limited	Beneficial owner	67,432,500 (L)	6.74%
Trident Trust Company (HK) Limited (Note 3)	Trustee of a discretionary trust and interest in a controlled corporation	585,157,500 (L) 37,500,000 (S)	58.52% 3.75%
Rainbow Holdings Limited (Note 3)	Interest in a controlled corporation	585,157,500 (L) 37,500,000 (S)	58.52% 3.75%
OrbiMed Advisors II Limited (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.50%
OrbiMed Asia GP II, L.P. (Note 4)	Interest in a controlled corporation	75,000,000 (L)	7.50%
OrbiMed Asia Partners II L.P. (Note 4)	Beneficial owner	75,000,000 (L)	7.50%

Notes:

(1) The letter "L" denotes a person's long position in the Company's shares. The letter "S" denotes a person's short position in the Company's shares.

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2017.

(3) LZY Trust is a discretionary trust established by Mr. Li Zhijiang as settlor, with Trident Trust Company (HK) Limited acting as trustee. The beneficiaries of LZY Trust are Mr. Li Zhijiang and certain of his family members. Trident Trust Company (HK) Limited holds 100% of the issued share capital of Rainbow Holdings Limited, which holds 50% of the issued share capital of Ximalaya Limited. Therefore, each of Trident Trust Company (HK) Limited and Rainbow Holdings Limited is deemed to be interested in Ximalaya Limited's interest in the Company's shares pursuant to the SFO.

(4) OrbiMed Asia Partners II L.P. holds 75,000,000 ordinary shares. The general partner of OrbiMed Asia Partners II L.P. is OrbiMed Asia GP II, L.P., whose general partner is OrbiMed Advisors II Limited. Therefore, each of OrbiMed Asia GP II, L.P. and OrbiMed Advisors II Limited is deemed to be interested in OrbiMed Asia Partners II L.P.'s interest in the Company's shares pursuant to the SFO.

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 from 20 December 2017 to 31 December 2017 (the "**Reporting Period**").

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 primary 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.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 36,000,000, representing approximately 3.6% 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 HKD1.34 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 our Group as shown in the audited consolidated financial statements of our Group for the relevant financial year represents an increase of 30% or more of the revenue of our Group as shown in the audited consolidated financial statements of our Group for the immediately preceding financial year (adjusted to exclude the effect of any acquisition by our Group); (ii) the profit attributed to shareholders as shown in the audited consolidated financial statements of our 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 our group companies in the PRC and any acquisition by our Group) represents an increase of 25% or more of the profit attributes to shareholders as shown in the audited consolidated financial statements of our Group for the immediately preceding financial year (adjusted to exclude the effect of the listing expenses, the options granted any withholding tax arising from profit generated by our Group Companies in the PRC and any acquisition by our Group); and (iii) the relevant grantee has passed the annual performance appraisal scheme established by our Group for the relevant financial year.

(bb) Options granted to the grantees will vest in four portions and the grantees shall be entitled to exercise, on the first business day immediately following May 1 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 our Group for a term no less than four years from the date of grant of the options.

(ee) Our board of directors 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 our Group under paragraph (dd) above or commits a material breach of any restrictive covenant in respect of our 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, our Company may demand the grantee to return any entitlement or interest obtained from the exercise of the options granted.

The details of valid grantees and share options under the Pre-IPO Share Option Scheme during the Reporting Period by category of grantees are set out below:

	Number of Shares to be Issued upon Fully Exercise of All Options Granted under the Pre-IPO Share Option Scheme	
Category of grantees	**Effective as at 20 December 2017**	**Outstanding as at 31 December 2017**
Director – Zhao Xiaohong	4,000,000	4,000,000
Senior Management	16,100,000	16,100,000
Other Employees	15,900,000	15,900,000
	36,000,000	36,000,000

The terms of the Pre-IPO Share Option Scheme are disclosed in the Company's prospectus dated 7 December 2017. No share options were exercised, cancelled or lapsed by the Company under the Pre-IPO Share Option Scheme during the Reporting Period.

Details of the Pre-IPO Share Option Scheme are set out in Note 22 to the consolidated financial statements.

(b) Share Option Scheme

The principal terms of the share option scheme, approved by the written resolution passed by the shareholders of the Company on 17 November 2017 (the "**Share Option Scheme**"), are substantially the same as the terms of the Pre-IPO Share Option Scheme except that:

(i) the eligible participants are any directors, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries, any advisors, consultants, suppliers, customers and agents to the Company or any of its subsidiaries and such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group;

(ii) the maximum number of shares in respect of which options may be granted shall not exceed 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange;

(iii) the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 100,000,000 shares, representing approximately 9.64% of the total issued share capital of the Company as at the date of this annual report;

(iv) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant; and

(v) The exercise price is determined by the directors of the Company at their discretion and will not be lower than the highest of: (a) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (b) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and (c) the nominal value of the Company's share.

The terms of the Share Option Scheme are disclosed in the Company's prospectus dated 7 December 2017. No share options were granted by the Company under the Share Option Scheme during the Reporting Period.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Except as disclosed in note 29 to the Accountant's Report, the text of which is set out in consolidated financial statement, during and the end of 2017, our Company has not engaged in any other material connected transactions or related party transactions.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors as defined under the "Listing Rules" of the Company or their respective associates has any interest in a business which competes or may compete with the business of the Group or has any other during the year ended 31 December 2017.

DIVERSITY OF DIRECTORS

The Company has adopted its diversity policy with respect to the composition of the Board. In assessing candidates running for directorships, the Nomination Committee will consider a number of factors, including but not limited to gender, age, educational background, professional experience, technical expertise and the ability to fulfill the requirements of the Board. Details on the biographies and experience of the Directors are set out on pages 17 to 20 of this report.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

DONATION

In 2017, the Group made a total donation of RMB150,000 to support public health and welfare.

ANNUAL GENERAL MEETING

The Annual General Meeting ("**AGM**") of the Company will be held on 11 June 2018. The notice of AGM will be sent to shareholders at least 20 clear business days before AGM.

CORPORATE GOVERNANCE

The Corporate Governance Report is set out on pages 35 to 45 of this annual report.

SUBSEQUENT EVENTS

On 4 January 2018, the listing and dealings of 37,500,000 ordinary shares issued and allotted by the Company pursuant to the exercise of the over-allotment option granted by the Company in connection with its initial public offering commenced on the Main board of the Stock Exchange.

Save for the above, no material events have occurred since 31 December 2017.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2017. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint KPMG as the auditor of the Company.

On behalf of the Board
Li Zhijiang
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 19 March 2018

The board of directors (the "**Directors**") of the Company (the "**Board**") is pleased to present this Corporate Governance Report for the period from 20 December 2017 (the "**Listing Date**") to 31 December 2017 (the "**Reporting Period**") in the Company's annual report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards.

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

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Board is of the view that throughout the Reporting Period, the Company has complied with all the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

DIRECTOR'S SECURITIES TRANSACTIONS

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

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

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

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

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

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Li Zhijiang	*(Chairman of the Board, Chief Executive Officer, Chairman of Nomination Committee and Member of Remuneration Committee)*
Ms. Zhang Bin	
Mr. Zhang Chaoyang	
Ms. Zhao Xiaohong	

Non-executive Directors

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

Independent Non-executive Directors

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

The biographical information of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 17 to 20 of the Annual Report for the year ended 31 December 2017.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Board of Directors and Senior Management" on pages 17 to 20.

Board Meetings

Since the Listing Date and up to 31 December 2017, no Board meetings were held.

Subsequent to the end of 2017 and up to the date of this report, one Board meeting was held on 19 March 2018 to discuss the overall corporate strategies and approve the Group's final results for the year ended 31 December 2017 respectively. Going forward, the Board will hold at least four meetings each year at approximately quarterly intervals to discuss the Group's business development, operations and financial performance. Notice of at least 14 days was given to all Directors for all regular Board meetings and a formal agenda was addressed to the Directors together with the notice. All Directors were provided with adequate information which enabled them to make informed decisions on the matters discussed and considered at the Board meetings. Details of the attendance of the Directors to the Board meetings subsequent to the end of 2017 and up to the date of this report are as follows:

Name of Directors	Attendance/ Number of Meetings
Executive Directors	
Mr. Li Zhijiang *(Chairman)*	1/1
Ms. Zhang Bin	1/1
Mr. Zhang Chaoyang	1/1
Ms. Zhao Xiaohong	1/1
Non-executive Directors	
Mr. Li Wenming	1/1
Dr. Wang David Guowei	1/1
Independent Non-executive Directors	
Mr. Dang Gengting	1/1
Mr. Kong Chi Mo	1/1
Mr. Li Shu Wing David	1/1

Chairman and Chief Executive Officer

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

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

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

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

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Non-executive Directors

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

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

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

Responsibilities of the Board and Management

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

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

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

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

The record of CPD relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2017 are summarized as follows:

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

BOARD COMMITTEES

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

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

Audit Committee

The Audit Committee consists of two Independent Non-executive Directors, namely Mr. Kong Chi Mo and Mr. Li Shu Wing David, and one Non-executive Director, namely Mr. Li Wenming. Mr. Kong Chi Mo is the chairman of the Audit Committee.

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

1. Relationship with the Company's external auditors;

2. Review of the Company's financial information;

3. Oversight of the Company's financial reporting system, risk management and internal control systems; and

4. Performing the Company's corporate governance functions.

No Audit Committee meeting was held during the year ended 31 December 2017 as the Company was listed on the Stock Exchange on 20 December 2017.

Subsequent to the end of 2017 and up to the date of this report, the Audit Committee held one meeting to review annual financial results and reports in respect of the year ended 31 December 2017 and significant issues on the financial reporting and compliance procedures, the effectiveness of the internal control and risk management systems, appointment of external auditors and arrangements for employees to raise concerns about possible improprieties.

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

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

Remuneration Committee

The Remuneration Committee consists of three members, namely Mr. Li Shu Wing David, Independent Non-executive Director, and Mr. Li Zhijiang, Executive Director, Mr. Kong Chi Mo, Independent Non-executive Director. Mr. Li Shu Wing David is the chairman of the Remuneration Committee.

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

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

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

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

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

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

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

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

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

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

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

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

No Remuneration Committee meeting was held during the year ended 31 December 2017 as the Company was listed on the Stock Exchange on 20 December 2017.

Subsequent to the end of 2017 and up to the date of this report, a Remuneration Committee meeting was held to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters.

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

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

Details of the Directors' remuneration are set out in note 9 to the consolidated financial statements in this annual report.

The remuneration of the Executive Directors and the senior management by band for the year ended 31 December 2017 is set out below:

Annual Income	Number of Persons
Below RMB300,000	5
RMB300,000 to 499,999	3
Over RMB500,000	6

Nomination Committee

The Nomination Committee consists of three members, namely Mr. Li Zhijiang, Executive Director, Mr. Dang Gengting, Independent Non-executive Director, and Mr. Li Shu Wing David, Independent Non-executive Director. Mr. Li Zhijiang is the chairman of the Nomination Committee.

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

1. To review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. To identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. To assess the independence of Independent Non-executive Directors;

4. To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

5. To review the policy on Board diversity (the "**Board Diversity Policy**") and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives, and to make disclosure or its review results in the annual report of the Company annually; and

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

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

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

No Nomination Committee meeting was held during the year ended 31 December 2017 as the Company was listed on the Stock Exchange on 20 December 2017.

Subsequent to the end of 2017, a Nomination Committee Meeting was held to assess the independence of the independent non-executive directors, to consider and recommend to the Board on the re-election of directors and to review the structure, size and composition of the Board. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

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

Name of Directors	**Attendance/ Number of Meetings**
Mr. Li Zhijiang *(Chairman)*	1/1
Mr. Dang Gengting	1/1
Mr. Li Shu Wing David	1/1

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code, such as the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2017.

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

The Board, as supported by the Audit Committee, reviewed the risk management and internal control systems, including the financial, operational and compliance controls periodically and considered that such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Monitoring procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

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

The statement of the independent auditors of the Company, KPMG, about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report on pages 56 to 60 of this annual report.

AUDITOR'S REMUNERATION

A breakdown of the remuneration payable to the external auditors of the Company, KPMG, in respect of audit services for the year ended 31 December 2017 is set out below:

Service Category	**Fees Paid/Payable** RMB
Audit Services	2,200,000
Non-audit Services	–
	2,200,000

JOINT COMPANY SECRETARIES

The Company has engaged Tricor Services Limited, an external service provider, and Ms. Han Yu and Ms. Li Yan Wing, Rita have been appointed as the Company's joint company secretaries. The primary contact person at the Company is Ms. Han Yu, one of the joint company secretaries of the Company.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters.

SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed.

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at (86) 10 5729 7605 for any assistance.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is the first and only medical device company that has commercialized the application of 3D-printing technology in orthopedic joint and spine replacement implants in China. We strive to offer domestically produced products with high quality to patients, while concerning issues related to environment, society and governance and making efforts to achieve the sustainability of the Company and social development.

After taking into account the business model and internal and external communication, we have identified material stakeholder types which have mutual influence with the operation of the Company to determine the Company's environmental, social and governance (ESG) priorities through analyzing the demands of the stakeholders.

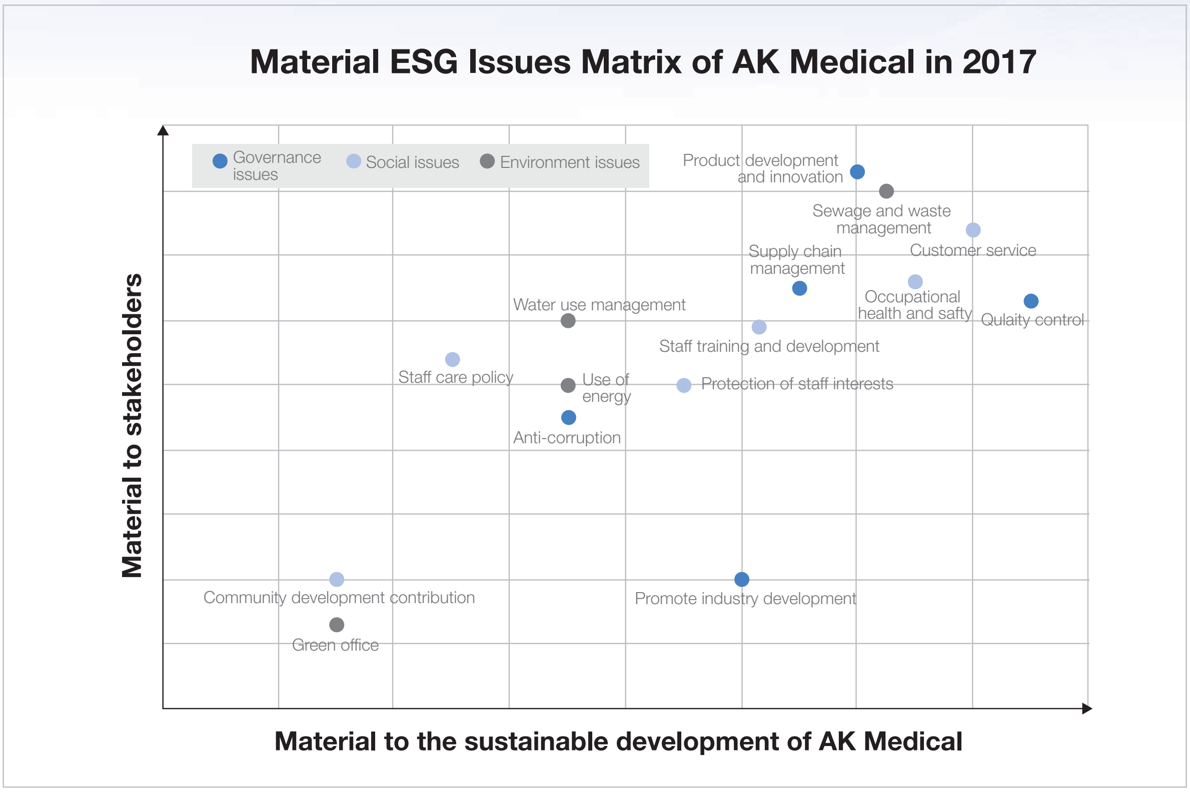
Our key stakeholder types include:

- Employee
- Shareholder
- Government authorities
- Customer
- Supplier
- Community
- Other business partners

In order to further clarify the key areas of corporate ESG practices and information disclosure, enhancing the pertinence and responsiveness of the report, the Company identified the subjects of sustainable development and determined the significance in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 to the Listing Rules to ensure that the information disclosed in the report covers the key issues which are related with the Company's development and the stakeholders are concerned about. The deciding factors mainly refer to:

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

Through the identification process, the Company has identified the most relative ESG issues to the corporate sustainable development, and has decided the corresponding materiality as shown below:



According to the characteristics of the industry in which the business is placed, the Company sorted out the statistics and processes towards identified ESG issues with the guidance of the Hong Kong Stock Exchange. The Company will also gradually improve the relevant management mechanism in the future to enrich the content of ESG information disclosure.

The scope of statistics of each relevant Key Performance Indicator (KPI) in this report is from 1 January 2017 to 31 December 2017.

ENVIRONMENT

Waste Management

The Company attaches particular importance to waste management and strictly complies with the relevant requirements of laws and regulations, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Implementing Rules of the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》), the Integrated Wastewater Discharge Standard (《污水綜合排放標準》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (New) (《中華人民共和國大氣污染防治法(新)》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》): establish dust treatment and recycling systems which have improved the working environment and have obtained the approval of the necessary environmental impact evaluations and environmental protection completion inspection; engage professional waste management companies to manage the disposal of hazardous wastes; as for the disposal of hazardous chemical waste, establish the Safety Management System for Hazardous Chemicals which clearly set out its disposal procedures.

The Company is well aware the importance of environmental protection, and strictly complies with the laws and regulations. It continuously reinforce the environmental issues at the system and process level, actively performs environmental responsibilities during the course of production and operation, and strives to minimize its impacts to the environment. In order to reduce noise pollution, the Company sealed the bare electric machinery to reduce the impact on employees and the surrounding area; the sewage generated during the product cleaning and grinding process has passed the examinations by a third party and discharged through a municipal sewage pipeline to enter the sewage treatment plant for disposal; and for the particulate dust and the dust produced during the production process is collected by the Company and placed into the closed solid waste storage area, which is regularly handled by solid waste treatment plants. Hazardous wastes is the waste liquid including water-based cutting fluid and stainless steel cleaning agents, which are collected and handed over to a third party for professional treatment (Beijing Jinyu Mangrove Environmental Protection Technology Co., Ltd (北京金隅紅樹林環保技術有限責任公司)).

In 2017, in order to achieve energy conservation and emission reduction, the Company upgraded the dust removal equipment in the product grinding workshop to reduce dust emissions to the extent of 99% and the annual dust emission is less than 10 kg. The dust collected by the dust removal equipment will undergo special treatment as solid waste. In 2018, the Company will further upgrade the dust removal equipment to achieve 99.5% of dust removal.

Waste Emission and Disposal in 2017*

Waste type		**Volumn of generation/ handling**
Waste Water	Total water discharge volume	8,961 tons
	Volume of water discharge per RMB10,000 of output value	0.24 tons
	Biochemical oxygen demand (BOD)	242 kg
	Chemical oxygen demand (COD)	603.8 kg
	Suspended solids (SS)	118.2 kg
	Ammoniacal nitrogen (NH_3)	0.929 kg
Waste Liquid	Total waste liquid production	2.7 tons
	Volume of waste liquid production per RMB10,000 of output value	0.0001 tons
	Waste liquid handling volume	2.7 tons
Dust	Total dust production	989.9 kg
	Volume of dust production per RMB10,000 of output value	0.027 kg
	Dust handling volume	980 kg
Solid Waste	Titanium waste handling volume	2,400 kg
	Volume of titanium waste handling per RMB10,000 of output value	0.064 kg
	Cobalt-chromium-molybdenum waste handling volume	2,200 kg
	Volume of cobalt-chromium-molybdenum waste handling RMB10,000 of output value	0.059 kg

* The above statistics did not include the Changzhou subsidiary of the Company because the Changzhou subsidiary is still in the trial operation stage. We will include the data in the statistic scope upon its official production to be commenced.

Use of Resources

The Company's major products are off-the-shelf products and 3D-printed products. The key production processes of off-the-shelf products include the shaping of metal components and polyethylene materials, the detection of cracks in metal components (the microcracks of the metal components detected by fluorescent flaw detectors) and the surface treatment (using sandblasting, hydroxyapatite coating or microporous to treat the surface) etc. In addition to the preparation and shaping of the same raw materials, the 3D-printing requires the preparation of 3D-modeling data and 3D-modeling equipment. All products must be completed cleaning, packaging, and radiation sterilization before warehousing.

In the production process of the products, the Company's energy consumption is mainly electricity and water resources; greenhouse gas emissions mainly comes from the emissions of production and offices electricity, and the emissions of gasoline and diesel; materials consumed include product raw materials, such as polyethylene and stainless steel metal, casting blanks, forging blanks for forging processes as well as cardboard boxes, product packaging boxes and product plastic film used in the subsequent packaging process. As compared to traditional manufacturing industries, the Company consumes less energy, water resources in the production process, and will further adopt energy-conservation measures in the future to reduce energy and resource consumption.

The Company's major production facility is located in Beijing, China. Except for some products, which the production are outsourced to third parties, all surgical instruments and orthopedic implants are designed, developed and produced within the production facility. In order to develop business, the Company is expanding its production capacity by building facilities in Changzhou. Nevertheless, due to the fact that the Changzhou facility has not yet commenced production, the statistics on resources consumption and greenhouse gas emissions for the reporting period only covered the major production and operation premises in Beijing.

The Company's resource consumption in 2017 is as follows:

Volumn of Energy and Resource Consumption in 2017

Type		Energy Consumption
Energy use	Electricity consumption	1.34 million KWh
	Gasoline consumption	110,000 liters
	Volume of energy consumption per RMB10,000 of output value	7.61 kg standard coals
Water use	Water usage (municipal water supply)	9,740 tons
	Volume of water usage per RMB10,000 of output value	0.2613 tons
Raw materials	Polyethylene	9 tons
	Stainless steel	82 tons
	Titanium alloy	17 tons
	Cobalt-chromium-molybdenum	21 tons
Packaging materials	Cardboard boxes	5.2 tons
	Product packaging boxes	8 tons
	Product plastic film	3.1 tons
	Volume of packaging materials consumption per RMB10,000 of output value	0.4 kg

The Company's greenhouse gas emissions in 2017 are as follows:

Type	CO_2 Emission Equivalent (tons)
Scope 1 (direct energy)	1,017.57
Scope 2 (indirect energy)	68.97
Total	1,086.54
CO_2 equivalent per RMB10,000 of output value	0.0292

Green Office

Given the national drive to save energy and reduce emissions and follow other relevant policies, the Company views its response to climate change as a strategic imperative in its operation, and actively promotes green office. In order to control and prevent the pollution generated during the daily operation of the Company, the Green Office Management Regulations (綠色辦公管理規定) are formulated to expressly require all departments and employees to fulfill the obligations to protect the environment: in the process of purchasing office supplies, environmental-friendly products are selected as much as possible; minimizing the use of paper, the management of printer cartridges and ribbons, the use of energy such as water and electricity at the offices, the recycling of waste and used batteries, the use of disposable items are clearly prescribed in order to reduce the amount of waste and the impact on the environment; for the waste generated at the offices, the waste classification measure is implemented to strengthen the recycling.

In 2017, the Company's subsidiary company in Beijing partially replaced the LED lighting, recycling waste paper of approximately 1 ton, 30 units of No.5 battery, 60 units of No.7 battery, 12 computers, and 223 ink cartridges.

EMPLOYEE

Employment

The Company adheres to the "people-oriented" management philosophy, values the legal rights of employees, constantly optimizes the working conditions for employees, improves the remuneration and benefit system, facilitates the career development channels for employees, protects the rights of employees, and cares about the livelihood of employees, with an aim to achieve the harmonious development and advancement of staff with the Company.

In strict compliance with the Labor Law of the PRC (《中華人民共和國勞動合同法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), Provisions on the Prohibition of Using Child Labor (Order of the State Council of the PRC No. 364) (「中華人民共和國國務院令第364號」《禁止使用童工規定》) and other relevant laws and regulations, the Company formulated the Compensation Management System (薪酬管理制度), Employee Training System (員工培訓制度) and Administrative Regulation Concerning the Prohibition of the Use of Child Labor and Forced Labor (關於禁止僱傭童工強制勞工的管理規定), signing formal labor contracts or labor agreements with employees when they are employed. Employees will not be discriminated because of his/her place of origin, religion, personal custom or other reasons and employees are offered equal and fair employment opportunity. No child labor and forced labor is allowed. The Company has established a labor union to protect the legal rights of employees and handle employment related matters.

The distribution of employment types is as follows:

Employee type	Number of employee
Employee with labor contract	345
Employee with labor agreement	12

The employment of employees under labor contracts by age structure is as follows:

Age	Number of employees	Number of turnover staff	Turnover rate
Under 30 (exclusive of 30)	105	37	35.24%
30-50 (exclusive of 50)	224	48	21.43%
50 and above	16	1	6.25%
Total	345	86	24.93%

The employment of employees under labor contracts by gender is as follows:

Gender	Number of employees	Number of turnover staff	Turnover rate
Male	211	40	18.96%
Female	134	46	34.33%
Total	345	86	24.93%

Employee Remuneration and Benefits

To create a better working environment, build a healthy, harmonious, and highly efficient corporate culture and improve the employees' welfare system and their satisfaction and loyalty, the Company strictly complies with the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Administrative Regulation on Housing Fund (《住房公積金管理條例》) and has formulated the Compensation Management System (薪酬管理制度) which regulates the management of compensation and benefits, paying medical insurance, pension insurance, unemployment insurance, occupational injury insurance, maternity insurance and housing fund for all staff who signed the labor contracts.

The Company holds the "Factory Day (工廠開放日)" event regularly to enrich the everyday life of employees, cares about the physical and mental health of employees, and facilitates the healthy development of employees and the Company. We provide the staff with festive benefits in the Mid-Autumn Festival, summer cooling supplies during summer, and monthly birthday gifts for employees who are having birthday. We also care about female employees and have formulated the "Women Workers Protection Management System (女工保護管理制度)". Female workers will receive gifts in Women's Day. Talks on specific know-how will be organized to fulfill a better welfare care for employees.

Employee Development

The Company values the training and development of its employees and starts to build up internal and external training system from 2017. It will continue to invest in resources to support the self-elevation of its employees.

The Company actively provides employees with a sound career development environment and a broad space for development, which includes various forms of external and internal vocational training courses to improve employees' work ability, job skills and overall quality, and promote the career development of employees. For all new employees, the Company helps new members to understand the corporate culture, structure and policies by organizing induction seminars and training. New staff will acquire knowledge on laws and regulations and awareness on quality improvement. For management members, the Company invites external experts to conduct trainings on irregular basis in order to enhance relevant knowledge of the management and their management skills. In response to the actual job requirements, senior management members are encouraged and received sponsor to participate in external training programs. In 2017, the Company organized a two-day "Management Skill Enhancement Training (管理技能提升培訓)" for all new managers.

Percentage of average training hours per employee by gender*:

Gender	Average training hours (hour(s))	Percentage of employee trained
Male employee	41	66%
Female employee	36	34%

Percentage of average training hours per employee by employee hierarchy*:

Gender	Average training hours (hour(s))	Percentage of employee trained
Senior management	32	94%
Middle management	38	98%
General staff	35	95%

* The above statistics did not include the Changzhou subsidiary of the Company because the Changzhou subsidiary is still in the trial operation stage. We will include the data in the statistic scope upon its official production to be commenced.

Health and Safety Management

The Company has formulated the Safety Production Responsibility Management System and Employee Training System in accordance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Safe Production Law of the PRC (《中華人民共和國安全生產法》), the Law of the PRC on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》) and other laws and regulations. We continuously improve the safety production management system, strengthen the Company's safety production management, prevent and reduce production safety accidents, protect the safety of employees' lives and company property, and promote the harmonious and sustainable development of the Company. Through the establishment of the equipment safety department, we coordinate the management of security, fire safety, safety production and occupational disease prevention. We raise the security awareness for every staff through various safety production and education trainings.

To improve the working environment and protect the health of the employees, the Company has changed the operation process from manual grinding to a "five-axis grinder" processing and upgraded the dust removal equipment. We periodically conduct occupational disease examinations for employees, and ensure that employees at work are in healthy condition. We carry out the corresponding physical examination project for occupationally-injured people, and corresponding protection measures are provided according to the occupational diseases risk assessment by the third-party, for instance, noise and dust-specific medical examinations, and provision of earplugs and dust masks for the post of grinding workers.

In addition, the Company attaches great importance to employees' production safety training. At the beginning of each year, it formulates the "Annual Training Plan (年度培訓計畫)", which includes new employee training, internal and external training for staff on active duty, secondment training, and special job training.

In 2017, the Company's first-line operating staff's per capita security training was 16 hours, and the safety management personnel's average per capita security training hours was 24 hours. The Company invested a total of RMB382,300 in safety management. Number of work-related deaths was nil and total days of lost work due to occupational injury was 260 days.

PRODUCT RESPONSIBILITY

Quality Control

Orthopedic implants, ancillary medical devices and surgical instruments, the Company's primary products, are classified as Class III medical devices, Class II medical devices and Class I medical devices, respectively. To ensure that all products are guaranteed safe and effective through strict control and management, in accordance with the relevant laws, regulations and administrative measures, such as the Product Quality Law of the PRC (《中華人民共和國產品質量法》), the Regulations on Supervision of Medical Devices (《醫療器械監督管理條例》), the Regulations on Supervision of Medical Devices (《醫療器械監督管理條例》), the Medical Device Recall Management Measures (《醫療器械召回管理辦法》), Appendix on Implantable Medical Devices (《醫療器械生產質量管理規範附錄植入性醫療器械》), Appendix on Sterilized Medical Devices (《醫療器械生產質量管理規範附錄無菌醫療器械》), and the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》), the Company has established a robust system of medical device quality control, which includes the Quality Manual (《品質手冊》), the corresponding process and management systems, and obtained the ISO13485 certificate.

In order to achieve compliance operation, insist on providing customers with satisfactory services, and regularly monitor and measure internal quality processes, the Quality Manual prepared by the Company clearly stipulates the functional distribution of the quality control system and applies to the R&D center, production center, quality control center, marketing center and other departments covered by the quality control system, as well as related departments and personnel. The corresponding process in the Quality Manual provides detailed guidelines for the quality control program, and a series of corresponding management systems make provisions for the strict implementation of the established quality assurance program, covering the entire production process. For example, the Product Quality Incident Management System (《產品質量事故管理制度》) regulates the occurrence of unqualified products and regulates the handling of quality incidents that have occurred; Inspection Management System (《檢驗管理制度》) is to ensure that the Company's various types of inspections meet the relevant standards and relevant requirements of the Company's regulations. Effective monitoring and quality inspection work are conducted in order to prevent unintended use of unqualified products and corresponding regulations are made to support the quality assurance. In accordance with the requirements of ISO13485 certification, the Company has established a product recall management system and procedures. In 2017, no product recall incident occurred due to quality or health reasons.

In 2017, the Company improved and expanded its aseptic laboratory, greatly improved product sterility testing, clean room environment testing, purified water detection capabilities, and provided escort for qualified products. We increased testing equipment and improved product quality control methods to ensure the provision of qualified products. At the same time, we trained quality personnel in order to improve inspection capabilities, which in turn enhance the inspection standards.

Product Innovation

Focusing on product innovation, the Company maintains the launch of at least one new product every two years. In the field of traditional artificial joints, it has formed initial replacement of knee and hip joints, severe deformity, and complicated lesions, and then undergoes replacement surgery and other serialization. The product line continues to provide comprehensive clinical solutions. At the same time, the Company has invested heavily in product research and development to continuously improve product safety and efficacy.

In order to encourage all employees to create inventions in artificial joints and related fields, to promote corporate R&D technological advancement and to achieve the sustainable development of AK Medical, to form a strong independent research and development capabilities and strong technical reserves, the Company formulated the Patents and Articles Award Management Measures (2013 Revision) (《專利及文章的獎勵管理辦法(2013修訂版)》) based on the Patent Law of the PRC.

In 2017, the Company has a total of 55 patents, including 25 invention patents, 29 utility model patents, and 1 PCT international patent; this year's important invention patent covers the Company's traditional hip and knee joints surgical tools products and metal 3D printing products and dental implant products, which provide effective solutions to existing problems.

As at the end of 2017, the Company had accumulated 187 patents, of which 40 were invention patents (including transfers), 143 were utility model patents (including transfers), 2 were PCT international patents, and 2 were design patents.

Customer Complaints and Handling

The Company adopts a distribution model to sell products to hospitals and customers are mainly distributors. The Company attaches great importance to maintaining good customer relationships, enhancing effective communication with customers, formulating progress control procedures related to customers, and making regulations for the process of ensuring customers' needs and expectations, and implementing and maintaining them. The Company's sales and marketing team provides customers with product training and guidelines. In order to improve the user experience, the Company also made corresponding improvements by collecting feedback from surgeons. The customer service team is responsible for handling customer complaints. The Company has set up customer complaint mailboxes and fixed telephone hotline to handle product complaints and transferred them to related departments for follow-up action.

In 2017, the Company received 3 complaints from customers with 100% of customer complaint completed and customer satisfaction rate was 100%.

SUPPLY CHAIN MANAGEMENT

In order to select qualified suppliers, control the procurement process and suppliers, and ensure that the purchased materials meet the regulatory requirements, the Company has established the Qualified Supplier Selection, Evaluation and Re-evaluation System (《合格供方選擇、評價和重新評價制度》) and the Procurement Control Program (《採購控制程式》) based on relevant laws and regulations and its actual situation. It clarified the responsibilities of the procurement related departments (such as the procurement planning department, R&D department, quality control department, etc.), stipulated the corresponding criteria for supplier selection, evaluation and re-evaluation, and prepared the List of Qualified Suppliers (《合格供方名冊》), the Quality Supplier Processing and Change Record (合格供方質量問題處理及變動記錄) and the Qualified Supplier Performance and Annual Review Form (《合格供方業績及年度評審表》) for use in supplier evaluation.

Since the Company's output and production costs depend on its ability to purchase quality raw materials at competitive prices, the Company mainly purchases raw materials from large suppliers with good reputation. The Company divides the materials into three categories, A, B, and C, according to the importance of the materials purchased or the services provided to the subsequent product realization or the final product quality. The supplier of Class A raw materials needs to conduct on-site audits for the first time to provide supply services, and conduct on-site annual audits during the compliance period to ensure that they are carried out at least once a year; for suppliers that provide general raw materials (Class B), their qualification and capability need to be certified and the evaluation is controlled by the Purchasing Planning Department at the time of purchase according to requirement.

ANTI-CORRUPTION

The Company attaches great importance to the construction of integrity and resolutely opposes any form of corruption.

As the Company mainly sells products to hospitals through distributors, the Company has taken various measures to prevent distributors or employees from bribing or receiving kickbacks. The distribution agreement entered into between the Company and the distributors includes a standard anti-corruption clause that requires distributors to comply with all anti-corruption laws and regulations in China. If the distributors violate the rules, the Company has the right to terminate the distribution agreement. To standardize the integrity of employees and correctly handle and exercise their authority, the Company implements a corresponding internal control system to prevent employees from corruption and bribery. The inclusion of anti-corruption clauses and awareness in the Employee Handbook is an internal policy against corruption and bribery, and the formulation of the Administrative Regulations on Employees' Integrity and Self-discipline (《關於員工廉潔自律管理規定》), through training to raise employees' awareness of anti-corruption, continuously improve the supervision and management of honesty, self-discipline, and guide the Company's personnel to fully perform their duties and jointly maintain a healthy, fair, and transparent business environment. On 5 May 2017, the Company carried out the training on Corruption, Self-Discipline, and Workplace Environment against Corruption and Integrity (廉潔自律暨職場環境反腐倡廉) for staff on active duty. It explained the concept, significance, and necessity of anti-corruption, and arranged employees to sign the Pledge of Integrity and Self-discipline (廉潔自律承諾書) after training.

During the reporting period, the Company had no anti-corruption related lawsuits. The employees received anti-corruption training for 8 hours in total.

COMMUNITY RESPONSIBILITY

The Company is committed to achieving the good vision of joint development of the enterprise and the community. With its own strengths, the Company integrates community responsibilities into its business model, and pursuing the mission of "strive for improving hundred millions of patients' life quality" to promote the development of the medical industry.

In 2012, the Company established the education and training platform, "AK Institute", for the orthopedic medical workers, orthopedic industry practitioners and patients, aiming to provide professional education and training services for all orthopedic professionals to facilitate orthopedics, medical information exchange, and promote the latest medical technologies and concepts.

In 2017, the Company made a social charity contribution of RMB150,000 for the prosthesis donation project under Wu Jieping Medical Foundation (吳階平醫學基金會). The cumulative time for community involvement is about 100 hours.

Independent auditor's report to the shareholders of AK Medical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of AK Medical Holdings Limited ("the **Company**") and its subsidiaries ("the **Group**") set out on pages 61 to 108, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for year ended 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2017 in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**"), and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the **Code**"), together with any ethical requirements that are relevant to our audit of the consolidated financial statement in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 76.	
The Key Audit Matter	**How the matter was addressed in our audit**
The Group recognises revenue from the sales of artificial organ implants when the risks and rewards of ownership of the goods are considered to have passed to the customer. The actual point in time when revenue is recognised varies depending on the specific terms and conditions of the sales contracts entered into with customers. The Group's customers are mainly distributors and hospitals and sales contracts with customers have a variety of different terms relating to the recognition of revenue, the entitlement to rebates and the right of return of the goods sold by the Group. Sales rebates to customers are primarily volume based or as agreed in advance. Sales returns are recognised for estimated subsequent returns based on the historical return rates. The calculation of sales rebates and sales return require certain management judgments and estimations in determining the amounts to which the Group is obligated. Sales rebates and sales returns are accounted for as a deduction from revenue.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls in relation to revenue recognition and the calculation and provision for sales rebates and sales returns; • inspecting, on a sample basis, customer contracts to identify terms and conditions relating to goods acceptance, sales rebates and the rights of return of goods sold and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;
We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group and is, therefore, subject to possible manipulation through the timing of revenue recognition to meet targets or expectations and because the variety of different terms of sale may affect the timing of the recognition of revenue and because significant management judgment can be required to estimate sales rebates and sales returns.	• selecting a sample of sales rebate transactions recorded during the year and comparing the parameters used in the calculation of the rebate (including sales volumes and rebate rates) with the relevant source documents (including sales invoices, sales contracts and cumulative sales data recorded) to assess whether the methodology adopted in the calculation of the sales rebate was in accordance with the terms and conditions defined in the corresponding customer contract; • comparing the actual sales rebates recorded after the financial year end with the sales rebate provisions made by management at the financial year end date in order to assess the reliability of management's process for determining the amount of the sales rebate provisions and to assess if the related adjustments to revenue had been made in the appropriate financial period;

KEY AUDIT MATTERS (continued)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 76.	
The Key Audit Matter	**How the matter was addressed in our audit**
	• comparing the actual sales returns rates used by the Group and actual sales returns recorded by the Group and also with the sales returns provision made in the previous year to assess the reliability of management's process for the estimation of the sales return rate for the sales of the year and the provision made at the financial year end; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with relevant underlying documentation, which included goods dispatch notes, shipping documents and goods receipt notes, as applicable under the different sales contracts, to assess whether the related revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the respective sales contracts; and • inspecting underlying documentation for journal entries relating to revenue which were considered to meet specific risk-based criteria.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
19 March 2018

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	4	**372,700**	270,777
Cost of sales		**(108,910)**	(83,466)
Gross profit		**263,790**	187,311
Other income	5	**2,680**	793
Selling and distribution expenses		**(50,397)**	(36,229)
General and administrative expenses		**(56,222)**	(38,115)
Research and development expenses		**(34,963)**	(20,390)
Operating profit		**124,888**	93,370
Net finance income	7	**496**	1,657
Profit before taxation	6	**125,384**	95,027
Income tax	8	**(20,008)**	(17,701)
Profit for the year		**105,376**	77,326
Profit attributable to equity shareholders of the Company		**105,376**	77,326
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		**(3,233)**	4,189
Other comprehensive income, net of tax		**(3,233)**	4,189
Total comprehensive income		**102,143**	81,515
Total comprehensive income attributable to equity shareholders of the Company		**102,143**	81,515
Earnings per share			
Basic	11(a)	**RMB0.14**	RMB0.10
Diluted	11(b)	**RMB0.14**	RMB0.10

The notes on pages 67 to 108 form part of these financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**104,670**	69,837
Intangible assets	14	**10,458**	6,571
Deferred tax assets	23(b)	**10,366**	6,670
Other non-current assets		**545**	–
		126,039	83,078
Current assets			
Inventories	16	**86,817**	67,805
Trade receivables	17	**121,198**	81,530
Deposits, prepayments and other receivables	18	**6,071**	12,525
Cash and cash equivalents	19	**517,482**	160,597
		731,568	322,457
Current liabilities			
Trade payables	20	**43,048**	33,740
Accruals and other payables	21	**95,389**	31,195
Current tax	23(a)	**13,281**	8,917
Deferred revenue	24	**22,668**	21,922
Provisions	25	**4,976**	3,260
		179,362	99,034
Net current assets		**552,206**	223,423
Total assets less current liabilities		**678,245**	306,501

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Non-current liability			
Deferred income		7,903	8,208
Deferred tax liabilities	23(b)	2,359	3,900
		10,262	12,108
NET ASSETS		667,983	294,393
Capital and reserves			
Share capital	26(b)	8,450	1
Reserves	26(c)	659,533	294,392
Total equity attributable to equity shareholders of the Company		667,983	294,393
Total equity		667,983	294,393

Approved and authorised for issue by the board of directors on 19 March 2018 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

The notes on pages 67 to 108 form part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Share capital RMB'000 26(b)	Share premium RMB'000 26(c)(i)	Capital reserve RMB'000 26(c)(ii)	Share option reserve RMB'000 22	Statutory reserve RMB'000 26(c)(iii)	Retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 1 January 2016		55,556	60,000	13,619	–	23,020	24,663	80	176,938
Total comprehensive income for the period		–	–	–	–	–	77,326	4,189	81,515
Capital injection		–	66,000	–	–	–	–	–	66,000
Effect on equity arising from the reorganisation	26(b)(i)	(55,555)	14,000	(33,145)	–	(23,020)	23,020	–	(74,700)
Waiver of shareholder's loans	26(b)(i)	–	–	74,700	–	–	–	–	74,700
Dividends declared	12	–	(30,060)	–	–	–	–	–	(30,060)
Balance at 31 December 2016 and 1 January 2017		**1**	**109,940**	**55,174**	**–**	**–**	**125,009**	**4,269**	**294,393**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**105,376**	**(3,233)**	**102,143**
Dividends declared	12	**–**	**(34,136)**	**–**	**–**	**–**	**(39,000)**	**–**	**(73,136)**
Capitalisation issue	26(b)(iii)	**6,336**	**(6,336)**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of new shares	26(b)(iii)	**2,113**	**341,728**	**–**	**–**	**–**	**–**	**–**	**343,841**
Equity settled share-based transactions	22	**–**	**–**	**–**	**742**	**–**	**–**	**–**	**742**
Balance at 31 December 2017		**8,450**	**411,196**	**55,174**	**742**	**–**	**191,385**	**1,036**	**667,983**

The notes on pages 67 to 108 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		125,384	95,027
Adjustments for:			
Depreciation of property, plant and equipment		10,937	7,865
Amortisation of intangible assets		1,304	907
Amortisation of deferred income		(605)	(605)
Interest income		(1,118)	(467)
impairment losses for doubtful debts		3,760	664
Loss on sales of property, plant and equipment		31	–
Equity-settled share-based payment expenses		742	–
		140,435	103,391
Changes in Operating activities			
Inventories		(19,012)	(9,405)
Trade receivables		(43,428)	(24,333)
Deposits, prepayments and other receivables		2,145	(2,474)
Trade payables		9,820	4,332
Accruals and other payables		41,211	6,017
Deferred revenue		746	3,889
Provisions		1,716	778
Cash generated from operations		133,633	82,195
Income tax paid		(16,981)	(12,552)
Net cash generated from operating activities		116,652	69,643
Investing activities			
Interest received		1,118	467
Development expenditures		(719)	(770)
Acquisition of other intangible assets		(4,472)	(707)
Acquisition of property, plant and equipment		(46,858)	(28,371)
Government grants received relating to assets		300	2,215
Net cash used in investing activities		(50,631)	(27,166)

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Financing activities			
Issue of new shares		369,386	–
Dividends paid		(73,136)	(50,148)
Capital injection		–	66,000
Payment for the acquisition of Beijing AKEC Medical Co., Ltd upon the reorganisation		–	(74,700)
Proceeds from loan from a shareholder		–	74,700
Cash payment relating to expenses of issuing new shares		(1,531)	(1,815)
Net cash generate from financing activities		294,719	14,037
Net increase in cash and cash equivalents		360,740	56,514
Cash and cash equivalents at beginning of year		160,597	100,094
Effect of movements in exchange rates on cash hold		(3,855)	3,989
Cash and cash equivalents at end of year		517,482	160,597

The notes on pages 67 to 108 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Company and its subsidiaries (together, "the **Group**") are principally engaged in design, develop, produce and market orthopedic joint implants and related products. The Group's business were conducted mainly through Beijing AKEC Medical Co., Ltd. ("**AK Medical Beijing**") and other subsidiaries in the mainland China. Details of the subsidiaries are set out in note 15.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

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

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

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 19(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

The Company did not have any financial assets and financial liabilities at fair value through profit or loss and held-to-maturity investments in the current or comparative year.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each year the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(i)). Interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 2(q)(ii), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (Continued)

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

–	Buildings	Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
–	Leasehold improvements	Over the remaining unexpired term of the lease
–	Plant and machinery	3–15 years
–	Motor vehicles	4–10 years
–	Office equipment and furniture	3–5 years

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

No depreciation is provided in respect of construction in progress.

(g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software and others	3–10 years
Patents	10 years
Capitalised development costs	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite useful lives as set out above.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the years covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the year in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each year to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);

– intangible assets; and

– investments in subsidiary in the Company's statement of financial position.

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Inventories

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

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

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Bills receivable are derecognised if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to be recognised in the statement of financial position.

(l) Trade and other payables

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

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(ii) Share-based payments

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

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

(o) Income tax

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

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

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

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The carrying amount of a deferred tax asset is reviewed at the end of each year and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

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

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

– the same taxable entity; or

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

(p) Provisions and contingent liabilities

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

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

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

Loyalty programme

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition (continued)

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

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

(r) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

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

(s) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

a. has control or joint control over the Group;

b. has significant influence over the Group; or

c. is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Related parties (continued)

(ii) An entity is related to the Group if any of the following conditions applies:

a. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

c. Both entities are joint ventures of the same third party.

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

f. The entity is controlled or jointly controlled by a person identified in note 2(s)(i).

g. A person identified in note 2(s)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(t) Segment reporting

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

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

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews at the end of each year the estimated useful lives of an asset and its residual value, if any, based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of trade and other receivables

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired, and estimates allowances for doubtful debts as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the customer and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each year.

(d) Income tax

The Group is subject to PRC Enterprise Income Tax and Cayman Islands Income Tax. Judgment is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

(e) Sales return or exchanges

The Group's distribution agreements do not allow product returns or exchanges without the management's consent. However, in practice, the Group has historically accepted certain returns and exchanges by distributors of orthopedic joint implants. The Group believes that sales exchanges would not result in any significant outflow of the Group's resources embodying economic benefits. Based on past experience, the percentage of subsequent returns will be approximately 2% of annual sales. Therefore, the Group has recognised revenue with a corresponding provision against revenue for estimated returns with 2% of annual sales for 2017.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are manufacturing and sale of orthopedic joint implants and its complete set of surgical instrument.

The amount of each significant category of revenue is as follows:

	2017 RMB'000	2016 RMB'000
Knee replacement implants	**101,667**	83,008
Hip replacement implants	**215,305**	158,871
3D-printed product	**33,444**	12,131
Third party orthopedic products	**14,913**	10,785
Others	**7,371**	5,982
	372,700	270,777

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue in 2017 (2016: nil). Details of concentrations of credit risk arising from major customers are set out in note 27(a).

(b) Segment information

The Group has one reportable segment, which is manufacturing and sale of orthopedic joint implants.

The Group's operations, assets and most of the customers are located in the PRC. Accordingly, no geographic information of revenue, non-current assets and customers is presented.

5 OTHER INCOME

	2017 RMB'000	2016 RMB'000
Government grants	**1,625**	778
Others	**1,055**	15
	2,680	793

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Note	2017 RMB'000	2016 RMB'000
Salaries wages and other benefits		**49,156**	38,632
Contribution to defined contribution retirement scheme		**2,140**	2,405
Equity settled share-based transactions	22	**742**	–
		52,038	41,037

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits other than the annual contributions described above.

(b) Other items

	2017 RMB'000	2016 RMB'000
Cost of Inventories*	**113,991**	88,826
Amortisation of intangible assets	**1,304**	907
Depreciation of property, plant and equipment	**10,937**	7,865
Impairment losses of trade and other receivables	**3,760**	664
Operating lease charge	**6,058**	3,648
Auditors' remuneration		
– Audit services	**2,200**	184

* Cost of inventories includes RMB17,501,000 in 2017 (2016: RMB16,912,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which are also included in the respective total amounts disclosed separately above.

7 NET FINANCE INCOME

	2017 RMB'000	2016 RMB'000
Interest income from bank deposits	**1,118**	467
Foreign currency exchange (loss)/gain	**(622)**	1,190
	496	1,657

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Amounts recognised in profit or loss

	2017 RMB'000	2016 RMB'000
Current tax expense-the PRC Enterprise Income Tax		
Provision for the year	**25,245**	15,594
Deferred tax		
Origination and reversal of temporary differences	**(5,237)**	2,107
	20,008	17,701

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 for 2017 (2016: nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2017 is 16.5% (2016: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law ("**Income Tax Law**") of the PRC, enterprise income tax rate for the Group's PRC subsidiary for 2017 is 25% (2016: 25%). According to the relevant PRC income tax law, the Company's subsidiary, Beijing AKEC Medical Co., Ltd. ("**AK Medical Beijing**") was certified as a New and High Technology Enterprise in Beijing since 2008, and is entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by AK Medical Beijing will be expired on 9 August 2020.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC-entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. AK Medical HK and Bright AK HK were established during 2015 and would be subject to PRC dividend withholding tax on dividends receivables from their PRC subsidiaries.

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	**125,384**	95,027
Tax calculated at statutory tax rate applicable to profits in the respective countries	**31,346**	23,757
Preferential income tax rates applicable to subsidiaries	**(12,790)**	(8,767)
Expenses not deductible or tax purpose	**112**	92
Additional deductible allowance for research and development expenses	**(1,019)**	(1,281)
PRC dividends withholding tax	**2,359**	3,900
Income tax	**20,008**	17,701

9 DIRECTORS' EMOLUMENTS

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

2017	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note 22)	RMB'000
Executive directors						
Li Zhijiang (chairman)	–	765	–	11	–	776
Zhang Bin	–	251	–	11	–	262
Zhang Chaoyang	–	569	–	11	–	580
Zhao Xiaohong	–	585	86	11	82	764
Non-executive directors						
Li Wenming	45	–	–	–	–	45
Wang David Guowei	–	–	–	–	–	–
Independent Non-executive directors						
Dang Gengting*	19	–	–	–	–	19
Kong Chi Mo*	18	–	–	–	–	18
Li Shu Wing David*	18	–	–	–	–	18
	100	2,170	86	44	82	2,482

* Mr. Dang Gengting, Mr. Kong Chi Mo and Mr. Li Shu Wing David are appointed on 17 November 2017.

2016	Director's fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Li Zhijiang (chairman)	–	743	–	11	754
Zhang Bin	–	244	–	11	255
Zhang Chaoyang	–	473	–	11	484
Zhao Xiaohong	–	430	66	11	507
Non-executive director					
Li Wenming	30	–	–	–	30
Wang David Guowei	–	–	–	–	–
	30	1,890	66	44	2,030

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments 2 (2016: 3) are directors whose emoluments are disclosed in note 8(a). The aggregate of the emoluments in respect of the other 3 (2016: 3) individuals respectively, are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	1,384	1,101
Discretionary bonuses	1,036	1,057
Retirement scheme contributions	23	22
	2,443	2,180

The emoluments of the 3 (2016: 3) individuals with the highest emoluments are within the following bands:

	2017	2016
HK$		
Nil – 1,000,000	1	3
1,000,001 – 1,500,000	2	–

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB105,376,000 (2016: RMB77,326,000) and the weighted average number of issued ordinary shares of 758,219,178 (2016: 750,000,000 shares) during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	100,000	100,000
Effect of capitalisation issue (note 26(b)(iii))	749,900,000	749,900,000
Effect of issue of shares upon initial public offering (note 26(b)(iii))	8,219,178	–
Weighted average number of ordinary shares at 31 December	758,219,178	750,000,000

The weighted average number of shares in issue in 2017 and 2016 was based on the assumption that the 750,000,000 shares were issued before the listing of shares on The Stock Exchange, as if such shares had been outstanding throughout the years 2017 and 2016.

(Expressed in RMB'000 unless otherwise indicated)

11 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB105,376,000 (2016: RMB77,326,000) and the weighted average number of issued ordinary shares of 758,931,913 (2016: 750,000,000 shares) during the year, calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	**758,219,178**	750,000,000
Effect of deemed issue of shares under the Company's share option scheme (note 22) and over-allotment option (note 31)	**712,735**	–
Weighted average number of ordinary shares (diluted) at 31 December	**758,931,913**	750,000,000

12 DIVIDENDS

In 2017, dividends of RMB73,136,000 (2016: RMB30,060,000) were declared by the Company. All the dividends have been paid by 31 December 2017.

The rate of dividend and the number of shares ranking for dividends are not presented as these dividends were declared and payable to the shareholders of the Company before the Company offered and listed public shares in December 2017 and such information is not meaningful.

After the year end, the directors of the Company proposed a final dividend of HKD3.5 cent per ordinary share for the year ended 31 December 2017, which has not been recognised as a liability at 31 December 2017.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment and furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2016	8,374	4,535	48,462	2,372	2,622	6,521	72,886
Additions		4,228	19,935	54	418	4,268	28,903
Transfer from construction in progress	766	–	5,849	–	–	(6,615)	–
Disposals	–	–	(187)	–	(59)	–	(246)
At 31 December 2016 and 1 January 2017	9,140	8,763	74,059	2,426	2,981	4,174	101,543
Additions	–	1,895	5,142	–	669	38,095	45,801
Disposals	–	–	(290)	–	(13)	–	(303)
At 31 December 2017	9,140	10,658	78,911	2,426	3,637	42,269	147,041
Accumulated depreciation							
At 1 January 2016	(2,805)	(2,719)	(16,136)	(757)	(1,561)	–	(23,978)
Charged for the year	(526)	(1,590)	(5,083)	(184)	(536)	–	(7,919)
Written back on disposals	–	–	135	–	56	–	191
At 31 December 2016 and 1 January 2017	(3,331)	(4,309)	(21,084)	(941)	(2,041)	–	(31,706)
Charged for the year	(679)	(2,415)	(7,144)	(194)	(505)	–	(10,937)
Written back on disposals	–	–	262	–	10	–	272
At 31 December 2017	(4,010)	(6,724)	(27,966)	(1,135)	(2,536)	–	(42,371)
Net book value							
At 31 December 2017	5,130	3,934	50,945	1,291	1,101	42,269	104,670
At 31 December 2016	5,809	4,454	52,975	1,485	940	4,174	69,837

Included in the building is a property held for own use situated on long term leasehold land and located in the PRC.

Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the end of each year.

14 INTANGIBLE ASSETS

	Software RMB'000	Patent RMB'000	Capitalised development costs RMB'000	Total RMB'000
Cost:				
At 1 January 2016	2,757	2,587	2,094	7,438
Additions	767	–	771	1,538
Transfer	–	1,470	(1,470)	–
At 31 December 2016 and 1 January 2017	3,524	4,057	1,395	8,976
Additions	649	3,823	719	5,191
At 31 December 2017	4,173	7,880	2,114	14,167
Accumulated amortisation				
At 1 January 2016	(631)	(860)	–	(1,491)
Amortisation charged for the year	(448)	(466)	–	(914)
At 31 December 2016 and 1 January 2017	(1,079)	(1,326)	–	(2,405)
Amortisation charged for the year	(595)	(709)	–	(1,304)
At 31 December 2017	(1,674)	(2,035)	–	(3,709)
Net book value				
At 31 December 2017	2,499	5,845	2,114	10,458
At 31 December 2016	2,445	2,731	1,395	6,571

The amortisation charge is included in "General and administrative expenses" and "Research and development expenses" in the consolidated statements of profit or loss and other comprehensive income.

(Expressed in RMB'000 unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Percentage of equity attributable to Company			
Name of company	Place and date of incorporation/ establishment and nature of legal entity	Registered capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
AK Medical Investment Limited ("**AK Medical BVI**")	British Virgin Islands 21/07/2015	US$50,000	100%	100%	–	Investing holding company
Bright AK Limited ("**Bright AK HK**")	Hong Kong 07/07/2015	HK$10,000	100%	–	100%	Investing holding company
AK Medical International Limited ("**AK Medical HK**")	Hong Kong 28/07/2015	US$1	100%	–	100%	Investing holding company
AK Medical Beijing 北京愛康宜誠醫療器材有限公司	The PRC 08/05/2003 limited liability company	RMB100,000,000	100%	–	100%	Design, develop, produce and market orthopedic joint implants and related products
Beijing XMKS Medical Co.,Ltd. ("**AK Medical XMKS**") 北京西麥克斯醫療器械有限公司	The PRC 24/07/2007 limited liability company	RMB500,000	100%	–	100%	Sales of orthopedic joint implants products
ITI Medical Co., Ltd. (AK Medical Changzhou) 天衍醫療器材有限公司	The PRC 28/03/2016 limited liability company	US$13,200,000	100%	–	100%	Produce and market orthopedic joint implants and related products

16 INVENTORIES

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

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Raw materials	**13,047**	12,719
Work in progress	**17,963**	9,361
Finished goods	**55,807**	45,725
	86,817	67,805

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

	2017 **RMB'000**	2016 RMB'000
Cost of inventories sold	**108,910**	83,466
Cost of inventories directly recognised as research and development expenses	**5,081**	5,360
	113,991	88,826

17 TRADE RECEIVABLES

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Bills receivable	**23,205**	14,773
Trade debtors	**103,806**	68,810
Less: allowance for doubtful debts	**(5,813)**	(2,053)
	97,993	66,757
	121,198	81,530

17 BILLS AND TRADE RECEIVABLES (continued)

(a) Ageing analysis

Bills receivable are bank notes received from customer, with expiration dates within 6 months.

As at 31 December 2017, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Current to 3 months	**67,504**	44,798
3 to 6 months	**14,638**	10,460
6 to 12 months	**12,010**	7,020
Over 12 months	**3,841**	4,479
	97,993	66,757

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interest are charged on the trade receivables. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 2(i)(i)).

At 31 December 2017, trade debtors of RMB2,587,000 (2016: nil) was individually determined to be impaired. The individually impaired receivable related to customers that were in financial difficulties and management assessed that the receivable may not to be recovered. Consequently, specific allowance for doubtful debts of RMB2,587,000 were recognised at 31 December 2017. Except for the individually impaired receivable, the allowances for doubtful debts were made at each reporting dates based on a collective group basis assessment by aging for debts past due.

The movements in the allowance for doubtful debts are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**2,053**	1,389
Impairment loss recognised	**3,760**	664
At 31 December	**5,813**	2,053

17 BILLS AND TRADE RECEIVABLES (continued)

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Neither past due nor impaired	**73,308**	69,655

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

18 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Prepayments to suppliers	**3,112**	3,677
Deposits	**1,895**	1,051
Deferred listing expenses	**–**	4,931
VAT recoverable	**39**	800
Others	**1,025**	2,066
	6,071	12,525

The above deposits, prepayments and other receivables do not contain impaired assets and expected to be settled within one year.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2017 **RMB'000**	2016 RMB'000
Cash at banks	**517,410**	160,542
Cash on hand	**72**	55
Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement	**517,482**	160,597

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

(a) Cash and cash equivalents comprise: (continued)

As at 31 December 2017, cash and cash equivalents of the Group held in banks in the PRC amounted to RMB150,497,000 (2016: RMB152,390,000). The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of liabilities arising from financing activities

In 2017, there were no the Group's liabilities arising from financing activities (2016: nil).

20 TRADE PAYABLES

As at 31 December 2017, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**34,791**	25,502
3 to 6 months	**6,757**	3,436
6 to 12 months	**597**	4,138
1 year to 2 years	**604**	664
Over 2 years	**299**	–
	43,048	33,740

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

21 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Accrual of listing expenses	**37,984**	–
Advance and deposit from customers	**18,715**	6,353
Other taxes payable	**18,085**	10,497
Salary and welfare payable	**12,365**	8,721
Accrued charges	**1,972**	2,426
Others	**6,268**	3,198
	95,389	31,195

All of the above balances are expected to be settled within one year.

(Expressed in RMB'000 unless otherwise indicated)

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

Options granted to the grantees 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 2026, if certain performance conditions are met.

(b) No share options mentioned above has been exercised, forfeited or expired during the year of 2017. The outstanding and exercisable number of shares was 36,000,000 as at 31 December 2017.

(c) 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.

	2017
Fair value of share options and assumptions	
Fair value at measurement date	HK$0.7182 – $0.7592
Equity Value	HK$1.48
Exercise price	HK$1.34
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	42.94%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends	1.20%
Risk-free interest rate (based on Exchange Fund Notes)	4.37%

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS (continued)

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

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

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax in the consolidated statements of financial position represents:

	2017 RMB'000	2016 RMB'000
At 1 January	8,917	5,875
Provision for the year	25,245	15,594
Provisional tax paid	20,881	12,552
At 31 December	13,281	8,917

(b) Deferred tax assets and liabilities:

(i) The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the year are as follows:

Deferred tax arising from:	Deferred revenue RMB'000	Government grant RMB'000	Unrealised profits of intra-group transaction RMB'000	Provisions for sales return RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	2,629	899	296	372	–	681	4,877
Credited to profit or loss (Note 8)	659	332	416	117	–	269	1,793
At 31 December 2016 and 1 January 2017	3,288	1,231	712	489	–	950	6,670
Credited/(Charged) to profit or loss (Note 8)	112	(45)	1,424	115	1,104	986	3,696
At 31 December 2017	3,400	1,186	2,136	604	1,104	1,936	10,366

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

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

(ii) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	**PRC dividend withholding tax** RMB'000
At 1 January 2016	–
Charged to profit or loss	3,900
At 31 December 2016 and 1 January 2017	3,900
Credited to profit or loss	(1,541)
At 31 December 2017	2,359

The above recognised deferred tax assets and liabilities cannot be set off.

(iii) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation. As at 31 December 2017, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB137,567,000, comprised retained profit of RMB105,074,000 and statutory surplus reserve of RMB32,493,000. The Company controls the dividend policy of these subsidiaries and it has been determined that retained profit before 30 September 2017 of these subsidiaries will not be distributed further in the future, and the Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognized for the retained profit before 30 September 2017 of the PRC subsidiaries of the Company.

As at 31 December 2017, the Group recognise deferred tax assets in respect of tax losses of approximately RMB4,416,000 (2016: nil) of a PRC subsidiary. The tax losses can be carried forward for five years from the year incurred and hence will be expired by 2022.

24 DEFERRED REVENUE

Deferred revenue mainly represents sales rebates granted to the customers the right to redeem the rebates through purchase of the Group's products at a discount in the future. The deferred revenue is estimated based on the relative fair value of goods delivered and undelivered, and has taken into account the amount of rebates available to customers that have not been redeemed and the expected forfeiture rate.

25 PROVISIONS

The movements of provisions made for sales return are as follows:

	Sales return RMB'000
At 1 January 2016	2,482
Additional provisions made	3,270
Provisions utilised	(2,492)
At 31 December 2016	3,260
Additional provisions made	3,363
Provisions utilised	(1,647)
At 31 December 2017	4,976

The provision for sales return relates mainly to sales during the past years. The provision has been estimated based on historical sales return data associated with similar products. The Group expects to settle the majority of the liability over the next year.

26 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Exchange reserve RMB'000	Total equity RMB'000
Balance at 1 January 2016		1	60,000	–	–	(2,065)	73	58,009
Total comprehensive income for the period		–	–	–	–	(68)	12,589	12,521
Capital injection		–	66,000	–	–	–		66,000
Arising from reorganisation	26(b)(i)	–	14,000	(14,000)	–	–	–	–
Waiver of shareholder's loans	26(b)(i)	–	–	74,700	–	–	–	74,700
Dividends declared	12	–	(30,060)	–	–	–	–	(30,060)
Balance at 31 December 2016 and 1 January 2017		1	109,940	60,700	–	(2,133)	12,662	181,170
Total comprehensive income for the year		–	–	–	–	48,145	(11,431)	36,714
Dividends declared	12	–	(34,136)	–	–	(39,000)	–	(73,136)
Capitalisation issue	26(b)(iii)	6,336	(6,336)	–	–	–	–	–
Issuance of new shares	26(b)(iii)	2,113	341,728	–	–	–	–	343,841
Equity settled share-based transactions	22	–	–	–	742	–	–	742
Balance at 31 December 2017		8,450	411,196	60,700	742	7,012	1,231	489,331

26 CAPITAL AND RESERVES (continued)

(b) Share capital

	2017 No. of shares	2017 Amount RMB'000	2016 No. of shares	2016 Amount RMB'000
Authorised-ordinary shares of HK$0.01 each:				
At 1 January	**38,000,000**	**300**	38,000,000	300
Increase (ii)	**19,962,000,000**	**168,681**	–	–
At 31 December	**20,000,000,000**	**168,981**	38,000,000	300
Ordinary shares, issued and fully paid:				
At 1 January	**100,000**	**1**	100,000	1
Capitalisation issue (iii)	**749,900,000**	**6,336**	–	–
Initial public offering	**250,000,000**	**2,113**	–	–
At 31 December	**1,000,000,000**	**8,450**	100,000	1

The holders of ordinary shares as at 31 December 2017 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 July 2015 with an authorised share capital of $380,000 divided into 38,000,000 shares of $0.01 each. Upon incorporation, 1 share was allotted and issued at par value for cash.

On 29 February 2016, the Group completed the reorganisation to rationalise the Group's structure in preparing for the listing of Company's shares on the Main Board of the Stock Exchange. As a result of the reorganisation, the Company became the holding company of the Group.

AK Medical HK entered into an equity transfer agreement with the then shareholders of AK Medical Beijing to acquire the 90% of the equity interests in AK Medical Beijing with total consideration of RMB74,700,000. Such consideration had been fully settled by 7 April 2016, and was funded by shareholder's loans advanced by the controlling shareholder Ximalaya Limited.

On 13 April 2016, an amount of RMB74,700,000 of shareholder's loans had been waived by Ximalaya Limited, and capitalised in capital reserve of the Company.

26 CAPITAL AND RESERVES (continued)

(b) Share capital (continued)

(ii) On 17 November 2017, Pursuant to the written resolutions of the equity shareholders of the Company, the authorised share capital of the Company was increased from HK$380,000 to HK$20,000,000 divided into 2,000,000,000 shares, comprising of 1,999,990,000 ordinary shares and 10,000 preferred shares, by the creation of a further 1,962,000,000 ordinary shares.

(iii) On 20 December 2017, 750,000,000 ordinary shares were converted into or capitalised of the balance of the share premium account and apply such sum in paying up in full at nominal value a total of 749,900,000 Shares, amount to HK$7,499,000 (equivalent to RMB6,336,000) for allotment and issue to the existing shareholders of our Company.

On the same date, 250,000,000 new shares were issued by way of initial public offering. The proceeds less the listing costs directly attributable to the issue of shares, amount to HK$406,912,000 (equivalent to RMB343,841,000), with HK$2,500,000 (equivalent to RMB2,113,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. And the remaining proceeds amount to HK$404,412,000 (equivalent to RMB341,728,000) were credited to the Company's share premium account.

The share capital of the Company was then increased to HK$10,000,000 divided into 100,000,000 shares of HK$0.01 each.

(c) Reserves

(i) Share premium

Share premium represented the difference between the share capital and the amount of the net proceeds received from its shareholders of the Company. The application of the share premium is governed by the Companies Law of the Cayman Islands.

(ii) Capital reserve

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

(iii) Statutory reserve

Retained profit of the Group contains statutory reserve of the PRC subsidiaries of RMB43,538,000.

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(iv) Exchange reserve

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

26 CAPITAL AND RESERVES (continued)

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB480,881,000 (2016: RMB181,169,000).

(e) Capital management

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

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

In 2017, the Group did not have any interest-bearing debts.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents, trade receivables, bill receivables and other receivables. The director has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash and cash equivalents and available-for-sale financial assets are held with banks, which have sound reputation.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%–100% deposits upfront and the remaining trade receivables are normally due within 1 to 6 months from the date of billing. Commercial customers with past due balances are requested to settle all outstanding balances before any further credit is granted. Balances from hospitals customers are settled within the period set by the hospitals' payment policy, within 3 to 12 months. The Group does not obtain collateral from customers.

All bills receivable as at the end of each year are bank acceptance bills with the aging of less than 6 months.

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

(a) Credit risk (continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2017, 4.8% (2016: 4.6%) of the total trade receivables was due from the Group's largest customer in 2017, and 17.8% (2016: 23.7%) was due from the five largest customers in 2017.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are set out in notes 17 and 18.

(b) Liquidity risk

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

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

		Contractual undiscounted cash outflow	
	Carrying amount RMB'000	**Total RMB'000**	**Within 1 year or on demand RMB'000**
As at 31 December 2017			
Trade payables	**43,048**	**43,048**	**43,048**
Accruals and other payables	**76,674**	**76,674**	**76,674**
Total	**119,722**	**119,722**	**119,722**

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

(b) Liquidity risk (continued)

		Contractual undiscounted cash outflow	
	Carrying amount RMB'000	Total RMB'000	Within 1 year or on demand RMB'000
As at 31 December 2016			
Trade payables	33,740	33,740	33,740
Accruals and other payables	24,842	24,842	24,842
Total	58,582	58,582	58,582

(c) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk is primarily US$.

The following table details the Group's major exposure as at 31 December 2016 and 2017 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2017			
	HK$ RMB'000	**US$ RMB'000**	**EUR RMB'000**	**GBP RMB'000**
Cash and cash equivalents	**363,803**	**2,890**	**326**	**–**
Trade receivables	**–**	**1,771**	**–**	**48**
Trade payables	**–**	**–**	**–**	**(1,617)**
	363,803	**4,661**	**326**	**(1,569)**

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

(c) Currency risk (continued)

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2016			
	HK$ RMB'000	US$ RMB'000	EUR RMB'000	GBP RMB'000
Cash and cash equivalents	62	42,703	21	–
Trade receivables	–		256	–
Trade payables	–	(1,701)	(1,114)	(1,375)
	62	41,002	(837)	(1,375)

As at 31 December 2017, 31, it is estimated that a general increase/decrease of 5% in foreign exchange rates of HK$ to RMB and US$ to RMB, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB15,462,000 and RMB198,000, respectively (2016: RMB3,000 and RMB1,743,000).

(d) Fair value measurement

Financial instruments are carried at fair value within a fair value hierarchy that categorises, into three levels, inputs to valuation technique as used to measure the fair value. The three different levels are as follows:

- level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

- level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

- level 3: Unobservable inputs for the asset or liability.

No asset is measured at fair value as at 31 December 2017 (2016: nil).

There were no changes in valuation techniques in 2017.

All financial assets are carried at amounts not materially different from their fair value as at 31 December 2017.

28 COMMITMENTS

(a) Capital commitments of the Group mainly in respect of construction in progress outstanding as at 31 December 2017 not provided for in this financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Contracted for	**40,084**	3,585
Authorised but not contracted for	**78,761**	154,226
	118,845	157,811

(b) As at 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**6,311**	3,340
After 1 year but within 5 years	**7,865**	7,642
	14,176	10,982

The Group leases a number of warehouses and office premises under operating leases. The leases typically run for an initial period of 1 to 5 years, with an option to renew the leases after that date. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

In 2017, transactions with the following parties are considered as related party transaction:

Name of Party	**Relationship with the Group**
Mr. Li Zhijiang	Executive director, and the ultimate controlling party
Ms. Zhang Bin	Executive director, the spouse of Mr. Li Zhijiang
Mr. Zhang Chaoyang	Executive director
Ms. Zhao Xiaohong	Executive director
Mr. Li Wenming	Non-executive director
Ms. Wang Caimei	Senior management
Mr. Liu Aiguo	Senior management
Mr. Zhang Weiping	Senior management
Ms. Han Yu	Senior management
Mr. Qi Yajun	Senior management
Ms. Qi Zijuan	Senior management
Mr. Sun Yanshi	Senior management
Mr. Wang Zhengmin	Senior management
Ms. Wang Nannan	Senior management
Ximalaya Limited	Controlling shareholder

29 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10 is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and other emoluments	**6,623**	4,782
Discretionary bonuses	**1,992**	1,275
Retirement scheme contributions	**162**	121
Equity settled share-based transactions	**82**	–
	8,859	6,178

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

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As at 31 December 2017, the directors consider the immediate parent to be Ximalaya Limited and the ultimate controlling parties of the Group to be Mr. Li Zhijiang. Ximalaya Limited is incorporated in British Virgin Islands and does not produce financial statements available for public use.

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As part of the global offering, on 4 January 2018, a total of 37,500,000 new shares were issued in respect of the full exercise of the over-allotment option, at the offering price of HK$1.75 per share. The total net proceed is HK$62,343,750 (RMB51,870,000).

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statements of financial position

	Note	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Current assets			
Deposits, prepayments and other receivables		165,126	176,786
Cash and cash equivalents		364,054	5,317
		529,180	182,103
Current liabilities			
Accruals and other payables		39,849	933
		39,849	933
Net current assets		489,331	181,170
Total assets less current liabilities		489,331	181,170
NET ASSETS		489,331	181,170
Capital and reserves			
Share capital	26(b)	8,450	1
Reserves	26(c)	480,881	181,169
Total equity		489,331	181,170

Approved and authorised for issue by the board of directors on 19 March 2018 and signed on behalf of the board by:

Li Zhijiang
Director

Zhao Xiaohong
Director

(Expressed in RMB'000 unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to date of issue of the financial statements, the IASB has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

	Effective for years beginning on or after
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
IFRIC 22, Foreign currency transactions and advance consideration	1 January 2018
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 9 Financial Instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase by approximately 12% as compared with that recognised under IAS 39. As a consequence, an adjustment of approximately RMB687,000 will be made to the opening balances of net assets and retained profits at 1 January 2018.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas

– **which are expected to be affected: Sale of goods**

  As disclosed in Note 2(p)(i), for the sale of orthopedic joint implants and its complete set of surgical instrument, revenue is currently recognised when the goods are delivered at the customers' premises, which is taken to be the point in time when the customer accepts the goods and the related risks and rewards of ownership.

  Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

  The adoption of IFRS 15 is unlikely to have a significant impact on the Group's timing of revenue recognition.

– **Sales return**

  Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

  The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

Since the number of "open" contracts for sales of orthopedic joint implants and properties at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 16 Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into these leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB14,176,000 properties, the majority of which is payable either between 1 and 5 years after the reporting date or within 1 year. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Although the Group has not yet decided whether it will use the optional exemptions, considering the amount of the future minimum lease payments for the lease contracts held by the Group as of 31 December 2017 as disclosed above, the Group initially assessed that lease contracts held as of 31 December would not significantly affect the financial position and performance of the Group when adopting IFRS 16 on 1 January 2019.